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

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

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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 the Pipeline Safety and Reliability Memorandum Accounts. SoCalGas is authorized to recover $33,130,567. SDG&E is authorized to recover $108,000, making the total award $33,238,567. The authorization is broken down by category and reflects the positions taken by each applicant in the proceeding:

Comparison: Fully Loaded Cost		
Completed Projects and Cost Category	**Sempra**	**Amount Authorized for Recovery by this Decision**
SoCalGas		
2000-A	$26,374,878	$24,302,928
42-66-1/ 42-66-2	$813,327	$747,897
Playa Del 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 protection, and remediation costs	$2,362,000 ($1,568,000 for leak survey and pipeline patrol; $312,000 for pressure protection equipment; and $482,000 for other	$2,362,000

	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 had not been tested or for which records 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 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 budged. 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;
- Executive incentive compensation; and
- The cost of searching for pipeline testing records.

In 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 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. The Utility Workers' Union of America filed a response.

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

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

On April 6, 2015, the ALJ issued a ruling correcting the schedule in the Scoping Memo.

On May 28, 2015, Applicants filed a motion for leave to amend their 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 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 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 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 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.

3. Submission

This proceeding was submitted on May 18, 2016.

4. Scope of Proceeding

The Scoping Memo that was filed on 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.
3. Whether SDG&E and SoCalGas complied with all state and federal regulations and followed industry best practices in 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

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

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 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 standard[2] 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.[3]

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 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;" and

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

[3] 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."[4]

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.[5]

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.[6] The costs associated with these efforts and presented for review and recovery in this Application fall into three categories:

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[4] D.02-08-064 at 5 and 6, citing D.87-06-021.

[5] *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).

[6] *See* Ex. SCG-02 (Phillips); and Ex. SCG-08 (Mejia) at 12, Footnote 11.

project costs, Program Management Office (PMO) costs, and miscellaneous other costs.[7]

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.[8] PMO costs are costs related to the PMO and its oversight of the PSEP organization, programs, and processes.[9] Miscellaneous other costs are costs related to the increased frequency of leak survey and pipeline patrols, 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.[10]

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 on schedule, and communicates PSEP progress to various stakeholders.[11] The PSEP Organization includes roughly 200 Company and 500 Contractor personnel working on approximately 230 individual projects in PSEP Phase 1A.[12] To obtain what it deemed the necessary support personnel,

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[7] Ex. SCG-02 (Phillips) at 3-4.

[8] Ex. SCG-02 (Phillips) at 4.

[9] Ex. SCG-02 (Phillips) at 4.

[10] Ex. SCG-02 (Phillips) at 4.

[11] Ex. SCG-01 (Phillips) at 7.

[12] Ex. SCG-05 (Phillips) at 6.

SoCalGas and SDG&E engaged in contractor and supplier procurement;[13] looked for contractors with the skills and expertise to plan, execute, and oversee PSEP work while maintaining safe and reliable service to customers;[14] and implemented a Performance Partnership Program that engaged construction contractor personnel across their services territories.[15] 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.[16]

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]

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[13] Ex. SCG-01 (Phillips) at 8-11, and 19.

[14] Ex. SCG-01 (Phillips) at 8.

[15] Ex. SCG-04 (Phillips) at 13-20.

[16] 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.

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.[19] This category also includes PSEP General Management and Administrative (GMA) costs. PSEP GMA costs are project support costs directly related to PSEP that are not attributable to a specific project, but incurred in direct support of PSEP projects.[20] PSEP GMA costs include communications, construction, engineering, environmental, gas control, supply management, and training costs that support PSEP projects.[21] PSEP GMA costs are made up of both internal support costs (labor and expense) and external support contractors.[22] Indirect costs include incremental overheads, Allowance for Funds Used During Construction, and Property Taxes. Incremental overhead costs are 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

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[19] Ex. SCG-02 (Phillips) at 4.

[20] Ex. SCG-02 (Phillips) at 4-5.

[21] Ex. SCG-02 (Phillips) at 5.

[22] *See* Ex. SCG-09 (Mejia) at 33, Footnote 45.

activities because they proportionately increase as a result of PSEP activities.[23] For PSEP, nine loaders were determined to be incremental: Payroll Tax; Vacation and Sick time; Benefits (non-balanced only);[24] Workers' Compensation; Public Liability/Property Damage; Incentive Compensation Plan; Purchased Services and Materials; Administrative and General; and Insurance.[25]

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 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.[26] According to Applicants, the Decision Tree uses a

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[23] Ex. SCG-11 (Austria) at 3.

