

ALJ/RIM/ge1

PROPOSED DECISION
1)

Agenda ID #15153 ([Rev.](#)

Ratesetting
[10/13/16 Item # 9](#)

Decision **PROPOSED DECISION OF ALJ MASON** (Mailed 9/9/~~2016~~16)

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of San Diego Gas & Electric Company (U902G) and Southern California Gas Company (U904G) to Recover Costs Recorded in their Pipeline Safety and Reliability Memorandum Accounts.

Application 14-12-016
(Filed December 17, 2014)

**PROPOSED DECISION GRANTING APPLICATION OF
SOUTHERN CALIFORNIA GAS COMPANY AND
SAN DIEGO GAS & ELECTRIC COMPANY**

Table of Contents [\(Cont.\)](#)

Title	Page
PROPOSED DECISION GRANTING APPLICATION OF SOUTHERN CALIFORNIA GAS COMPANY AND SAN DIEGO GAS & ELECTRIC COMPANY.....	1
Summary.....	2
1. Background.....	3
1.1. The Commission’s Pipeline Safety Decisions Following the San Bruno Explosion.....	3
1.2. The Instant Application.....	45
2. Evidentiary Hearing, Post-Hearing Briefing, and Request for Additional Information.....	56
3. Submission.....	67
4. Scope of Proceeding.....	67
5. Supplemental Testimony.....	78
6. Standard of Review.....	78
6.1. Reasonable Management Actions.....	78
6.2. General Cost Categories for Applying the Reasonable Management Standard.....	910
6.2.1. Project Costs, PMO Costs, and Miscellaneous Costs.....	1011
6.2.2. Direct Costs (Including PSEP General Management and Administrative Costs) and Indirect Costs.....	1112
6.3. PSEP Standards and Practices.....	1214
6.3.1. PSEP Decision Tree.....	1314
6.3.2. PSEP Design and Construction Standards and Practices.....	1415
6.3.3. PSEP Oversight and Controls.....	1416
6.3.4. Cost Tracking and Management.....	1516
7. Project Costs – Line 2000-A.....	1517
7.1. SoCalGas and SDG&E.....	1517
7.2. ORA.....	1719
7.3. SCGC.....	1920
7.4. TURN.....	1921
7.5. Discussion and Conclusion.....	2022
8. Project Costs – Lines 42-66-1 and 42-66-2.....	2223
8.1. SoCalGas.....	2223
8.2. ORA.....	2425

Table of Contents (Cont.)

Title	Page
8.3. SCGC.....	24 <u>25</u>
8.4. TURN.....	24 <u>25</u>
8.5. Discussion and Conclusion.....	25 <u>26</u>
9. Project Costs – Playa del <u>Del</u> Rey Phases 1 and 2.....	26 <u>27</u>
9.1. SoCalGas and SDG&E.....	26 <u>27</u>
9.2. ORA.....	27 <u>28</u>
9.3. SCGC.....	28 <u>29</u>
9.4. TURN.....	28 <u>29</u>
9.5. Discussion and Conclusion.....	28 <u>29</u>
10. Project Costs – Descoped Projects.....	29 <u>30</u>
10.1. SoCalGas and SDG&E.....	29 <u>30</u>
10.2. ORA.....	29 <u>30</u>
10.3. SCGC.....	30 <u>31</u>
10.4. TURN.....	30 <u>31</u>
10.5. Discussion and Conclusion.....	30 <u>31</u>
11. Program Management Office Costs.....	31
11.1. SoCalGas and SDG&E.....	31
11.2. ORA.....	31 <u>32</u>
11.3. SCGC.....	31 <u>32</u>
11.4. TURN.....	31 <u>32</u>
11.5. Discussion and Conclusion.....	31 <u>32</u>
12. Miscellaneous Costs – Interim Safety Measures.....	32 <u>33</u>
12.1. SoCalGas and SDG&E.....	32 <u>33</u>
12.2. ORA.....	32 <u>33</u>
12.3. SCGC.....	32 <u>33</u>
12.4. TURN.....	33
12.5. Discussion and Conclusion.....	33
13. Miscellaneous Other Costs – Pressure Protection Equipment.....	33 <u>34</u>
13.1. SoCalGas and SDG&E.....	33 <u>34</u>
13.2. ORA.....	33 <u>34</u>
13.3. SCGC.....	33 <u>34</u>
13.4. TURN.....	33 <u>34</u>
13.5. Discussion and Conclusion.....	33 <u>34</u>
14. Miscellaneous Other Costs – Other Remediation Costs.....	34 <u>35</u>
14.1. SoCalGas and SDG&E.....	34 <u>35</u>
14.2. ORA.....	34 <u>35</u>

Table of Contents (Cont.)

Title	Page
14.3. SCGC.....	3435
14.4. TURN.....	3435
14.5. Discussion and Conclusion.....	3435
15. Miscellaneous Other Costs – Facilities Build-Out Costs.....	3536
15.1. SoCalGas and SDG&E.....	3536
15.2. ORA.....	3536
15.3. SCGC.....	3536
15.4. TURN.....	3536
15.5. Discussion and Conclusion.....	3537
16. Revenue Requirement and Cost Allocation.....	3637
16.1. SoCalGas and SDG&E.....	3637
16.2. ORA.....	3638
16.3. SCGC.....	3738
16.4. TURN.....	3739
16.5. Discussion and Conclusion.....	3739
17. Future PSEP Reasonableness Showings.....	3840
17.1. ORA.....	3840
17.2. SoCalGas and SDG&E.....	3841
17.3. Discussion and Conclusion.....	3942
18. PSEP Cost Challenges.....	3942
18.1. The Use of Contractors.....	3942
18.1.1. SCGC.....	3942
18.1.2. SoCalGas and SDG&E.....	4043
18.1.3. Discussion and Conclusion.....	4143
18.2. Challenge to Support Costs – Insurance.....	4244
18.2.1. TURN.....	4244
18.2.2. SoCalGas and SDG&E.....	4245
18.2.3. Discussion and Conclusion.....	4345
18.3. Challenge to the Manner of Removal of the Executive Incentive Compensation.....	4447
18.3.1. TURN.....	4448
18.3.2. SoCalGas and SDG&E.....	4548
18.3.3. Discussion and Conclusion.....	4549

Table of Contents [\(Cont.\)](#)

Title	Page
19. Comments on Proposed Decision.....	46 49
20. Assignment of Proceeding and Presiding Officer.....	46 50
Findings of Fact.....	46 50
Conclusions of Law.....	51 54
ORDER.....	54 56

**PROPOSED DECISION GRANTING APPLICATION OF
SOUTHERN CALIFORNIA GAS COMPANY AND
SAN DIEGO GAS & ELECTRIC COMPANY**

Summary

This decision finds reasonable the costs for three completed projects that San Diego Gas & Electric Company (SDG&E) and Southern California Gas Company (SoCalGas) recorded in ~~their~~the Pipeline Safety and Reliability Memorandum Accounts. SoCalGas is ~~awarded~~authorized to recover \$33,130,567. SDG&E is ~~awarded~~authorized to recover \$108,000, making the total award \$33,238,567. The ~~award~~authorization is broken down by category and reflects the positions taken by each ~~party~~applicant in the proceeding:

Comparison: Fully Loaded Cost		
<u>Completed Projects and Cost Category</u>	Sempra	Amount Awarded <u>Authorized for Recovery</u> by this Decision
SoCalGas		
2000-A	\$26,374,878	\$24,302,928
42-66-1/ 42-66-2	\$813,327	\$747,897
Playa del <u>Del</u> Rey 1&2	\$683,036	\$639,416
Descoped	\$127,639	\$127,639
Facilities Build-Out	\$2,882,687	\$2,882,687
Program Management Office	\$2,068,000	\$2,068,000
Other: Interim safety measures, pressure	\$2,362,000 (\$1,568,000 for leak	\$2,362,000

protection, and remediation costs	survey and pipeline patrol; \$312,000 for pressure protection equipment; and \$482,000 for other remediation)	
Subtotal	\$35,311,567	\$33,130,567
SDG&E		
Program Management Office	\$49,000	\$49,000
Other (Leak Survey and Pipeline Patrol)	\$52,000	\$52,000
Pressure Protection Equipment and Other Remediation	\$7,000 (\$5,000 for Pressure Protection Equipment and \$2,000 for Other Remediation	\$7,000
Subtotal	\$108,000	\$108,000
Total	\$35,419,567	\$33,238,567

This proceeding is closed.

1. Background

1.1. The Commission's Pipeline Safety Decisions Following the San Bruno Explosion

Southern California Gas Company (SoCalGas) and San Diego Gas & Electric Company (SDG&E) seek to recover the Pipeline Safety and Reliability Memorandum Accounts' (Memo Accounts) reasonable and prudent revenue requirements in customer rates. In doing so, SoCalGas and SDG&E have endeavored to follow a line of California Public Utilities Commission (Commission) precedents dating back to 2011, which we briefly summarize.

In Rulemaking (R.) 11-02-019, the Commission commenced a proceeding to create new rules for the safe and reliable operation of natural gas pipelines in response to the September 10, 2009, San Bruno pipeline explosion.

In Decision (D.) 11-06-017, the Commission voted to require all natural gas pipeline operators to submit an Implementation Plan to pressure test or replace

all transmission pipeline that ~~has~~[had](#) not been tested or for which records ~~are~~[were](#) not available. The Commission further ordered gas pipeline operators to take interim safety measures including pressure reductions and increased patrols and leak surveys.

In D.12-04-021, the Commission transferred the Pipeline Safety Enhancement Plan (PSEP) for SoCalGas and SDG&E to their Triennial Cost Allocation Proceeding, Application (A.) 11-02-002. Pursuant to D.12-04-021, SoCalGas and SDG&E created ~~the~~ Memo Accounts to record PSEP-related Operations and Maintenance costs (O&M) and capital costs.

In D.14-06-007, the Commission approved the PSEP, with some exceptions, but did not approve implementation costs due to the lack of specific detail in the proposed budget. Of note, Ordering Paragraph 9 directed that PSEP costs “are to be allocated consistent with the existing cost allocation and rate design for SoCalGas and SDG&E and include allocation to the backbone function.” The Commission also approved the Decision Tree, which prioritized safety enhancement projects into three phases: 1A, 1B, and 2. Finally, the Commission authorized the creation of capital cost and expense balancing accounts. In doing so, the Commission disallowed the following costs:

- The cost of pressure testing pipelines installed after July 1, 1961, that lack an adequate pressure test record;
- For post-1961 replacement projects, the system average cost of pressure testing;
- The remaining undepreciated book value for post-1961 replacement or abandonment projects;
- ~~Management~~[Executive](#) incentive compensation; and
- The cost of searching for pipeline testing records.

4.2. The Instant Application In Decision (D.) 15-12-020, the Commission modified D.14-06-007 to clarify that future after-the-fact reasonableness review applications should include hydrotest projects when completed including, but not limited to, the 12 in-progress projects originally included in Application (A.) 14-12-016 but subsequently removed by the July 31, 2015, assigned Commissioner and Administrative Law Judge's Amended Scoping Memo and Ruling. The Instant Application

In accordance with D.14-06-007, as modified by Decision (D.) 15-12-020, and subject to the disallowances identified above, SoCalGas and SDG&E were authorized to file an application to justify and recover O&M costs recorded through June 12, 2014, (the effective date of D.14-06-007) and capital costs associated with projects completed prior to June 12, 2014. The expenditures submitted for review and approval totaled \$9.7 million in capital costs and \$48.4 million in O&M. The revenue requirement for the three completed PSEP projects requested for recovery ~~in this application is was~~ \$46.2 million and \$0.08 million for SoCalGas and SDG&E, respectively. (Application at 2.)

The Commission's Office of Ratepayer Advocates (ORA), The Utility Reform Network (TURN), and the Southern California Generation Coalition (SCGC) filed timely ~~Protests~~protests. The Utility Workers' Union of America filed a ~~Response~~response.

On February 26, 2015, the Prehearing Conference (PHC) was held. In attendance were counsel for SDG&E and SoCalGas, Southern California Generation Coalition, TURN, and ORA.

On April 1, 2015, the Assigned Commissioner and Administrative Law Judges issued their Scoping Memo and Ruling (Scoping Memo).

On April 6, 2015, the Administrative Law Judge issued a ruling correcting the schedule in the Scoping Memo.

On May 28, 2015, Applicants filed a ~~Motion~~motion for ~~Leave~~leave to ~~Amend~~amend their ~~Application~~application. With the amended Application, SoCalGas and SDG&E sought to:

- Withdraw the request to review and approve approximately \$886,000 in costs and the corresponding revenue requirement associated with Line 45-120X01;
- Withdraw the request to eliminate the Pipeline Safety and Reliability Memorandum Accounts (PSRMA) 12 months after the amortization period;
- Reduce the costs associated ~~win~~with Line 42-66-1/42-66-2 from \$914,000 to \$833,744; and
- Incorporate a bonus depreciation adjustment from \$578,110 to \$534,110.

The ~~Motion~~motion was granted on June 23, 2015.

On July 31, 2015, an Amended Scoping Memo and Ruling was issued to exclude, from consideration in this proceeding, the in-progress projects and their related costs, and to defer the review to a future reasonableness review application.

2. Evidentiary Hearing, Post-Hearing Briefing, and Request for Additional Information

Evidentiary hearings were held on October 21 and October 22, 2015.

Opening briefs were filed on November 13, 2015.

Reply briefs were filed on December 4, 2015.

On May 13, 2016, the assigned Administrative Law Judge (ALJ) wrote to the parties for clarification in light of the Commission's D.15-12-020, which determined that SoCalGas and SDG&E were responsible for the costs of pressure

testing pipeline segments installed between 1956 and 1961 where there are no adequate records.

On May 18, 2016, SoCalGas and SDG&E confirmed that they did not oppose a disallowance for projects installed between 1956 and 1961 that were initiated and later descoped because of ongoing record review efforts. Using Trial Exhibit SCG-09 (Mejia) as a guide, they explained that Line 235E, Line 1020, and Line 4000 had costs equaling \$218,158 for pipeline segments installed between 1956 and 1961. Subtracting this amount from the total ~~cost request~~ would result in a reduction would reduce the requested revenue requirement from \$35.53 million to \$35.31 million, and SoCalGas' revenue requirement would be reduced from \$26.81 million to \$26.60 million.¹ SDG&E did not include costs associated with pipelines installed between 1956 and 1961.²

3. Submission

This proceeding was submitted on May 18, 2016.

4. Scope of Proceeding

The Scoping Memo that was filed on ~~July 31~~, April 1, 2015, identified the following issues as being within the scope of this proceeding:

1. Whether the costs recorded in the Memo Accounts were prudently incurred and were necessary costs to properly implement SDG&E and SoCalGas' Safety Enhancement program.
2. Whether SDG&E and SoCalGas complied with the guidance and requirements in D.14-06-007 and all other relevant decisions addressing Safety Enhancement.

¹ See Ex. SCG-14 (Austria) at 1 and 2; and Ex. SCG-09 (Mejia) at 40-41.

² ~~In our review of the record, we have arrived at a number that is slightly higher than the applicants: \$35,767,000 versus \$35,311,000.~~

3. Whether SDG&E and SoCalGas complied with all state and federal regulations and followed industry best practices in ~~their~~its Safety Enhancement activities. Specific issues identified in both the application and the protests:
 - a. The Utility Workers' Union of America alleged in its Response that its members had witnessed non-complaint activities performed by outside contractors. Any such allegations that can be substantiated should immediately be brought forward to SDG&E and SoCalGas management, and to the appropriate authorities, including the Commission's Safety Division. (Response at 4.)
 - b. Whether all workers and managers are properly trained and supervised by qualified personnel.
 - c. Whether all required documentation is properly maintained.
4. Examine any other relevant issues, which might arise during the proceeding, that may affect just and reasonable rates or safe and reliable gas service.

5. Supplemental Testimony

TURN and ORA argued in their protests that SoCalGas and SDG&E did not meet their burden of proof in the initial application. They argued at the ~~Prehearing Conference~~PHC that the application was an itemization and not an explanation and justification of the actions and decisions made by the companies in implementing Safety Enhancement. The then-assigned ALJ agreed and ordered SDG&E and SoCalGas to supplement their testimony by March 27, 2015.

6. Standard of Review

6.1. Reasonable Management Actions

SDG&E and SoCalGas bear the burden of proof to show through a preponderance of the evidence that their requests are just and reasonable and the

related ratemaking mechanisms are fair. This proceeding is a standard reasonableness review, which follows a long tradition of examining costs and the prudence of management actions that are already incurred but recorded in a memorandum account.

The Commission's standard³² in a reasonableness review of managerial action is settled. In a reasonableness review:

Utilities are held to a standard of reasonableness based upon the facts that are known or should be known at the time. While this reasonableness standard can be clarified through the adoption of guidelines, the utilities should be aware that guidelines are only advisory in nature and do not relieve the utility of its burden to show that its actions were reasonable in light of circumstances existent at the time. Whatever guidelines are in place, the utility always will be required to demonstrate that its actions are reasonable through clear and convincing evidence.⁴³

This decision articulates the Commission's policy but misuses the higher standard: "clear and convincing" which is the wrong legal standard for ratesetting proceedings. The correct standard to be used in this proceeding is "preponderance of the evidence." [\(D.12-12-030 at 44.\)](#)

D.02-08-064 provides additional factors for applying the reasonable ~~management~~[manage](#) standard:

- "the reasonableness of a particular management action depends on what the utility knew or should have known at the time that the managerial decision was made, not how the decision holds up in light of future developments";
- a reasonable and prudent act includes a "spectrum of possible acts consistent with the utility system need, the interest of the ratepayers, and the requirements of governmental agencies of competent jurisdiction;"⁴ and

³² D.02-08-064 (2002 Cal. PUC LEXIS 534; 219 P.U.R.4th 421).

⁴³ D.88-03-036 (1988 Cal. PUC LEXIS 155,*7; 27 CPUC2d 525).

- “[t]he act or decision is expected by the utility to accomplish the desired result at the lowest reasonable cost consistent with good utility practices. Good utility practices are based upon cost effectiveness, reliability, safety, and expedition.”⁵⁴

Thus, the reasonableness of a particular management action depends on what the utility knew or should have known at the time that the managerial decision was made, not how the decision holds up in light of future developments.⁶⁵

6.2. General Cost Categories for Applying the Reasonable Management Standard

Before applying this standard for review to the specific projects and categories, it will be helpful to provide an overview of the various categories for which SoCalGas and SDG&E seek recovery. According to SoCalGas and SDG&E, they presented the costs associated with the PSEP Organization, SoCalGas and SDG&E’s initial efforts to comply with the Commission’s safety enhancement directives, and the costs associated with three completed projects and nine descoped projects.⁷⁶ The costs associated with these efforts and presented for review and recovery in this Application fall into three categories: project costs, Program Management Office (PMO) costs, and miscellaneous other costs.⁸⁷

⁵⁴ D.02-08-064 at 5 and 6, citing D.87-06-021.

⁶⁵ See for example: D.87-06-021 (1987 Cal. PUC LEXIS 588, *28-29, 24 CPUC 2d 476); ¶ D.89-02-074 (1989 Cal. PUC LEXIS 128, *11, 31 CPUC 2d, 236); and D.90-09-088 (1990 Cal. PUC LEXIS, 847, *23-25, 37 CPUC 2d 488, 499).

⁷⁶ See Ex. SCG-02 (Phillips); and Ex. SCG-08 (Mejia) at 12, Footnote 11.

⁸⁷ Ex. SCG-02 (Phillips) at 3-4.

6.2.1. Project Costs, PMO Costs, and Miscellaneous Costs

According to SoCalGas and SDG&E, project costs are costs related to a pressure test or replacement project.⁹⁸ PMO costs are costs related to the PMO and its oversight of the PSEP organization, programs, and processes.¹⁰⁹ Miscellaneous other costs are costs related to the increased frequency of leak survey and pipeline patrols ~~of pipelines~~, the installation of pressure protection equipment to reduce the operating pressure of specific pipeline segments, other remediation efforts, and facility build out costs to house the PSEP Organization.¹¹⁰

SoCalGas and SDG&E explain that the PSEP Organization oversees implementation, provides project and process controls during the project life cycle, provides SoCalGas and SDG&E with the ability to assess whether projects are on budget and ~~schedules~~ on schedule, and communicates PSEP progress to various stakeholders.¹¹¹ The PSEP Organization includes roughly 200 Company and 500 Contractor personnel working on approximately 230 individual projects in PSEP Phase 1A.¹¹² To obtain what it deemed the necessary support personnel, SoCalGas and SDG&E engaged in contractor and supplier procurement,¹¹³ looked for contractors with the skills and expertise to plan, execute, and oversee PSEP work while maintaining safe and reliable service to customers;¹¹⁴ and implemented a Performance Partnership Program that engaged construction

⁹⁸ Ex. SCG-02 (Phillips) at 4.

¹⁰⁹ Ex. SCG-02 (Phillips) at 4.

¹¹⁰ Ex. SCG-02 (Phillips) at 4.

¹¹¹ Ex. SCG-01 (Phillips) at 7.

¹¹² Ex. SCG-05 (Phillips) at 6.

¹¹³ Ex. SCG-01 (Phillips) at 8-11, and 19.

¹¹⁴ Ex. SCG-01 (Phillips) at 8.

contractor personnel across their services territories.⁴⁶¹⁵ According to the Applicants, the Performance Partnership Program identified construction contractors, mitigated costs for customers, created efficiencies, and balanced operational and customer impacts throughout the service territories.⁴⁷¹⁶

ORA points out that the Performance Partnership Program was not utilized on the completed projects in this proceeding for which Applicants are seeking a reasonableness review.¹⁷ As such, any conclusions about the reasonableness of the Performance Partnership Program should not be made until it has been used to engage contractors. SoCalGas and SDG&E respond that while the Performance Partnership Program has not yet been used, it is appropriate to advise the Commission about the Program and to obtain preapproval or other specific guidance in accordance with the Commission's direction in D.14-06-007.¹⁸

6.2.2. Direct Costs (Including PSEP General Management and Administrative Costs) and Indirect Costs

The above discussed three cost categories include costs directly charged to projects and activities and indirect costs. Costs directly charged to projects and activities include costs incurred in direct support of the project or activity, such as project-specific engineering, design, environmental, permit acquisition, community notification, construction, inspection, and project documentation.⁴⁸¹⁹

~~For the completed projects, this~~ This category also includes PSEP General Management and Administrative (GMA) costs. PSEP GMA costs are project

⁴⁶¹⁵ Ex. SCG-04 (Phillips) at 13-20.

⁴⁷¹⁶ Ex. SCG-04 (Phillips) at 13-20.

¹⁷ ORA Comments at 6-7, citing to TURN Opening Brief at 30.

¹⁸ SoCalGas and SDG&E Reply Comments at 3-4.

⁴⁸¹⁹ Ex. SCG-02 (Phillips) at 4.

support costs directly related to PSEP that are not attributable to a specific project, but incurred in direct support of PSEP projects.¹⁹²⁰ PSEP GMA costs include communications, construction, engineering, environmental, gas control, supply management, and training costs that support PSEP projects.²⁰²¹ PSEP GMA costs are made up of both internal support costs (labor and expense) and external support contractors.²¹²² Indirect costs include incremental overheads, Allowance for Funds Used During Construction, and Property Taxes. Incremental overhead costs are ~~costs~~those that indirectly support the business operations of SoCalGas and SDG&E and are included for cost recovery. Specifically, SoCalGas and SDG&E include overheads associated with incremental labor and additional procurement activities because they proportionately increase as a result of PSEP activities.²²²³ For PSEP, nine loaders were determined to be incremental: Payroll Tax; Vacation and Sick time; Benefits (non-balanced only);²³²⁴ Workers' Compensation; Public Liability / Property Damage; Incentive Compensation Plan; Purchased Services and Materials; Administrative and General; and Insurance.²⁴²⁵

We bear these cost categories in mind as we consider the claimed reasonableness of the costs that SoCalGas and SDG&E seek Commission authorization to recover.

6.3. PSEP Standards and Practices

Another component of the reasonableness review requires the Commission to evaluate the Applicants' PSEP standards and practices in order

¹⁹²⁰ Ex. SCG-02 (Phillips) at 4-5.

²⁰²¹ Ex. SCG-02 (Phillips) at 5.

²¹²² See Ex. SCG-09 (Mejia) at 33, Footnote 45.