[24] Ex. SCG-11 (Austria) at 4, Footnote 11.

[25] Ex. SCG-11 (Austria) at 4, Footnote 12.

[26] D.14-06-007 at 16 and 24.

step-by-step analysis of pipeline segments in order to evaluate facts that may impact whether to pressure test or replace the segment.[27] 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.[28]

ORA questions the reasonableness of the Decision Tree. It argues that certain projects in 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 projects with "numerous" change orders and cost estimate revisions.[29] In place of the current Decision Tree, ORA advocates for a universal Decision Tree that applies to all of Applicants' pipeline safety enhancement projects. ORA also suggests that Applicants be required to provide an explanation at each point in the Decision Tree that leads to the final outcome of each set of project costs.[30]

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[27] Ex. SCG-07 (Mejia) at 3.

[28] EX. SCG-07 (Mejia) at 4.

[29] ORA Opening Brief at 22.

[30] *Id*.

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 well as applicable laws, regulations, and Commission orders.[31] 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 (SED).[32] Additionally—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 equipment—SED has inspected Applicants' PSEP activity, policies, and documentation.[33]

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[31] Ex. SCG-07 (Mejia) at 1.

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

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

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.[34] With respect to cost management, Applicants state that they competitively solicit bids, where practicable, for materials and services.[35]

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

7. Project Costs—Line 2000-A

7.1. SoCalGas and SDG&E

Line 2000-A was the first PSEP project to be initiated.[36] Line 2000-A involved the hydrostatic testing of 15.2 miles of 30-inch pipe installed primarily in 1947.[37] In October 2012, work on Line 2000-A was initiated by SoCalGas' Pipeline Construction Management department (PCM).[38] Line 2000-A construction began in July 2013.[39] 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

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[34] Ex. SCG-08 (Mejia) at 10.

[35] Ex. SCG-04 (Phillips) at 7-20.

[36] Ex. SCG-08 (Mejia) at 19.

[37] Ex. SCG-02 (Phillips) at 9.

[38] Ex. SCG-09 (Mejia) at 19.

[39] Ex. SCG-02 (Phillips) at 8.

2000-A pressure test, but in order to maintain an effective transition, PSEP and PCM continued to work together.[40]

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.[41]

Second, in order to maintain service to three commercial/industrial customers during the pressure test, SoCalGas and SDG&E assert that 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.[42] 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

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[40] Ex. SCG-08 (Mejia) at 21.

[41] Ex. SCG-08 (Mejia) at 21-22.

[42] Ex. SCG-02 (Phillips) at 9.

to using CNG to serve customers temporarily.[43] SoCalGas and SDG&E claim that all 10 sections were pressure tested successfully with no test failures.[44] The first Line 2000-A segment was tested in July 2013, and the last segment was tested in November 2013.[45] Tie-ins occurred from July to December 2013, and the final section of the project was placed back into service in December 2013.[46]

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. 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.[47] The actual project costs presented in this application total $26,374,878 in direct and indirect costs.

7.2. ORA

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.[48] ORA's disallowance is based on its position that the reasonable

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[43] Ex. SCG-08 (Mejia) at 23.

[44] Ex. SCG-02 (Phillips) at 9.

[45] Ex. SCG-02 (Phillips) at 8.

[46] Ex. SCG-08 (Mejia) at 27.

[47] Ex. SCG-08 (Mejia) at 21.

[48] Ex. ORA-01 (Stannik) at 3-4 and 22.

manager standard requires a comparison of estimated costs to actual costs or "cost goals."[49]

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.[50]

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.[51]

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 to establish reasonableness of either costs or decision making."[52] By way of example, ORA cites the agreement for x-ray services for the Line 2000-A

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[49] 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.

[50] Ex. ORA-01 (Stannik) at 22.

[51] RT at 306 (ORA/Stannik).

[52] ORA Opening Brief at 3.

hydro-test and asserts that Applicants "provided inaccurate cost-related information in testimony and supporting workpapers to the Commission and to ORA."[53] 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-sourced).[54] ORA claims that the reason for the discrepancy is that the testimony from Applicants' witnesses was based upon memory instead of checking the contracts.[55]

7.3. SCGC

SCGC argues that the Commission should disallow the portion of the consultant charges that are related to overhead, 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.[56]

7.4. TURN

TURN alleges SoCalGas and SDG&E failed to provide sufficient evidence to demonstrate the reasonableness of Line 2000-A costs.[57]

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

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[53] ORA Opening Brief at 8.

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

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

[56] Ex. SCGC-TURN-02-C (Yap) at 29.

[57] TURN Opening Brief at 8.

costs were prudently incurred.[58] 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."[59] 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.[60] 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."[61] In TURN's view, the forecasting difficulty raises questions about the reasonableness of Line 2000-A's costs.[62]

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.[63]

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[58] TURN Opening Brief at 8.

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

[60] TURN Opening Brief at 9.

[61] TURN Opening Brief at 9.

[62] 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").

[63] TURN Opening Brief at 12.

7.5. Discussion and Conclusion

We conclude that SoCalGas's actions and expenses are reasonable with one exception that we discuss below. For Line 2000-A, SoCalGas knew it was a high priority pipeline. SoCalGas knew beginning Line 2000-A work with existing SoCalGas resources would allow for more expeditious completion of the pressure test. SoCalGas knew 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 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%) was competitively bid for either the specific PSEP work or undertaken through an agreement that was previously competitively bid.[64] 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 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.

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[64] Ex. SCG-10-C (Mejia) at 23-33.

We will not impose a disallowance for one of the contracts because of SoCalGas' failure to fact-check the testimony. Its witness testified that a particular contract for this line project was competitively bid. But ORA demonstrated that this contract was single sourced,[65] a point that Applicants' witness had to acknowledge under cross-examination.[66] We caution Applicant to review 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 is authorized to recover $24,302,928.

8. Project Costs—Lines 42-66-1 and 42-66-2[67]

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.[68]

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[65] 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."

[66] RT (10/21/2015) at 121:16-126:6.

[67] 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.

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.[69]

Construction on the project took place from early October to December 2013, with the Line returned to service in December 2013.[70] Applicants planned to do a cold tie-in.[71] 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.[72]

The Lines 42-66-1 and 42-66-2 preconstruction estimate was $555,960 and the total cost was $813,327.[73] SoCalGas' labor cost increased by $73,059 because of the need to perform a hot tie-in of the pipe segment.[74] 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

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[68] Ex. SCG-02 (Phillips) at 7.

[69] Ex. SCG-08 (Mejia) at 28; Ex. SCG-09 (Mejia) at 39.

[70] Ex. SCG-08 (Mejia) at 30.

[71] 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.)

[72] 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.

[73] Ex. SCG-09 (Mejia) at 36.

[74] Ex. SCG-09 (Mejia) at 37.

contractor field crews to support hot tie-in activities such as a Fire Watch.[75] 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.[76] SoCalGas and SDG&E claim they incurred $0.500 million in contract or supplier costs, $0.405 million of which they claim was competitively bid.

8.2. ORA

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.[77] ORA also states that "adjustments for projects 42-66-1/2 are not included in the above table nor in the total calculations."[78]

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.[79]

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[75] Ex. SCG-09 (Mejia) at 38.

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

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

[78] ORA Opening Brief at 17.

[79] SCGC Opening Brief at iv, 10, and 11.

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.[80] The ultimate total recorded cost was approximately $813,000.

8.5. Discussion and Conclusion

We conclude that SoCalGas and SDG&E's actions and costs were consistent with the reasonable manager standard and should be 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. 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

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

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, designed, and executed the Line 42-66-1/42-66-2 project 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 is authorized to recover $747,897.

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

9.1. SoCalGas and SDG&E

The Playa Del Rey Storage Field costs in this Application represent the PSEP portion of a larger infrastructure project at the SoCalGas Playa Del Rey Storage Field. During the scoping of the PSEP Playa 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

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[81] Ex. SCG-08 (Mejia) at 32.

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 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 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 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 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 Rey storage fields.[85]

9.2. ORA

Initially, ORA did not object to cost recovery for Playa 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]

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[82] Ex. SCG-02 (Phillips) at 9-10.

[83] Ex. SCG-08 (Mejia) at 33.

[84] Ex. SCG-08 (Mejia) at 33-34

[85] Ex. SCG-02 (Phillips) at 9-10.

Later, ORA 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 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

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 Rey hydrotests.[90]

9.5. Discussion and Conclusion

We conclude that SoCalGas' actions and costs were consistent with the reasonable manager standard and should be awarded. For Playa Del Rey, SoCalGas knew that certain piping at the storage field needed to be tested or replaced as part of PSEP. SoCalGas knew that a larger infrastructure project had

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[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.