²²²³ Ex. SCG-11 (Austria) at 3.

²³²⁴ Ex. SCG-11 (Austria) at 4, Footnote 11.

²⁴²⁵ Ex. SCG-11 (Austria) at 4, Footnote 12.

to determine if Applicants implemented the PSEP in an expeditious and cost-effective manner. As part of its showing at the Evidentiary Hearing, Applicants provided evidence regarding its PSEP Decision Tree, PSEP Design and Construction Standards and Practices, and PSEP Oversight and Controls. We briefly summarize the showings.

6.3.1. PSEP Decision Tree

As noted above, D.14-06-007 adopted concepts in Applicants' Decision Tree and approach to testing or replacing natural gas pipelines in their natural gas transmission system.²⁵²⁶ According to Applicants, the Decision Tree uses a step-by-step analysis of pipeline segments in order to evaluate facts that may impact whether to pressure test or replace the segment.²⁶²⁷ In deciding whether to test or replace a pipeline segment, Applicants state they are guided by the following principles:

- A commitment not to interrupt service to core customers in order to pressure test a pipeline;
- To work with noncore customers to determine if an extended outage is possible;
- Where necessary, temporarily interrupt noncore customers in accordance with their tariffs;
- To work with noncore customers to plan service interruptions during scheduled maintenance; and
- To consider cost and engineering factors.²⁷²⁸

ORA questions the reasonableness of the Decision Tree. It argues that certain projects within the proceeding were handled and tracked differently from others, using Playa Del Rey and Lines 42~~+~~₌66~~+~~₌1 and 42~~+~~₌66~~+~~₌2 as examples of

²⁵²⁶ D.14-06-007 at 16 and 24.

²⁶²⁷ Ex. SCG-07 (Mejia) at 3.

²⁷²⁸ EX. SCG-07 (Mejia) at 4.

projects with “numerous” change orders and cost estimate revisions.²⁸²⁹ In place of the current Decision Tree, ORA advocates for a universal Decision Tree that applies to all of Applicants’ pipeline safety enhancement projects, ~~and~~ ORA also suggests that Applicants be required to provide an explanation at each point in the Decision Tree that ~~lead~~ leads to the final outcome of each set of project costs.²⁹³⁰

6.3.2. PSEP Design and Construction Standards and Practices

Applicants assert that PSEP is subject to guidelines and oversight designed to comply with their internal standards, ~~as~~ as well as applicable laws, regulations, and Commission orders.³⁰³¹ These include Code of Federal Regulations, Title 49, Part 192, as well as the standards articulated by the American Society for Mechanical Engineers, American National Standards Institute, American Petroleum Institute, and American Society for Testing and Materials.

6.3.3. PSEP Oversight and Controls

Applicants claim that the PSEP Organization implemented a process whereby each project was initially managed in compliance with their existing policies overseen by PSEP Organization leadership, and the later projects were overseen by the PSEP PMO and the Commission’s Safety and Enforcement Division.³¹ (SED).³² Additionally, ~~and~~ and in conformity with D.14-06-007’s mandate that SED exercise oversight authority in order to observe and inspect the testing, maintenance, and construction of the pipeline system and related

²⁸²⁹ ORA Opening Brief at 22.

²⁹³⁰ *Id.*

³⁰³¹ Ex. SCG-07 (Mejia) at 1.

³¹³² Ex. SCG-01 (Phillips) at 16-18; and Ex. SCG-09 (Mejia) at 5-8.

equipment,³²³³ SED has inspected Applicants' PSEP activity, policies, and documentation.³²³³

6.3.4. Cost Tracking and Management

Applicants track costs by Work Order Authorization, which tracks costs associated with the planning and execution of a specific project.³³³⁴ With respect to cost management, Applicants state that they competitively solicit bids, where practicable, for materials and services.³⁴³⁵

We apply these standards and practices to the specific projects and cost categories for which SoCalGas and SDG&E seek recovery.

³²³³ D.14-06-007 at 29; Ex. SCG-09 (Mejia) at 8.

³³³⁴ Ex. SCG-08 (Mejia) at 10.

³⁴³⁵ Ex. SCG-04 (Phillips) at 7-20.

7. Project Costs—Line 2000-A

7.1. SoCalGas and SDG&E

Line 2000-A was the first PSEP project to be initiated.³⁵³⁶ Line 2000-A involved the hydrostatic testing of 15.2 miles of 30-inch pipe installed primarily in 1947.³⁶³⁷ In October 2012, work on Line 2000-A was initiated by SoCalGas' Pipeline Construction Management department (PCM).³⁷³⁸ Line 2000-A construction began in July 2013.³⁸³⁹ ~~During construction, on~~ On August 1, 2013, as the PSEP Organization became more fully staffed, Line 2000-A was transferred from PCM to PSEP. From this point onward, the PSEP Organization managed and executed the Line 2000-A pressure test, but in order to maintain an effective transition, PSEP and PCM continued to work together.³⁹⁴⁰

Additionally, during construction, there were changes to the scope of the project that Applicants claim resulted in increased costs. First, SoCalGas and SDG&E originally planned to pressure test Line 2000-A in nine sections. Due to a land use issue with an impacted resident, however, SoCalGas and SDG&E were required to divide one section into two separate pressure tests and ultimately pressure tested Line 2000-A in 10 sections. This scope modification caused a change to the cost of the fixed-price contract that was agreed upon between SoCalGas and SDG&E and the construction contractor prior to construction.⁴⁰⁴¹

Second, in order to maintain service to three commercial/industrial customers during the pressure test, SoCalGas and SDG&E assert that

³⁵³⁶ Ex. SCG-08 (Mejia) at 19.

³⁶³⁷ Ex. SCG-02 (Phillips) at 9.

³⁷³⁸ Ex. SCG-09 (Mejia) at 19.

³⁸³⁹ Ex. SCG-02 (Phillips) at 8.

³⁹⁴⁰ Ex. SCG-08 (Mejia) at 21.

⁴⁰⁴¹ Ex. SCG-08 (Mejia) at 21-22.

arrangements were made to serve one customer through Compressed Natural Gas (CNG) supply directly and to provide temporary supply to two other customers until a bypass line was tied in.⁴⁴⁴² Other potential options considered were the installation of a valve to create a new test break and bridle around the valve to serve a customer from either side while the other is tested, and the utilization of Liquefied Natural Gas. Those alternative options were not selected, because both were deemed more complicated and more expensive, as compared to using CNG to serve customers temporarily.⁴⁴⁴³ SoCalGas and SDG&E claim that all 10 sections were pressure tested successfully with no test failures.⁴³⁴⁴ The first Line 2000-A segment was tested in July 2013, and the last segment was tested in November 2013.⁴⁴⁴⁵ Tie-ins occurred from July to December 2013, and the final section of the project was placed back into service in December 2013.⁴⁵⁴⁶

In December 2013, the September 2012 budget was reauthorized at \$28,008,484 in direct and indirect costs. This reauthorization revised the scope to solely include Line 2000-A ~~and~~. It also updated the budget to incorporate the cost increases described above as well as increases resulting from additional pressure control fittings to supply a district tap during pressure testing, water management activity, engineering activity, project management activity, and PSEP GMA costs.⁴⁶⁴⁷ The actual project costs presented in this application total \$26,374,878 in direct and indirect costs.

7.2. ORA

⁴⁴⁴² Ex. SCG-02 (Phillips) at 9.

⁴⁴⁴³ Ex. SCG-08 (Mejia) at 23.

⁴³⁴⁴ Ex. SCG-02 (Phillips) at 9.

⁴⁴⁴⁵ Ex. SCG-02 (Phillips) at 8.

⁴⁵⁴⁶ Ex. SCG-08 (Mejia) at 27.

⁴⁶⁴⁷ Ex. SCG-08 (Mejia) at 21.

ORA argues for a \$13.1 million disallowance on the basis that SoCalGas and SDG&E have not met their burden to demonstrate the reasonableness of the costs incurred.⁴⁷⁴⁸ ORA's disallowance is based on its position that the reasonable manager standard requires a comparison of estimated costs to actual costs or "cost goals."⁴⁸⁴⁹

ORA recommends using the preliminary 2012 project estimate to develop a per-mile cost and then multiplying the per-mile cost by the total Line 2000-A mileage. This leads to a total cost of \$13.29 million.⁴⁹⁵⁰

Yet ORA acknowledged that cost alone is not the sole criterion for determining reasonableness:

Q: Is it ORA's position that a requirement of demonstrating reasonableness is a comparison of actuals to estimates?

A: Such a comparison is one factor that could help establish reasonableness.

Q: So it is not — such a comparison is not a requirement, though?

A: For any given project I would say it's not a requirement, but it is a factor that could help establish reasonableness.⁵⁰⁵¹

ORA also argues that SoCalGas and SDG&E's documentation is questionable in that "the record show several examples that suggest Applicants have not maintained factually correct recordkeeping to meet their burden

⁴⁷⁴⁸ Ex. ORA-01 (Stannik) at 3-4 and 22.

⁴⁸⁴⁹ ORA Opening Brief at 9-10, citing to D.02-08-064 at 36-37; and Ex. ORA 13, p. 27, Response
 to Question 6d.

⁴⁹⁵⁰ Ex. ORA-01 (Stannik) at 22.

⁵⁰⁵¹ RT at 306 (ORA/Stannik).

to establish reasonableness of either costs or decision making.”⁵⁴⁵² By way of example, ORA cites ~~to~~ the agreement for x-ray services for the Line 2000-A hydro-test and asserts that Applicants “provided inaccurate cost-related information in testimony and supporting workpapers to the Commission and to ORA.”⁵²⁵³ ORA asserts that there is a discrepancy in the characterization of the bidding process (i.e. whether the contract with Valley Industrial X-Ray & Inspection on Line 2000-A was competitively bid or sole s-sourced).⁵³⁵⁴ ORA claims that the reason for the discrepancy is that the testimony from Applicants’ witnesses was based upon memory instead of checking the contracts.⁵⁴⁵⁵

7.3. SCGC

SCGC argues that the Commission should disallow the portion of the consultant charges that are related to overhead, ~~ODC~~Opinion Dynamics Corporation, travel, and profit. SCGC maintains that it is not reasonable for Applicants to rely on engineering consultants to complete the management and engineering tasks that could have, and should have, been completed by hired personnel.⁵⁵⁵⁶

7.4. TURN

TURN alleges SoCalGas and SDG&E failed to provide sufficient evidence to demonstrate the reasonableness of Line 2000-A costs.⁵⁶⁵⁷

TURN argues that SoCalGas and SDG&E failed to establish the reasonableness of the costs associated with the Line 2000-A project or that the

⁵⁴⁵² ORA Opening Brief at 3.

⁵²⁵³ ORA Opening Brief at 8.

⁵³⁵⁴ Ex. SCG-08 (Mejia) at 33: 1-13; and Ex. ORA 6C at 1, bottom entry, including asterisk notation at bottom of page.

⁵⁴⁵⁵ RT (10-21-15 [Mejia]) at 162: 18 to 24.

⁵⁵⁵⁶ Ex. SCGC-TURN-02-C (Yap) at 29.

⁵⁶⁵⁷ TURN Opening Brief at 8.

costs were prudently incurred.⁵⁷⁵⁸ TURN first attacks the direct testimony, claiming that the approximately two pages of text “does little other than give a bare overview of the project and its costs.”⁵⁸⁵⁹ TURN also challenges the supplemental testimony on the grounds that it fails to include the type of information that might support a finding of reasonableness or prudence for the Line 2000-A project and its costs.⁵⁹⁶⁰ Instead, the supplemental testimony highlights the “apparent problems the Sempra Utilities were having in putting together accurate forecasts for their own internal budgeting and work authorization processes, even as they were preparing to and in the early stages of doing the work.”⁶⁰⁶¹ In TURN’s view, the forecasting difficulty raises questions about the reasonableness of Line 2000-A’s costs.⁶¹⁶²

Finally, while TURN acknowledges that the rebuttal testimony makes some movement toward the minimum showing required to establish reasonableness, this testimony should have been presented as part of SoCalGas and SDG&E’s direct testimony.⁶²⁶³

7.5. Discussion and Conclusion

We conclude that SoCalGas’s ~~and SDG&E’s~~ actions and expenses are reasonable with one exception that we discuss below. For Line 2000-A, SoCalGas ~~and SDG&E~~ knew it was a high priority pipeline. SoCalGas ~~and SDG&E~~ knew beginning Line 2000-A work with existing SoCalGas resources would allow for more expeditious completion of the pressure test. SoCalGas ~~and SDG&E~~ knew

⁵⁷⁵⁸ TURN Opening Brief at 8.

⁵⁸⁵⁹ TURN Opening Brief at 8, citing to Ex. SCG-02 (Phillips Direct, Chapter III) at 7-9.

⁵⁹⁶⁰ TURN Opening Brief at 9.

⁶⁰⁶¹ TURN Opening Brief at 9.

⁶¹⁶² Ex. SCGC-TURN-06 (Additional Excerpts of SEU Response to TURN/SCGC-1), materials following page 34 of the text, e-mail dated Tuesday, July 09, 2013 (“might be adding this cost twice with PMO costs below”).

⁶²⁶³ TURN Opening Brief at 12.

that transitioning Line 2000-A to the PSEP Organization during construction would enable greater oversight of this project and allow the newly-formed PSEP Organization to engage in management of this early PSEP project. SoCalGas ~~and SDG&E~~ knew that using some form of competitive bidding would help manage costs. Of the \$26.375 million, \$18.988 million was for services provided by suppliers or contractors. Of that amount, approximately \$13.855 million (or ~~73-Percent%~~) was competitively bid for either the specific PSEP work or undertaken through an agreement that was previously competitively bid.⁶³⁶⁴ Based on this knowledge, and given the Commission's clear instructions to complete safety enhancement work "as soon as practicable," it was reasonable for SoCalGas ~~and SDG&E~~ to bid the majority of project costs and take steps to pressure test the project expeditiously. Notably, Line 2000-A was pressure tested successfully and on schedule. Second, ORA audited booked costs and supporting documentation and recommended no adjustments. This leads us to believe that Line 2000-A was pressure tested successfully, and the costs of doing so were accurately booked.

We ~~are tempted to but have decided~~will not ~~to~~ impose a disallowance for one of the contracts because of SoCalGas ~~and SDG&E's'~~' failure to fact-check the testimony. ~~Their~~Its witness testified that a particular contract for this line project was competitively bid. But ORA demonstrated that this contract was single sourced,⁶⁴⁶⁵

⁶³⁶⁴ Ex. SCG-10-C (Mejia) at 23-33.

⁶⁴⁶⁵ Ex. ORA-06-C. Applicants state that this contract "cannot [be competitively] bid due to the nature of this project with variable scheduling both for the hydrotest work and the multiple
 ⚡
 tie-ins." See also Ex. SCG-09 (Mejia) at 28:2-4 ("SoCalGas and SDG&E single-sourced Line 2000A X-rays services to [name withheld as confidential] because of the variability involved with scheduling the hydrotest work and associated tie-ins.") There is an asterisk at the bottom of this exhibit referring to the contract at issue and states: "Note: In Rebuttal Testimony (Mejia), it was indicated that [name withheld as confidential] was competitively bid, rather than single sourced. A correction will be made to testimony prior to hearings."

a point that Applicants' witness had to acknowledge under cross-examination.⁶⁵⁶⁶ We caution ~~Applicants~~Applicant to review ~~their~~its claims more carefully in future filings.

We disallow \$2,071,950 for the PSEP-specific insurance costs related to this project, for the reasons discussed, *infra*, at Section 18.2.3. of this decision.

With that disallowance, SoCalGas ~~and SDG&E are awarded~~is authorized to recover \$24,302,928.

8. Project Costs—Lines 42-66-1 and 42-66-2⁶⁶⁶⁷

8.1. SoCalGas

The Lines 42-66-1 and 42-66-2 project involved the replacement of Line 42-66-1 and the abandonment of Line 42-66-2 – two lines that served a District Regulation Station located off of Transmission Line 2000.⁶⁷⁶⁸

Work on Lines 42-66-1 and 42-66-2 was initiated in November 2012. Because the PSEP Organization was not yet fully up and running at that time, the project was planned and executed by the SoCalGas Distribution Organization, with involvement and management provided by the PSEP organization.⁶⁸⁶⁹

Construction on the project took place from early October to December 2013, with the Line returned to service in December 2013.⁶⁹⁷⁰ ~~The~~

⁶⁵⁶⁶ RT (10/21/2015) at 121:16-126:6.

⁶⁶⁶⁷ Project Costs also included in-progress projects with an O&M component. (Ex. SCG-02 (Phillips) at 10 and 11). But in response to the June 30, 2015 Joint Motion for Adoption of Settlement Agreement, the assigned Commissioner and ALJ issued an Amended Scoping Memo and Ruling that modified the scope of the proceeding to remove the 12 in-progress projects and their related costs from this proceeding and to defer the review of those costs to a future reasonableness review application.

⁶⁷⁶⁸ Ex. SCG-02 (Phillips) at 7.

⁶⁸⁶⁹ Ex. SCG-08 (Mejia) at 28; Ex. SCG-09 (Mejia) at 39.

⁶⁹⁷⁰ Ex. SCG-08 (Mejia) at 30.

~~region~~ Applicants planned to do a cold tie-in.⁷⁰⁷¹ However, due to the configuration of the tap valves coming off the transmission line, consistent with SoCalGas and SDG&E practice, and to provide safe working conditions, the scope was changed to include a hot tie.⁷¹⁷²

The Lines 42-66-1 and 42-66-2 preconstruction estimate was \$555,960 and the total cost was \$813,327.⁷²⁷³ SoCalGas' labor cost increased by \$73,059 because of the need to perform a hot tie-in of the pipe segment.⁷³⁷⁴ Contract labor costs increased by \$124,590 because of delay caused by the hot tie-in; additional engineering, construction management, and inspection efforts; and the need for contractor field crews to support hot tie-in activities such as a Fire Watch.⁷⁴⁷⁵ Material costs increased by \$18,156 because the original estimate was based on preliminary design information that was updated as the detailed engineering design and planning work was completed.⁷⁵⁷⁶ SoCalGas and SDG&E claim they incurred \$0.500 million in contract or supplier costs ~~and~~, \$0.405 million of which they claim was competitively bid.

8.2. ORA

⁷⁰⁷¹ According to SoCalGas, a cold tie-in involves making a connection to existing piping with no gas flowing through the pipe. Here, the pipe cannot continue to be in operation while maintenance or modifications are being done. (Ex. SCG-08 (Mejia) at 30.)

⁷¹⁷² According to SoCalGas, a hot tie involves making a connection to existing piping without the interruption of emptying that section of pipe of gas. This means that a pipe is isolated while still having gas in it. See Ex. SCG-08 (Mejia) at 30-31.

⁷²⁷³ Ex. SCG-09 (Mejia) at 36.

⁷³⁷⁴ Ex. SCG-09 (Mejia) at 37.

⁷⁴⁷⁵ Ex. SCG-09 (Mejia) at 38.

⁷⁵⁷⁶ See Ex. ORA-11 (ORA Cross Examination Exhibit SoCalGas/SDG&E Response to ORA Data Request 20) at 14.

ORA and TURN argue that SoCalGas and SDG&E failed to provide sufficient evidence to demonstrate the reasonableness of the costs for Lines 42-66-1 and 42-66-2.⁷⁶⁷⁷

~~Yet, ORA goes on to state~~ also states that “adjustments for projects 42-66-1/2 are not included in the above table nor in the total calculations.”⁷⁷⁷⁸

8.3. SCGC

SCGC argues for a disallowance of the portion of consulting costs that corresponds to overheads and profits because SoCalGas and SDG&E chose to use contractors to augment internal resources.⁷⁸⁷⁹

8.4. TURN

TURN asserts that SoCalGas and SDG&E have failed to substantiate the trajectory of cost forecasts for this project. For example, TURN notes that the preliminary Work Order Authorization (WOA) contained a forecast of \$395,525 in direct and indirect costs, but that three months later the WOA was increased by 40% to \$555,960.⁷⁹⁸⁰ ~~The ultimate total recorded cost was approximately \$813,000, and while Applicants attributed the increase to the need to provide full-time construction inspection and to prepare as-built survey drawings for the newly constructed line, they failed to explain of how much each of these factors contributed to the cost increase.~~⁸⁰ 813,000.

8.5. Discussion and Conclusion

⁷⁶⁷⁷ ORA Opening Brief at 17, citing to Ex. ORA 01 (Stannik) at 23: 9-10; TURN Opening Brief at 16.

⁷⁷⁷⁸ ORA Opening Brief at 17.

⁷⁸⁷⁹ SCGC Opening Brief at iv, 10, and 11.

⁷⁹⁻⁸⁰ Ex. SCG-08 (Mejia Supplemental Testimony) at 30.

~~⁸⁰ Ex. SCG-08 (Mejia Supplemental Testimony) at 30.~~

We conclude that SoCalGas and SDG&E's actions and costs were consistent with the reasonable manager standard and should be ~~awarded~~ authorized to recover their costs with one exception noted below.

For Lines 42-66-1 and 42-66-2, SoCalGas and SDG&E knew this was a 70-year old, extremely short, length of pipe, ~~and SoCalGas and SDG&E.~~ They also knew there were potential customer natural gas shut-in concerns associated with pressure testing. SoCalGas and SDG&E knew that these short segments would be identified for replacement under their PSEP Decision Tree. SoCalGas and SDG&E also knew that a replacement project could be configured in a manner that would enable Line 42-66-2 to be abandoned, thereby lowering costs for customers. Additionally, SoCalGas and SDG&E knew that tasking the SoCalGas Distribution Region Organization with this work, with oversight by the PSEP Organization, would allow for prompt replacement of Line 42-66-1 and abandonment of Line 42-66-2. Based on this knowledge, SoCalGas and SDG&E had the SoCalGas Distribution Region Organization begin this project and, to help manage costs, procured the majority of direct costs through some form of competitive solicitation.

As such, SoCalGas and SDG&E reasonably executed this high priority PSEP replacement project.

We also conclude that SoCalGas and SDG&E planned ~~and~~, designed, and executed the Line 42-66-1/42-66-2 project ~~and executed it~~ in a reasonable manner. Additionally, ORA audited booked costs and supporting documentation representing 41% of the total costs in the PSRMAs. Based on that review, ORA recommended no adjustments. This determination of accuracy supports the reasonableness of SoCalGas and SDG&E's PSEP efforts as the majority of costs were subject to competitive bidding and negotiations.

Finally, we disallow \$65,430 for insurance for the reasons set forth, *infra*, at Section 18.2.3. of this decision.

With this disallowance, SoCalGas ~~and SDG&E are awarded~~ is authorized to recover \$747,897.

9. Project Costs—Playa ~~del~~Del Rey Phases 1 and 2

9.1. SoCalGas and SDG&E

The Playa ~~del~~Del Rey Storage Field costs in this Application represent the PSEP portion of a larger infrastructure project at the SoCalGas Playa ~~del~~Del Rey Storage Field. During the scoping of the PSEP Playa ~~del~~Del Rey pressure test, an over-pressurization event occurred at the storage field.⁸¹ SoCalGas and SDG&E accelerated the PSEP-related work to be included within the scope of this larger infrastructure project. Only the costs associated with the PSEP scope of work are included for recovery in this Application.⁸²

The project was in construction for approximately three ~~and~~ a ~~half~~ months from January 2013 to April 2013. The Playa ~~del~~Del Rey (Phases 1 & 2) pressure test project consisted of 880 feet of pipe. This includes 540 feet of pre-1961 pipe, 141 feet of incidental pipe, and 199 feet of post-1961 pipe that ~~does~~ did not have sufficient record of a pressure test. The incidental pipe was included in order to enable Phases 1 and 2 of the Playa ~~del~~Del Rey pressure test to be executed as two pressure tests, one for each phase. Had the project been designed to avoid inclusion of the incidental footage, requiring isolation of segments to test around the incidental pipe, the pressure test would have had to proceed in five

⁸¹ Ex. SCG-08 (Mejia) at 32.

⁸² Ex. SCG-02 (Phillips) at 9-10.

sections.⁸³ Accordingly, the project team determined it would be appropriate to include the incidental pipe and proceed with two pressure tests.⁸⁴

SDG&E and SoCalGas seek to recover \$683,036 associated with pressure testing at the Playa ~~del~~Del Rey storage fields.⁸⁵

9.2. ORA

Initially, ORA did not object to cost recovery for Playa ~~del~~Del Rey Phases 1 and 2.