[90] TURN Opening Brief at 16.

been initiated at the Playa Del Rey storage field and that an experienced contractor was onsite to perform that work. Based on that knowledge, SoCalGas reasonably determined to accelerate the Playa 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 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]

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

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[91] Ex. SCG-02 (Phillips) at 11.

[92] Ex. SCG-09 (Mejia) at 41-44.

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 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 record research costs.[94] Second, when we asked for further clarification on the 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

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

[94] Ex. SCG-09 (Mejia) at 41.

> **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. SoCalGas and SDG&E request recovery of $2.117 million for PMO costs,[95] $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]

11.4. TURN

TURN did not propose any disallowances for the PMO.

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[95] Ex. SCG-02 (Phillips) at 12.

[96] Ex. SCG-02 (Phillips) at 12.

[97] SCGC Opening Brief at 11.

11.5. Discussion and Conclusion

We conclude that these costs are reasonable and should be 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 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 authorized for recovery for SoCalGas and SDG&E, respectively.

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[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.

12. Miscellaneous Costs—Interim Safety Measures

12.1. SoCalGas and SDG&E

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 authorized for recovery for SoCalGas and SDG&E, respectively.

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[102] Ex. SCG-02 (Phillips) at 13.

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

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 authorized for SoCalGas.

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[103] Ex. SCG-02 (Phillips) at 13.

[104] Ex. SCG-02 (Phillips) at 13.

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 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 authorized for SoCalGas and SDG&E, respectively.

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[105] Ex. SCG-02 (Phillips) at 14.

[106] Ex. SCG-02 (Phillips) at 13-14.

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

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

See discussion at 15.3.

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[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.

15.5. Discussion and Conclusion

We conclude that these costs were reasonable. SoCalGas documented that prior to the expansion, it had a lease that covered 13 floors, one of which housed the cafeteria, large conference rooms, and a mail room.[113] There was insufficient space available for PSEP personnel at the Gas Company Tower without procuring additional floor spaces.[114] SoCalGas also 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 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 descoped costs would lead to an associated reduction of SoCalGas' revenue requirement from $26.81 million $26.60 million. If approved, these revenue

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[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 2; Ex. SCG-02 (Phillips) at 11-12; and Ex. SCG-09 (Mejia) at 40-41.

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

ORA did not present any arguments on this issue.

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[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.

16.3. SCGC

SCGC 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 costs are allocated on a Long-Run Marginal Cost (LRMC) basis.[122] 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

TURN did not present any arguments on this issue, however TURN did make an arguments in its comments which we address below.

16.5. Discussion and Conclusion

Using the numbers adopted in this decision, we initially find that a revenue requirement of $26.60 millionfor 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 and to

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[122] Ex. SCGC-TURN-01 (Yap) at 33-34.

include allocation to the backbone function.[123] 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 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]

SCGC challenges Applicants' position by claiming they are attempting to implement an allocation formula for high pressure distribution costs that is different than the methodology currently in effect. SCGC argues applicants want to allocate high pressure distribution costs based on embedded costs, rather than to customer classes on a LRMC methodology.[126] SCGC asserts that with an LRMC allocation, class shares are based on the unscaled LRMC revenues that are derived from the sum of the individual marginal costs times the appropriate marginal demand measures, and provides the formula for deriving the unscaled LRMC revenues for SoCalGas that takes into account marginal customer costs, numbers of customers per class, high pressure distribution marginal costs, high pressure distribution system peak month demand by class, medium pressure distribution marginal costs, and medium pressure system peak demand by

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

[124] Ex. SCGC/TURN-01 (Yap) at 33.

[125] Ex. SCG-17 (Chaudhury) at 2-3.

[126] Ex, SCGC-TURN-1 (Yap) at 32-33.

class.[127] The formula for deriving the unscaled LRMC revenues for SDG&E is similar, according to SCGC, with high pressure distribution peak month demand by class as one out of three marginal demand measures that are used to construct the unscaled LRMC revenues and class shares.[128]

In its comments, TURN argues that the high pressure distribution costs should be allocated based on peak month or peak day demand, which it claims is consistent with D.14-06-007 and Applicants' direct testimony.[129] TURN then attacks SCGC's proposal to have high pressure distribution costs allocation according to the LRMC methodology since, as TURN sees it, SCGC's preferred LRMC method would result in core customers bearing a 95% share of the costs, and non-core customers' share would be reduced to 5%.[130]

In their rebuttal testimony Applicants do not contest SCGC's assessment and, in fact, are not opposed to implementation of the LRMC cost allocation if it more accurately reflects what the Commission intended for the appropriate cost allocation method for Safety Enhancement costs, and ask the Commission to clarify which interpretation is more consistent with D.14-06-007.[131]

We do not see the issue as one where the Commission needs to provide clarification, or must pick one cost allocation formula over another. Given

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[127] Ex, SCGC-TURN-1 (Yap) at 34.