Although ORA alleged “cost recordkeeping deficiencies,” ORA found the actions taken to be “prudent” and suggested that “costs should be allowed.”⁸⁶ Later, ORA ~~has~~ proposed a \$0.116 million penalty for claimed recordkeeping discrepancies.⁸⁷ As an example, ORA cites the construction services provided for the hydrotest for Playa ~~del~~Del Rey, reasoning that there was a contract first thought to be awarded via the competitive bidding process when, in fact, it been sole-sourced and was the most expensive sole-sourced contract in the PSRMA application.⁸⁸

9.3. SCGC

SCGC recommends a disallowance because SoCalGas and SDG&E chose to use contractors to augment Applicants’ internal resources.⁸⁹

9.4. TURN

⁸³ Ex. SCG-08 (Mejia) at 33.

⁸⁴ Ex. SCG-08 (Mejia) at 33-34

⁸⁵ Ex. SCG-02 (Phillips) at 9-10.

⁸⁶ Ex. ORA-01 (Stannik) at 4 and 24.

⁸⁷ ORA Opening Brief at 16.

⁸⁸ ORA Opening Brief at 4, citing to Ex. ORA-08 at 3, Response 2a; *See* also RT (10-21-15 [Mejia]) at 131:3-132: 3; and RT (10-21-15 [Mejia]) at 144:6 to 14.

⁸⁹ SCGC Opening Brief at 11.

TURN does not propose additional disallowances, but alleges SoCalGas and SDG&E failed to provide sufficient evidence to demonstrate the reasonableness of the Playa ~~del~~Del Rey hydrotests.⁹⁰

9.5. Discussion and Conclusion

We conclude that SoCalGas ~~and SDG&E's~~ actions and costs were consistent with the reasonable manager standard and should be awarded. For Playa ~~del~~Del Rey, SoCalGas ~~and SDG&E~~ knew that certain piping at the storage field needed to be tested or replaced as part of PSEP. SoCalGas ~~and SDG&E~~ knew that a larger infrastructure project had been initiated at the Playa ~~del~~Del Rey storage field and that an experienced contractor was onsite to perform that work. Based on that knowledge, SoCalGas ~~and SDG&E~~ reasonably determined to accelerate the Playa ~~del~~Del Rey PSEP pressure test and use the construction contractor already performing work at the storage field for that pressure testing project.

We do disallow \$43,620 for insurance for the reasons set forth, *infra*, at Section 18.2.3. of this decision.

With this disallowance, SoCalGas ~~and SDG&E are awarded~~ is authorized to recover \$639,416.

10. Project Costs—Descoped Projects

10.1. SoCalGas and SDG&E

Initially, in this Application, SoCalGas and SDG&E requested approval of \$0.348 million associated with nine projects that were initiated, but later descoped.⁹¹

⁹⁰ TURN Opening Brief at 16.

⁹¹ Ex. SCG-02 (Phillips) at 11.

Later, SoCalGas and SDG&E provided ORA additional information on the descoped projects and acknowledged a reduction of \$1,927 attributable to pipeline segments installed after 1961.⁹²

Next, SDG&E and SoCalGas adjusted their request and asked that the Commission approve recovery of \$367,559 for the descoped projects presented in their Application. This includes \$345,797 for projects descoped because of ongoing record review efforts and \$21,762 for projects descoped because of the lowering of the Maximum Allowable Operating Pressure (MAOP). While SoCalGas and SDG&E's Opening Brief references the \$21,762, in reviewing the record we do not see an explanation or justification for the \$21,762.

We address and resolve these cost anomalies, *infra*, at Section 10.5 of this decision.

10.2. ORA

After receiving the additional information as noted above, ORA stated: "In this instance, ORA does not oppose recovery of \$345,797 for the remaining pre-1961 descoped projects in this proceeding."⁹³

10.3. SCGC

SCGC did not address this cost category.

10.4. TURN

TURN did not address this cost category.

10.5. Discussion and Conclusion

We will ~~approve~~[authorize](#) the recovery of \$127,639. We reach this number as follows. First, Applicants presented testimony that \$345,797 should be allowed because it does not include costs associated with post-1961 pipe or

⁹² Ex. SCG-09 (Mejia) at 41-44.

⁹³ Ex. SCG-21 (ORA Response to SCG-SDG&E Data Response 2) at 3.

record research costs.⁹⁴ Second, when we asked for further clarification on the ~~pre-disallowed~~ 1956-1961 costs, Applicants' counsel stated in an e-mail dated May 18, 2016:

In total, Line 235E, Line 1020, and Line 4000 had costs equaling **\$218,158** for pipeline segments installed between 1956 and 1961. If this amount was subtracted from SoCalGas' total cost request, the cost would be reduced from \$35.53 million to \$35.31 million (*see* Ex. SCG-14 (Austria) at 1), and **SoCalGas' associated revenue requirement would be reduced from \$26.81 million to \$26.60 million** (*see* Ex. SCG-14 (Austria) at 2). (Bold in original.)

Since D.15-12-020 determined that Applicants were responsible for the costs of pressure testing pipeline segments installed between 1956 and 1961, we will subtract \$218,158 from \$345,797, which leaves \$127,639. We find this amount to be reasonable.

11. Program Management Office Costs

11.1. SoCalGas and SDG&E

The PMO oversees PSEP implementation and provides governance for the execution of PSEP projects and activities. ~~In this Application,~~ SoCalGas and SDG&E request ~~approval~~ recovery of \$2.117 million for PMO costs.⁹⁵ ~~But during the evidentiary hearings, Applicants adjusted this number to~~ \$2,068,000 for SoCalGas and \$49,000 for SDG&E.⁹⁶

11.2. ORA

ORA did not propose any disallowances for the PMO.

11.3. SCGC

SCGC recommends a disallowance because SoCalGas and SDG&E chose to use contractors to augment internal resources.⁹⁷

⁹⁴ Ex. SCG-09 (Mejia) at 41.

⁹⁵ Ex. SCG-02 (Phillips) at 12.

⁹⁶ Ex. SCG-02 (Phillips) at 12.

⁹⁷ SCGC Opening Brief at 11.

11.4. TURN

TURN did not propose any disallowances for the PMO.

11.5. Discussion and Conclusion

We conclude that these costs are reasonable and should be ~~recovered~~authorized for recovery. The PMO is responsible for overall plan integration, schedule, budget, cost management, and reporting.⁹⁸ The PMO establishes processes and procedures for managing the day-to-day operations of the PSEP;~~;~~ the various PSEP departments, contractors, and vendors;~~;~~ as well as the ~~PSEP~~ staff dedicated to accomplishing the objectives of SoCalGas and SDG&E's PSEP.⁹⁹ The PMO also assists other departments in procurement and contract administration, performance monitoring and reporting, quality assurance and quality control, communications and governance, customer communications and outreach, information technology, financial controls, and corporate and regulatory compliance.¹⁰⁰ In fact, the Commission's SED stated in its January 2012 Technical Report on the SoCalGas and SDG&E PSEP: "CPSD believes that the Companies are approaching the need to manage the PSEP in a reasonable manner and that the PMO will be critical to the proper execution of the PSEP."¹⁰¹

Accordingly, the \$2,068,000 and \$49,000 in PMO costs are reasonable and should be ~~approved~~authorized for recovery for SoCalGas and SDG&E, respectively.

12. Miscellaneous Costs—Interim Safety Measures**12.1. SoCalGas and SDG&E**

⁹⁸ Ex. SCG-01 (Phillips) at 9.

⁹⁹ Ex. SCG-01 (Phillips) at 9.

¹⁰⁰ Ex. SCG-01 (Phillips) at 11-12.

¹⁰¹ R.11-02-019, Technical Report of the Consumer Protection and Safety Division Regarding the SoCalGas and SDG&E Pipeline Safety Enhancement Plan dated January 17, 2012 at 22.

SoCalGas and SDG&E state that in compliance with D.11-06-017, they implemented bi-monthly leak surveys and pipeline patrols for PSEP pipelines and incurred incremental costs associated with the increased frequency of leak surveys and pipeline patrols of approximately \$1,568,000 for SoCalGas and \$52,000 for SDG&E.¹⁰²

12.2. ORA

ORA did not offer evidence or comment on this cost category.

12.3. SCGC

SCGC did not offer evidence or comment on this cost category.

12.4. TURN

TURN did not offer evidence or comment on this cost category.

12.5. Discussion and Conclusion

As the evidence suggests the costs were incurred to comply with a Commission decision, we find that the \$1,568,000 and \$52,000 in interim safety measure costs are reasonable and should be ~~approved~~[authorized for recovery](#) for SoCalGas and SDG&E, respectively.

13. Miscellaneous Other Costs—Pressure Protection Equipment**13.1. SoCalGas and SDG&E**

SoCalGas and SDG&E seek the recovery of pressure protection equipment costs of approximately \$0.312 million.¹⁰³

13.2. ORA

ORA did not offer evidence or comment on this cost category.

13.3. SCGC

SCGC did not offer evidence or comment on this cost category.

13.4. TURN

¹⁰² Ex. SCG-02 (Phillips) at 13.

¹⁰³ Ex. SCG-02 (Phillips) at 13.

TURN did not offer evidence or comment on this cost category.

13.5. Discussion and Conclusion

We conclude that these costs are reasonable. They were incurred to validate existing over-pressure protection set points and to install equipment to facilitate pressure reductions, including temporary facility equipment installations, as required.¹⁰⁴ This equipment was procured to enhance the safety of the SoCalGas and SDG&E transmission system.

Accordingly, the pressure protection equipment costs of \$312,000 are reasonable and should be ~~approved~~[authorized](#) for SoCalGas.

14. Miscellaneous Other Costs—Other Remediation Costs

14.1. SoCalGas and SDG&E

SoCalGas and SDG&E seek the recovery of other remediation costs of approximately \$0.482 million and \$2,000, respectively.¹⁰⁵

14.2. ORA

ORA did not offer evidence or comment on this cost category.

14.3. SCGC

SCGC did not offer evidence or comment on this cost category.

14.4. TURN

TURN did not offer evidence or comment on this cost category.

14.5. Discussion and Conclusion

We find these costs to be reasonable. Applicants have submitted evidence that the costs were incurred to: (1) develop SoCalGas and SDG&E's PSEP; (2) develop replacement, pressure test, and valve cost estimates; (3) engage in bell hole inspections to assess pipeline properties; and (4) develop the Valve

¹⁰⁴ Ex. SCG-02 (Phillips) at 13.

¹⁰⁵ Ex. SCG-02 (Phillips) at 14.

Enhancement Plan.¹⁰⁶ We agree that these were costs needed to begin addressing the Commission's safety directives and prepare SoCalGas and SDG&E's PSEP.¹⁰⁷

Accordingly, we conclude that the \$482,000 and \$2,000 in safety enhancement costs were reasonable incurred and should be ~~approved~~[authorized](#) for SoCalGas and SDG&E, respectively.

15. Miscellaneous Other Costs—Facilities Build-Out Costs

15.1. SoCalGas and SDG&E

SoCalGas and SDG&E seek the recovery of \$2,882,687 for facilities build-out costs for one-time capital costs for furniture and other capitalized office equipment to house the newly created PSEP organization.¹⁰⁸ Applicants assert that these costs were incurred because there was insufficient existing office space to house the newly-created PSEP Organization.¹⁰⁹

15.2. ORA

ORA did not provide evidence on this cost category.

15.3. SCGC

SCGC and TURN contested the reasonableness of the facilities build-out costs by alleging there was sufficient space absent the expansion,¹¹⁰ that there was the potential for double-charging by housing contractors at SoCalGas and SDG&E facilities,¹¹¹ and that the benefits of co-location did not outweigh the costs.¹¹²

15.4. TURN

¹⁰⁶ Ex. SCG-02 (Phillips) at 13-14.

¹⁰⁷ Ex. SCG-03 (Phillips) at WP-III-103.

¹⁰⁸ Ex. SCG-02 (Phillips) at 14.

¹⁰⁹ Ex. SCG-02 (Phillips) at 14.

¹¹⁰ Ex. SCGC-TURN-02 (Yap) at 9-10.

¹¹¹ Ex. SCGC-TURN-02-C (Yap) at 11-12.

¹¹² Ex. SCG-TURN-02-C (Yap) at 4-5.

See discussion at 15.3.