[128] Ex, SCGC-TURN-1 (Yap) at 34.

[129] TURN Comments at 3-4.

[130] TURN Comments at 4.

[131] Ex. SCG-17 (Chaudhury) at 3.

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 existing LRMC methodology. Thus, we agree with SCGC's recommendation to revise the Conclusion of Law (formerly # 27) to state: "The Commission finds that the method to allocate costs functionalized as high pressure distribution shall be the LRMC methodology, consistent with D.14-06-007." That would include those peak month or peak day demand allocators identified by SCGC in its testimony.

To the extent any party wishes the Commission to approve a change to the LRMC methodology, or any of its components, to allocate costs functionalized as high pressure distribution, that party should file, assuming that it is procedurally and substantively appropriate, a petition to modify D.14-06-007, or raise the issue in the Triennial cost Allocation Proceeding.

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:

- Provide early cost estimates for each project;[132]
- 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;[133]
- Require SDG&E and SoCalGas to explain contingencies in each application and use contingencies to accommodate variabilities;[134]
- For each project, applicants must disclose variabilities and their associated costs as part of the application or opening testimony;[135] and
- Require SDG&E and SoCalGas to provide a Decision Tree that leads to the final outcome of project costs.[136]

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.[137] SoCalGas and SDG&E also claim

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[132] ORA Opening Brief at 18-19.

[133] ORA Opening Brief at 19-20.

[134] ORA Opening Brief at 20.

[135] ORA Opening Brief at 20-21.

[136] ORA Opening Brief at 22.

[137] SoCalGas and SDG&E Reply Brief at 42-43.

that the new requirements "will likely" increase costs, delay safety enhancement work, and further complicate later applications by changing, midstream, the operative requirements.[138] 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 through the engineering design and scoping phase as of the date the next decision is issued.[139]

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. The Commission 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

18.1.1. 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."[140] SCGC asserts that

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[138] SoCalGas and SDG&E Reply Brief at 42-43.

[139] SoCalGas and SDG&E Reply Brief at 43.

[140] SCGC Opening Brief at iv.

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.[141] In SCGC's view, "hiring contractors to manage ongoing programs dramatically expands the management cost to the detriment of ratepayers."[142] And this cost became exacerbated by Applicant continued reliance on external employees, rather than replacing external employees with Applicants' employees as they were recruited and hired.[143] In SCGC's view, SoCalGas and SDG&E failed to offer any convincing rationale for their "substantial" reliance on external employees.[144]

18.1.2. 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.[145] 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

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

[142] SCGC/TURN-01 (Yap Redacted Direct) at 13.

[143] Ex. SCGC/TURN-01 (Yap Redacted Direct) at 19.

[144] SCGC Opening Brief at 5-9.

[145] Ex. SCG-06-C (Phillips) at 8.

sufficient work for the new hires from the PSEP program.[146] In contrast, SoCalGas and SDG&E maintain that by hiring contractors, they had the flexibility to ramp up initial efforts to start PSEP work.[147]

18.1.3. 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."[148] SoCalGas and SDG&E engaged contractors and managed the cost of hiring them through competitive bidding services.[149] 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.[150] Taken together, we conclude that SoCalGas and SDG&E acted reasonably when they engaged in their hiring efforts.

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[146] SoCalGas and SDG&E Reply Brief at 28-30.

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

[148] D.11-06-017 at 20.

[149] Ex. SCG-04 (Phillips) at 8-12.

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

18.2. Challenge to Support Costs—Insurance

18.2.1. 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.[151] 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."[152] TURN asks that the Commission conclude that SoCalGas and SDG&E have failed to meet their burden of proof regarding the PSEP-specific insurance.

18.2.2. SoCalGas and SDG&E

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."[153] The program was competitively solicited and consistent with their policy to generally bid agreements worth in excess of $75,000.[154]

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

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

[153] Ex. SCG-11 (Austria) at 4, footnote 12.

[154] Ex. SCG-09 (Mejia) at 17.

18.2.3. Discussion and Conclusion

Like TURN, the Commission is troubled by Applicants' showing on the PSEP-specific insurance claim. The Commission 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.[155] Austria also testified that the $2,181,000 was for all the projects that are part of the application:

> 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.[156]

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 Rey 1 & 2, or if the amount claimed, or any amount, is in fact reasonable.