15.5. Discussion and Conclusion

We conclude that these costs were reasonable. SoCalGas ~~and SDG&E~~ documented that prior to the expansion, ~~they~~[it](#) had a lease that covered 13 floors, one of which housed the cafeteria, large conference rooms, and [a](#) mail room.¹¹³ ~~And at the Gas Company Tower, there~~ [There](#) was insufficient space available ~~to~~[for](#) PSEP personnel [at the Gas Company Tower](#) without procuring additional floor spaces.¹¹⁴ SoCalGas ~~and SDG&E~~ also ~~attempted to negotiate~~[negotiated](#) lower contractor rates as a result of contractors being located at SoCalGas and SDG&E.¹¹⁵

Accordingly we find that the \$2,882,687 in facilities build-out costs to be reasonably incurred and should be ~~recovered~~[authorized for recovery](#) by SoCalGas.

16. Revenue Requirement and Cost Allocation

16.1. SoCalGas and SDG&E

After removing the In-Progress Projects for review in a future Commission proceeding, SoCalGas and SDG&E ask for the recovery of costs totaling \$35.53 million at SoCalGas and \$0.11 million at SDG&E.¹¹⁶ These costs result in a total revenue requirement of \$26.81 million at SoCalGas and \$0.08 million at SDG&E.²⁸ [In their May 18, 2016 response to our e-mail asking for clarification of disallowed 1956-61 costs, Applicants acknowledged that the reduction in](#)

¹¹³ Ex. SCG-05 (Phillips) at 11.

¹¹⁴ Ex. SCG-05 (Phillips) at 11; Ex. SCGC-TURN-02-C at Attachment C (SoCalGas and SDG&E Response to SCGC Data Request 4, Question 4.4.3).

¹¹⁵ Ex. SCG-20-C (SoCalGas and SDG&E Response to SCGC-TURN Data Request 14, ¶ Question 14.8).

¹¹⁶ Ex. SCG-14 (Austria) at ~~1-2~~; [Ex. SCG-02 \(Phillips\) at 11-12](#); and [Ex. SCG-09 \(Mejia\) at 40-41](#).

Descoped costs would lead to an associated reduction of SoCalGas' revenue requirement from \$26.81 million \$26.60 million. If approved, these revenue requirements will be allocated to functional areas and amortized over a 12-month period.¹¹⁷ Applicants' claim their revenue requirement is allocated based on the function that the line provides: backbone transmission, local transmission, or high pressure distribution.¹¹⁸ Local transmission costs are integrated between SoCalGas and SDG&E as part of integration of transmission system costs.¹¹⁹

SoCalGas and SDG&E also request authorization to file Tier 1 Advice Letters within 30 days of the effective date of the decision authorizing recovery. They propose that the advice letters will update the revenue requirements, including memorandum interest, and incorporate the updated revenue requirements into rates on the first day of the next month following advice letter approval or in connection with other authorized rate changes that Applicants implement.¹²⁰

Additionally, SoCalGas and SDG&E request authorization to file a Tier 2 Advice Letter to incorporate future year revenue requirements into rates until such costs are incorporated in base rates in connection with Applicants' next general rate case proceeding.¹²¹

16.2. ORA

WeORA did not see present any argument from ORA arguments on this issue.

16.3. SCGC

¹¹⁷ Ex. SCG-11 (Austria) at 1.

¹¹⁸ Ex. SCG-15 (Chaudhury) at 3.

¹¹⁹ Ex. SCG-15 (Chaudhury) at 4.

¹²⁰ Ex. SCG-11 (Austria) at 1, footnote 4.

¹²¹ Ex. SCG-11 (Austria) at 2.

SCGC ~~agrees with the allocation for the backbone and local transmission categories but suggests that the Commission allocate the costs of~~ states that costs that are functionalized as backbone transmission or local transmission are allocated on an embedded cost basis, and costs functionalized as customer costs, medium pressure distribution costs, and high pressure distribution ~~replacement and pressure testing projects on~~ costs are allocated on a Long-Run Marginal Cost (LRMC) basis.⁴⁴⁸¹²² In view of this distinction, SCGC claims that Applicants err in proposing to allocate high pressure distribution costs by an embedded cost allocator rather than by the LRMC methodology.

16.4. TURN

~~We~~ TURN did not ~~see~~ present any ~~argument from TURN arguments~~ on this issue.

16.5. Discussion and Conclusion

Using the numbers adopted in this decision, we ~~find that Applicants' revenue requirement and cost allocation are~~ initially find that a revenue requirement of \$26.60 million for SoCalGas and \$0.08 million for SDG&E is reasonable and should be authorized. But for the reasons set forth, *infra*, with regard to disallowing the PSEP-specific insurance, SoCalGas' revenue requirement should be reduced from \$26.60 million to \$24.86 million. We also find that Applicants' cost allocation is reasonable and should be authorized.

But we differ with Applicants on the allocation of the high pressure distribution costs. In D.14-06-007, the Commission required PSEP costs to be allocated consistently with the existing cost allocation and rate design ~~for Applicants~~ and to include allocation to the backbone function.⁴⁴⁹¹²³ ~~Applicants' revenue requirement is allocated based on the function that the line~~

⁴⁴⁸¹²² Ex. SCGC-TURN-01 (Yap) at 33-34.

⁴⁴⁹¹²³ D.14-06-007 at 49-50 and 61 (Ordering Paragraph 9).

~~provides:~~ Under the existing cost allocation, costs that are functionalized as backbone transmission, or local transmission, are allocated on an embedded cost basis, while costs that are functionalized as high pressure distribution.¹²⁰ ~~Local transmission costs are integrated between SoCalGas and SDG&E as part of integration of transmission system costs.~~¹²¹ are allocated on a LRMC basis.¹²⁴ Applicants acknowledged this distinction in their rebuttal testimony, and asked that the Commission clarify which of the two interpretations is more consistent with D.14-06-007.¹²⁵ Given D.14-06-007's direction that the new costs of a safe system should be allocated exactly the same way the existing components to be repaired or replaced are allocated, high pressure distribution costs should continue to be allocated by using the LRMC methodology.

We agree with Applicants' request to file Tier 1 Advice Letters within 30 days of the effective date of this decision in order to update the revenue requirements.

We also agree with Applicants' request to file a Tier 2 Advice Letter to incorporate future-year revenue requirements into rates until such costs are incorporated in base rates in connection with the Applicants' next general rate case proceeding.

17. Future PSEP Reasonableness Showings

17.1. ORA

ORA asserts that there are deficiencies in Applicants' showing in this proceeding and recommends that the Commission supplement the D.14-06-007 minimum filing requirements for future pipeline safety enhancement filings.

The specific recommendations are as follows:

¹²⁰ ~~Ex. SCG-15 (Chaudhury) at 3.~~

¹²⁴ Ex. SCGC/TURN-01 (Yap) at 33.

¹²¹¹²⁵ Ex. SCG-1517 (Chaudhury) at 4:2-3.

- Provide early cost estimates for each project;¹²²126
- Require SDG&E and SoCalGas to trace the changes from their initial PSEP estimates to the forecasts and/or actuals they provide in upcoming proceedings;¹²³127
- Require SDG&E and SoCalGas to explain contingencies in each application,⁷ and use contingencies to accommodate variabilities¹²⁴128
- For each project, applicants must disclose variabilities and their associated costs as part of the application or opening testimony;¹²⁵129 and
- Require SDG&E and SoCalGas to provide a Decision Tree that leads to the final outcome of project costs.¹²⁶130

17.2. SoCalGas and SDG&E

SoCalGas and SDG&E counter that these proposals are premature as the projects presented for review are the earliest PSEP projects, initiated and completed prior to the issuance of D.14-06-007. It does not make sense, in their view, to change or modify requirements before any projects having the benefit of D.14-06-007 have been presented for review.¹²⁷131 SoCalGas and SDG&E also claim that the new requirements “will likely” increase costs, delay safety enhancement work, and further complicate later applications by changing, midstream, the operative requirements.¹²⁸132 Assuming that the Commission wishes to consider adopting any of these new requirements, they should be made prospective and only apply to projects that have not progressed yet

¹²²126 ORA Opening Brief at 18-19.

¹²³127 ORA Opening Brief at 19-20.

¹²⁴128 ORA Opening Brief at 20.

¹²⁵129 ORA Opening Brief at 20-21.

¹²⁶130 ORA Opening Brief at 22.

¹²⁷131 SoCalGas and SDG&E Reply Brief at 42-43.

¹²⁸132 SoCalGas and SDG&E Reply Brief at 42-43.

through the engineering design and scoping phase as of the date the next decision is issued.¹²⁹133

17.3 Discussion and Conclusion

As these are the earliest PSEP projects, we agree with Applicants that the requirements set forth in D.14-06-007 should not be modified to add additional requirements. ~~But the~~ The Commission ~~reserves the right to~~ may revisit this issue in future proceedings. and can decide at that time if Applicants should be required to provide an initial estimate and explanation for any changes to the estimate, as well as retaining dated copies of all updates.

18. PSEP Cost Challenges

18.1 The Use of Contractors

18.0.1. SCGC

SCGC argues that the Commission should “disallow the Applicants’ recovery of the portion of consulting costs that corresponds to overheads and profits so that the cost of using consultants is reduced to the level of the fully burdened cost of using the Applicants’ employees to do Pipeline Safety Enhancement Plan (‘PSEP’ or ‘Safety Enhancement’) work.”¹³⁰134 SCGC asserts that Applicants did not study the comparative cost of retaining project management, engineering, and other relevant staff from an external engineering company versus hiring individuals with comparable knowledge as employees.¹³¹135 In SCGC’s view, “hiring contractors to manage ongoing programs dramatically expands the management cost to the detriment of ratepayers.”¹³²136 And this cost became exacerbated by Applicants continued

¹²⁹133 SoCalGas and SDG&E Reply Brief at 43.

¹³⁰134 SCGC Opening Brief at iv.

¹³¹135 Ex. SCGC/TURN-01, Attachment C, Response to Data Request SCGC-04, Q. 4.4.3 at 8-9.

¹³²136 SCGC/TURN-01 (Yap Redacted Direct) at 13.

reliance on external employees, rather than replacing external employees with Applicants' employees as they were recruited and hired.¹³³137 In SCGC's view, SoCalGas and SDG&E failed to offer any convincing rationale for their "substantial" reliance on external employees.¹³⁴138

18.0.2. SoCalGas and SDG&E

In response, SoCalGas and SDG&E argue that workforce limitations were and remained a concern and that they attempted to recruit personnel in all project work activities with limited success.¹³⁵139 Even if there were hundreds of qualified personnel available for hire, SCGC's argument does not consider the long-term implications of hiring hundreds of employees without sufficient work to do. Per SoCalGas and SDG&E, PSEP is a large program with finite duration, and when completed, SoCalGas and SDG&E employees will need to be moved to other departments with no guarantee that these other departments will have sufficient work for the new hires from the PSEP program.¹³⁶140 In contrast, SoCalGas and SDG&E maintain that by hiring contractors, they had the flexibility to ramp up initial efforts to start PSEP work.¹³⁷141

18.0.3. Discussion and Conclusion

We find that SoCalGas and SDG&E acted prudently and reasonably in their hiring efforts for the PSEP. There is no dispute that PSEP was created as a result of a catastrophic event (i.e. the 2009 San Bruno Pipeline explosion), and the Commission directed that the PSEP be completed "as soon as practicable."¹³⁸142

¹³³137 Ex. SCGC/TURN-01 (Yap Redacted Direct) at 19.

¹³⁴138 SCGC Opening Brief at 5-9.

¹³⁵139 Ex. SCG-06-C (Phillips) at 8.

¹³⁶140 SoCalGas and SDG&E Reply Brief at 28-30.

¹³⁷141 Ex. SCGC-TURN-02-C, Attachment C (SoCalGas and SDG&E Response to SCGC Data Request 4, Question 4.4.1).

¹³⁸142 D.11-06-017 at 20.

SoCalGas and SDG&E engaged contractors and managed the cost of hiring them through competitive bidding services.¹³⁹143 Since the staffing for the PSEP was not meant to be permanent, it was reasonable for SoCalGas and SDG&E to seek to fill employment positions through the use of contractors.

We also note that SoCalGas and SDG&E did not attempt to exclusively hire contractors. They posted positions on websites, using a Local Job Network Program, engaged with Community and Diversity Outreach Partners, attended engineering events, and employed three recruiting firms.¹⁴⁰144 Taken together, we conclude that SoCalGas and SDG&E acted reasonably when they engaged in their hiring efforts.

18.1. Challenge to Support Costs—Insurance

18.1.1. TURN

TURN challenges the claim of \$2.181 million in PSEP-specific insurance on the grounds that the claim is factually unsupported. TURN notes that the cost appeared in a footnote and was being presented for the first time in this proceeding as it had not been included in the A.11-11-002 proceeding.¹⁴¹145 Even more troubling for TURN is that the \$2.181 million figure is not the total cost of the PSEP-specific insurance, “but rather a fraction of that total amount. There is no record evidence of the total amount.”¹⁴²146 TURN asks that the Commission conclude that SoCalGas and SDG&E have failed to meet their burden of proof regarding the PSEP-specific insurance.

18.1.2. SoCalGas and SDG&E

¹³⁹143 Ex. SCG-04 (Phillips) at 8-12.

¹⁴⁰144 Ex. SCGC-TURN-03-C (SCGC/TURN Cross-Examination Exhibit No. 1) at 16-19.

¹⁴¹145 TURN Opening Brief at 28; and Ex. SCG-11 (Austria) at 4, footnote 12.

¹⁴²146 TURN Opening Brief at 29, citing to Austria, RT (10/22/2015) 248:10-20.

Applicants argue that the recovery should be permitted. They assert that they procured an Owner Controlled Insurance Policy for PSEP: “Additional PSEP insurance was obtained for PSEP work performed by third-party contractors and allocated to PSEP capital and O&M projects through a separate insurance overhead loader.”¹⁴³¹⁴⁷ The program was competitively solicited and consistent with their policy to generally bid agreements worth in excess of \$75,000.¹⁴⁴¹⁴⁸

18.1.3. Discussion and Conclusion

Like TURN, the Commission is troubled by Applicants’ showing on the PSEP-specific insurance claim. The Commission ~~does acknowledge~~ acknowledges that in the Amended Work papers of Austria, there is a PSRMA Recovery Application table that lists insurance with the following breakdown: Capital (\$310,000), O&M (\$1,871,000), for a total of \$2,181,000.¹⁴⁵¹⁴⁹ Austria also testified that the \$2,181,000 was for all the projects that are part of the application:

¹⁴³¹⁴⁷ Ex. SCG-11 (Austria) at 4, footnote 12.

¹⁴⁴¹⁴⁸ Ex. SCG-09 (Mejia) at 17.

¹⁴⁵¹⁴⁹ Ex. SCG-12 (Austria) at WP-IV-04.

- Q Okay. And do you know, does the
11 \$2.181 million figure here listed on page 4
12 of the workpapers, is that the total
13 insurance cost or is that a fraction of it?
14 A I believe that's a fraction of it
15 based on how it was allocated to these
16 projects that we're filing in this
17 application.
18 Q And do you know what the total cost
19 is?
20 A I don't know. ¹⁴⁶¹⁵⁰

Yet we cannot tell how the insurance number was derived, or how much is allocated between Lines 2000-A, 46-66-1/ 42-66-2, and Playa ~~del~~Del Rey 1 & 2, or if the amount claimed, or any amount, is in fact reasonable.

Accordingly, we decline ~~Applicant's~~Applicants' request to recover the PSEP-specific insurance costs as the factual showing is insufficient.

But since the insurance was allocated between the three completed projects identified above, we must also determine what insurance disallowance should be made per completed project. To do so, we look to the cost of each project and determine its percentage of the total cost for the three projects. We then apply that percentage to the total PSEP-specific insurance cost to determine the disallowance. We provide our calculations below:

¹⁴⁶¹⁵⁰ RT (10/22/2015) at 248:10-20.

Completed Project	Cost	Percentage of project cost to total costs of \$27,871,244	Application of percentage of project cost to total PSEP-specific insurance	Approved project cost following PSEP-specific insurance disallowance
2000-A	\$26,374,878	95%	\$2,071,950 (which is 95% of \$2,181,000)	\$24,302,928 (\$26,374,878 minus \$2,071,950)
42-66-1/ 42-66-2	\$813,327	3%	\$65,430 (which is 3% of \$2,181,000)	\$747,897 (\$813,327 minus \$65,430)
Playa del Rey 1 & 2	\$683,036	2%	\$43,620 (which is 2% of \$2,181,000)	\$639,416 (\$683,036 minus \$43,620)

In addition, as Applicants point out, the disallowance of the PSEP-specific insurance requires an adjustment to SoCalGas' revenue requirement from \$26.60 million to \$24.86 million.¹⁵¹ We accept this calculation and adopt this lower revenue requirement number.

¹⁵¹ Opening Comments of SoCalGas and SDG&E at 10.

18.2. Challenge to the Manner of Removal of the Executive Incentive Compensation

18.2.1. TURN

TURN asserts that Applicants continue to charge ratepayers costs associated with executive incentive compensation even though such charges were prohibited by D.14-06-007.¹⁴⁷152 TURN also disputes Applicants' suggestion that because the request for rate recovery does not include any executive salary amounts, there is no executive incentive compensation cost included in the amounts recorded in the PSRMA.¹⁴⁸153 Instead, TURN argues that the incentive compensation loader is calculated based on the "pool" of total incentive compensation costs, and that total includes incentive compensation paid to executives as well as non-executives.¹⁴⁹154 TURN asks that the Commission direct Applicants to develop a modification of their use of a general overhead loader for incentive compensation "in order to identify and remove an appropriate amount of costs associated with executive incentive compensation."¹⁵⁰155

18.2.2. SoCalGas and SDG&E

Applicants claim that they did not include any executive compensation costs for recovery.¹⁵¹156 In the event executive compensation is included for recovery in future reasonableness review proceedings, Applicants state they will manually remove the component.¹⁵²157 But to do as TURN requests would allegedly cause Applicants a potentially costly administrative burden.¹⁵³158

18.2.3. Discussion and Conclusion

¹⁴⁷152 TURN Opening Brief at 27.

¹⁴⁸153 TURN Opening Brief at 27, citing to RT 257:14-22.

¹⁴⁹154 RT 258:8-16; and 261:4-13.

¹⁵⁰155 TURN Opening Brief at 28.

¹⁵¹156 SoCalGas and SDG&E Reply Brief at 39.

¹⁵²157 SoCalGas and SDG&E Reply Brief at 39.

¹⁵³158 SoCalGas and SDG&E Reply Brief at 39.

The Commission declines to impose a new system for the elimination of executive incentive compensation costs. Applicants have represented that they have taken these costs out, and TURN does not point to any evidence to the contrary. The fact that Applicants use an incentive compensation loader to calculate one element of the overheads associated with the PSEP projects here does not lead to the conclusion that it includes incentive compensation for utility executives.

Thus, the Commission does not see a reason at present to require SoCalGas and SDG&E to alter ~~their~~its practices for removing costs associated with executive incentive compensation costs.

19. Comments on Proposed Decision

The proposed decision of the ALJ in this matter was mailed to the parties in accordance with Pub. Util. Code § 311, and comments are allowed pursuant to Rule 14.3 of the Commission's Rules of Practice and Procedure. Comments were received on ~~_____~~ September 29, 2016 from SoCalGas and SDG&E, SCGC, ORA, and TURN and SCGC. Reply comments were received on ~~_____~~ by _____, October 4, 2016 from SoCalGas and SDG&E, and TURN. Changes have been made to the decision in response to some of the comments received where we believed the comments had merit.

But one change that has not been made concerns the PSEP-specific insurance. SoCalGas and SDG&E claim that the deduction for PSEP-specific insurance in the amount of \$2.181 million is too high as that figure includes costs for projects no longer in the application. But a review of the supporting references makes it difficult to find in the evidentiary record where the support for their position can be found. Thus, we will agree to deny the request to

recover PSEP-specific insurance without prejudice so that SoCalGas and SDG&E can make a more complete showing in a future proceeding.

20. Assignment of Proceeding and Presiding Officer

Carla J. Peterman is the assigned Commissioner. Pursuant to Rule 13.2, Judges Douglas M. Long and Robert M. Mason III were designated as the co-presiding officers. Douglas M. Long has since retired, so Robert M. Mason III is the sole presiding officer.

Findings of Fact

1. On February 24, 2011, the Commission formally expanded its safety enhancement efforts to include ~~all regulated~~the other California natural gas utilities by issuing R.11-02-019.
2. SoCalGas and SDG&E, in response to the Commission's statements and instructions, began assessing their own systems to confirm the safety of their natural gas transmission systems.
3. On April 15, 2011, SoCalGas and SDG&E reported to the Commission that ~~it~~they had expeditiously begun reviewing the records of its gas transmission pipeline segments and ~~was~~were actively engaged in developing an action plan to address pipelines in populated areas that lack documentation of a post-construction pressure test to at least 1.25 times the MAOP for that segment.
4. On May 4, 2011, SoCalGas and SDG&E filed a motion requesting the establishment of the PSRMAs in order to track the incremental costs associated with compliance with the Commission's directives in R.11-02-019 ("Motion to Establish the PSRMAs").
5. ~~On June 9, 2011, in D.11-06-017, the Commission declared~~017 determined that "natural gas transmission pipelines in service in California must be brought into compliance with modern standards for safety" and 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.” The Commission required that the plans provide for testing or replacing all such pipelines “as soon as practicable, due to significant public safety concerns.” In addition, the Commission required operators to implement interim safety enhancement measures.

6. On August 26, 2011, SoCalGas and SDG&E filed their implementation plans in response to D.11-06-017. SoCalGas and SDG&E’s PSEP included a proposed pipeline segment prioritization process; a Decision Tree to guide whether specific segments should be pressure tested, replaced, or abandoned; and a proposed plan to augment existing shutoff valves and retrofit pipelines to allow for in-line inspection. The PSEP also included proposed technology enhancements, a proposal to develop an Enterprise Asset Management System blueprint, and preliminary cost forecasts.

7. On December 2, 2011, SoCalGas and SDG&E amended their PSEP to include supplemental testimony to address issues identified in an Amended Scoping Ruling issued on November 2, 2011.

8. On December 21, 2011, assigned Commissioner Florio issued a ruling seeking comments on the possible reassignment of SoCalGas’ and SDG&E’s PSEP to SoCalGas and SDG&E’s Triennial Cost Allocation Proceeding – A.11-11-002. On January 13, 2012, SoCalGas and SDG&E filed comments supporting the transfer of PSEP to A.11-11-002 and providing further detail on the proposed PSRMAs.

9. ~~On April 19, 2012, in D.12-04-021, the Commission~~[021](#) transferred SoCalGas and SDG&E’s PSEP to 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, as described in Attachment A to their January 13, 2012, filing, and costs of document review and interim safety measures as set forth in Attachment B to the January 13, 2012, filing.”

10. On May 18, 2012, the PSRMAs were established pursuant to SoCalGas and SDG&E Advice Letters 4359 and 2106-G.

11. In January 2013, construction began on the Playa ~~del~~Del Rey Phase 1 and 2 pressure test.

12. In June 2013, construction began on the Line 2000-A pressure test.

13. In October 2013, construction began on the Line 42-66-1 replacement and Line 42-66-2 abandonment.

14. SoCalGas and SDG&E had also initiated over 100 replacement, pressure test, and valve enhancement projects to be presented in future reasonableness review applications. As a result of these additional tests, SoCalGas and SDG&E increased their PSEP workforce of contractors and employees.

15. ~~On June 12, 2014, in~~ D.14-06-~~007, the Commission~~007 approved SoCalGas and SDG&E’s PSEP, with some limited exceptions, but did not authorize the pre-approval of PSEP implementation costs. Specifically, the decision ~~“adopt[ed]”~~adopted the concepts embodied in the Decision Tree, ~~““adopt[ed]”~~adopted the intended scope of work as summarized by the Decision Tree, ~~“~~and ~~“adopt[ed]”~~adopted the Phase 1 analytical approach for Safety ~~Enhancement...~~as Enhancements embodied in the Decision Tree~~... and~~ and related descriptive testimony.” The Commission adopted a process for reviewing and approving PSEP implementation costs after-the-fact. For costs recorded in the PSRMAs,

SoCalGas, and SDG&E were ordered to file an application with testimony and work papers to demonstrate the reasonableness of the costs incurred.

16. SoCalGas and SDG&E began implementing the Commission's safety directives prior to a Commission determination as to the reasonableness of ~~SoCalGas and SDG&E's~~ their proposed PSEP. SoCalGas and SDG&E created the PSEP organization, began developing the necessary PSEP programs and processes, and began PSEP work.

17. On December 17, 2014, SoCalGas and SDG&E filed ~~this Application~~ (A.14-12-016) requesting review and recovery of certain capital and O&M expenditures recorded in their PSRMAs.

~~18. In this Application, SoCalGas and SDG&E present and describe their compliance with D.14-06-007; describe their development of the PSEP organization, policies, and procedures; explain PSEP oversight and documentation of engineering, planning, and construction decisions; and present PSEP costs, activities, and projects. As part of this Application, SoCalGas and SDG&E ask the Commission to make the following findings:~~

- ~~• Find that SoCalGas and SDG&E's pipeline safety enhancement costs, presented for review and recovery in this Application, are reasonable;~~
- ~~• Find the costs to pressure test Line 2000-A reasonable and approve cost recovery in the amount of \$26,374,878;~~
- ~~• Find the costs to replace Line 42-66-1 and abandon Line 42-66-2 reasonable and approve cost recovery in the amount of \$813,327;~~
- ~~• Find the costs to pressure test Playa del Rey Phases 1 and 2 reasonable and approve cost recovery in the amount of \$683,036;~~

- ~~Find the costs associated with descope projects reasonable and approve cost recovery in the amount of \$127,639;~~
- ~~Find SoCalGas and SDG&E's Program Management PMO costs reasonable and approve recovery in the amount of \$2,068,000 and \$49,000, respectively;~~
- ~~Find SoCalGas and SDG&E's interim safety measure costs reasonable and approve recovery in the amount of \$1,568,000 and \$52,000, respectively;~~
- ~~Find SoCalGas and SDG&E's **pressure protection equipment** costs reasonable and approve recovery in the amount of \$312,000 and \$5,000, respectively;~~
- ~~Find the costs of SoCalGas and SDG&E's other remediation activities reasonable and approve recovery in the amount of \$482,000 and \$2,000, respectively;~~
- ~~Find that SoCalGas and SDG&E's facilities build-out costs reasonable approve recovery in the amount of \$2,882,687;~~

18. ~~19.~~ In D.14-06-007, ~~the Commission~~ 007 determined that certain PSEP costs should be disallowed. The majority of these costs are associated with post-July 1961 pipelines that do not have sufficient record of a pressure test. SoCalGas and SDG&E excluded

\$17.41 million from this Application. This includes \$16.94 million for costs associated with searching for records of pipeline testing and \$0.47 million for post-July 1961 PSEP pipelines without sufficient record of a pressure test.

19. D.15-12-020 modified D.14-06-007 to clarify that future after-the-fact reasonableness review applications should include hydrotest projects when completed including, but not limited to, the 12 in-progress projects originally included in A.14-12-016 but subsequently removed by the July 31, 2015, assigned

Commissioner and Administrative Law Judge's Amended Scoping Memo and Ruling.

20. SoCalGas and SDG&E have failed to justify their claim for PSEP-specific insurance costs for lines 2000-A, 42-66-1/42-66-2, and Playa ~~del~~Del Rey 132.

Conclusions of Law

~~1. The Commission applies the evidentiary standard of the preponderance of the evidence.~~

~~2. The Commission applies the reasonable manager standard to review the costs presented in this Application.~~

~~3. The Commission finds that~~ SoCalGas and SDG&E's actions comport with those of a reasonable manager.

1. ~~4.~~ Competitive bidding is one way to demonstrate the reasonableness of costs.

2. ~~5.~~ SoCalGas and SDG&E correctly accounted for and excluded the cost categories disallowed under D.14-06-007.

3. ~~6.~~ Except as noted below, ~~the Commission finds that~~ SoCalGas and SDG&E's pipeline safety enhancement costs, ~~presented for review and recovery in this Application,~~ are reasonable.

4. ~~7. The Commission finds that~~ Given the evidentiary record developed in this proceeding, SoCalGas' and SDG&E's PSEP-specific insurance costs are not reasonable.

5. ~~8.~~ The ~~Commission finds the~~ costs to pressure test Line 2000-A are reasonable ~~and approves cost recovery in the amount of \$24,302,928, after deducting for the PSEP-specific insurance.~~

~~6. 9. The Commission finds that the~~ costs to replace Line 42-66-1 and abandon Line 42-66-2 are reasonable ~~and approves cost recovery in the amount of \$747,897, after deducting for the PSEP-specific insurance.~~

~~7. 10. The Commission finds that the~~ costs to pressure test Playa ~~del~~Del Rey Phases 1 and 2 are reasonable ~~and approves cost recovery in the amount of \$639,416, after deducting for the PSEP-specific insurance.~~

~~8. 11. The Commission finds the~~ costs associated with descoped projects are reasonable ~~and approves cost recovery in the amount of \$127,639.~~

~~9. 12. The Commission finds~~ SoCalGas' and SDG&E's PMO costs are reasonable ~~and approves recovery in the amount of \$2,068,000 and \$49,000, respectively.~~

~~10. 13. The Commission finds~~ SoCalGas' and SDG&E's interim safety measure costs are reasonable ~~and approves recovery in the amount of \$1,568,000 and \$52,000, respectively.~~

~~11. 14. The Commission finds~~ SoCalGas' and SDG&E's pressure protection equipment costs are reasonable ~~and approves recovery in the amount of \$312,000 and \$5,000, respectively.~~

~~12. 15. The Commission finds the costs of~~ SoCalGas' and SDG&E's other remediation activities are reasonable ~~and approves recovery in the amount of \$482,000 and \$2,000, respectively.~~

~~13. 16. The Commission finds that~~ SoCalGas' and SDG&E's facilities build-out costs are reasonable ~~and approves recovery in the amount of \$2,882,687.~~

~~14. 17. The Commission finds that~~ SoCalGas and SDG&E implemented reasonable oversight and control of their PSEP activities.

~~15. 18. The Commission finds that~~ SoCalGas and SDG&E appropriately followed their approved Decision Tree process.

~~16. 19. The Commission finds that~~ SoCalGas' and SDG&E's safety enhancement activities comply with state and federal regulations.

~~17. 20. The Commission finds that~~ SoCalGas' and SDG&E's retention of external contractor personnel to augment internal company personnel and complete safety enhancement as soon as practicable was reasonable.

~~18. 21. The Commission finds that~~ SoCalGas and SDG&E implemented reasonable contracting and procurement practices to promote cost-effective safety enhancement efforts.

~~19. 22. The Commission finds the~~ Based on the record developed in this proceeding, the Performance Partnership Program ~~is~~ appears to be a reasonable means to engage construction contractors for future PSEP work.

~~20. 23. The Commission finds that~~ SoCalGas and SDG&E implemented a reasonable process to track and verify the accuracy of PSEP costs, with the exception of the PSEP-specific insurance costs.

~~21. 24. The Commission finds~~ SoCalGas' revenue requirement of ~~\$26.81~~ 24.86 million ~~to be~~ is reasonable.

~~22. 25. The Commission finds that~~ SDG&E's revenue requirement of \$0.08 million is reasonable.

~~23. 26. The Commission finds that~~ SoCalGas and SDG&E correctly allocated costs to the backbone and local transmission rate categories.

~~24. 27. The Commission finds that the~~ The method to allocate costs functionalized as high pressure distribution shall be the LRMC methodology, consistent with D.14-06-007.

~~25. 28. The Commission finds that~~ SoCalGas' and SDG&E's request to file Tier 1 Advice Letters to update the revenue requirements authorized by the

Commission, including memorandum account interest, and incorporate the updated revenue requirements into rates on the first day of the next month following advice letter approval or in connection with other authorized rate changes implemented by SoCalGas and SDG&E is reasonable ~~and should be approved.~~

~~26. 29. The Commission finds that~~ SoCalGas' and SDG&E's request to file Tier 2 Advice Letters to incorporate future-year revenue requirements associated with reasonably-incurred capital expenditures approved in this proceeding into rates is reasonable ~~and should be approved.~~

O R D E R

IT IS ORDERED that:

1. Southern California Gas Company ~~shall~~ is authorized to recover its revenue requirement of ~~\$26.81 million~~ 24.86 million related to completed projects 2000-A, 42-66-1/42-66-2, and Playa Del Rey 1&2 in the Pipeline Safety Enhancement Plan.
2. San Diego Gas and Electric Company ~~shall~~ is authorized to recover its revenue requirement of \$0.08 million for the program management office, leak survey and pipeline patrol, pressure protection equipment, and other remediation costs related to completed projects 2000-A, 42-66-1/42-66-2, and Playa del Rey 1&2 in the Pipeline Safety Enhancement Plan.
3. The fully loaded costs for the completed projects 2000-A, 42-66-1/42-66-2, and Playa del Rey 1&2 for which Southern California Gas Company ~~shall~~ may recover is \$33,130,567.

4. The fully loaded costs for the completed projects 2000-A, 42-66-1/42-66-2, and Playa del Rey 1&2 for which San Diego Gas and Electric Company may recover is \$108,000.

5. Southern California Gas Company (SoCalGas) and San Diego Gas and Electric Company shall not recover their Pipeline Safety Enhancement Plan specific insurance costs in this proceeding. But the denial is without prejudice to SoCalGas and SDG&E making a more complete showing in a future proceeding.

6. The Commission approves the recovery of the costs to pressure test Line 2000-A ~~are reasonable, and the Commission approves cost recovery~~ in the amount of \$24,302,928.

7. The Commission approves the recovery of the costs to replace Line 42-66-1 and abandon Line 42-66-2 ~~are reasonable, and the Commission approves cost recovery~~ in the amount of ~~\$747,897.747,897.~~

8. The Commission approves the recovery of the costs to pressure test Playa ~~del~~ Rey Phases 1 ~~and 2 are reasonable, and the Commission approves cost recovery~~ & 2 in the amount of \$639,416.

9. The Commission approves the recovery of the costs associated with descoped projects ~~are reasonable, and the Commission approves cost recovery~~ in the amount of \$127,639.

10. ~~SoCalGas and SDG&E~~ The Commission approves the recovery of Southern California Gas Company's and San Diego Gas & Electric Company's Program Management Office costs ~~are reasonable, and the Commission approves cost recovery~~ in the amount of \$2,068,000 and \$49,000, respectively.

11. ~~SoCalGas and SDG&E~~ The Commission approves the recovery of Southern California Gas Company's and San Diego Gas & Electric Company's interim

safety measure costs ~~are reasonable, and the Commission approves cost recovery~~ in the amount of \$1,568,000 and \$52,000, respectively.

12. ~~SoCalGas and SDG&E~~The Commission approves the recovery of Southern California Gas Company's and San Diego Gas & Electric Company's pressure protection equipment costs ~~are reasonable, and the Commission approves cost recovery~~ in the amount of \$312,000 and ~~\$5000,~~5,000, respectively.

13. The ~~costs of SoCalGas and SDG&E~~Commission approves the recovery of Southern California Gas Company's and San Diego Gas & Electric Company's other remediation activities ~~are reasonable, and the Commission approves recovery costs~~ in the amount of \$482,000 and \$2,000, respectively.

14. ~~SoCalGas and SDG&E~~The Commission approves the recovery of Southern California Gas Company's and San Diego Gas & Electric Company's facilities build-out costs ~~are reasonable, and the Commission approves recovery~~ in the amount of \$2,882,687.

15. ~~SoCalGas~~Southern California Gas Company and ~~SDG&E~~San Diego Gas & Electric Company shall file Tier 1 Advice Letters to update the revenue requirements ~~authorized by the Commission~~, including memorandum account interest, ~~and~~authorized by this decision, and shall incorporate the updated revenue requirements into rates on the first day of the next month following advice letter approval or in connection with other authorized rate changes implemented by SoCalGas and SDG&E.

16. ~~SoCalGas~~Southern California Gas Company and ~~SDG&E's~~San Diego Gas & Electric Company shall file Tier 2 Advice Letters to incorporate into rates future-year revenue requirements associated with reasonably- incurred capital expenditures approved ~~in~~by this ~~proceeding, into rates.~~decision.

17. ~~Application 14-12-016~~ This proceeding is closed.

Dated _____, at Long Beach, California.