Accordingly, we decline 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

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[155] Ex. SCG-12 (Austria) at WP-IV-04.

[156] RT (10/22/2015) at 248:10-20.

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:

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.[157] We accept this calculation and adopt this lower revenue requirement number.

[157] Opening Comments of SoCalGas and SDG&E at 10.

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

18.3.1. 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.[158] 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.[159] 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.[160] 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."[161]

18.3.2. SoCalGas and SDG&E

Applicants claim that they did not include any executive compensation costs for recovery.[162] In the event executive compensation is included for recovery in future reasonableness review proceedings, Applicants state they will

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[158] TURN Opening Brief at 27.

[159] TURN Opening Brief at 27, citing to RT 257:14-22.

[160] RT 258:8-16; and 261:4-13.

[161] TURN Opening Brief at 28.

[162] SoCalGas and SDG&E Reply Brief at 39.

manually remove the component.[163] But to do as TURN requests would allegedly cause Applicants a potentially costly administrative burden.[164]

18.3.3. Discussion and Conclusion

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 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 October 4, 2016 from SoCalGas and SDG&E, and TURN. Changes have been made to the decision in

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[163] SoCalGas and SDG&E Reply Brief at 39.

[164] SoCalGas and SDG&E Reply Brief at 39.

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 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 they had expeditiously begun reviewing the records of its gas transmission pipeline segments and 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. D.11-06-017 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. D.12-04-021 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 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. D.14-06-007 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 adopted the concepts embodied in the Decision Tree, adopted the intended scope of work as summarized by the Decision Tree, and adopted the Phase 1 analytical approach for Safety Enhancements embodied in the Decision Tree 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 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 A.14-12-016 requesting review and recovery of certain capital and O&M expenditures recorded in their PSRMAs.

18. D.14-06-007 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 Rey 132.

Conclusions of Law

SoCalGas and SDG&E's actions comport with those of a reasonable manager.

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

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

3. Except as noted below, SoCalGas and SDG&E's pipeline safety enhancement costs are reasonable.

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

5. The costs to pressure test Line 2000-A are reasonable.

6. The costs to replace Line 42-66-1 and abandon Line 42-66-2 are reasonable.

7. The costs to pressure test Playa Del Rey Phases 1 and 2 are reasonable.

8. The costs associated with descoped projects are reasonable.

9. SoCalGas' and SDG&E's PMO costs are reasonable.

10. SoCalGas' and SDG&E's interim safety measure costs are reasonable.

11. SoCalGas' and SDG&E's pressure protection equipment costs are reasonable.

12. SoCalGas' and SDG&E's other remediation activities are reasonable.

13. SoCalGas' and SDG&E's facilities build-out costs are reasonable.

14. SoCalGas and SDG&E implemented reasonable oversight and control of their PSEP activities.

15. SoCalGas and SDG&E appropriately followed their approved Decision Tree process.

16. SoCalGas' and SDG&E's safety enhancement activities comply with state and federal regulations.

17. 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. SoCalGas and SDG&E implemented reasonable contracting and procurement practices to promote cost-effective safety enhancement efforts.

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

20. 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. SoCalGas' revenue requirement of $24.86 million is reasonable.

22. SDG&E's revenue requirement of $0.08 million is reasonable.

23. SoCalGas and SDG&E correctly allocated costs to the backbone and local transmission rate categories.

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

25. 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.

26. 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.

27. The determination that SoCalGas and SDG&E made a sufficient showing to satisfy the minimum filing requirements set forth in D.14-06-007 is specific to the circumstances of this proceeding.

O R D E R

IT IS ORDERED that:

1. Southern California Gas Company is authorized to recover its revenue requirement of $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 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 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 (SDG&E) 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 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 in the amount of $747,897.

8. The Commission approves the recovery of the costs to pressure test Playa Del Rey Phases 1 & 2 in the amount of $639,416.

9. The Commission approves the recovery of the costs associated with descoped projects in the amount of $127,639.

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

11. The Commission approves the recovery of Southern California Gas Company's and San Diego Gas & Electric Company's interim safety measure costs in the amount of $1,568,000 and $52,000, respectively.

12. The Commission approves the recovery of Southern California Gas Company's and San Diego Gas & Electric Company's pressure protection equipment costs in the amount of $312,000 and $5,000, respectively.

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

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

15. Southern California Gas Company (SoCalGas) and San Diego Gas & Electric (SDG&E) Company shall file Tier 1 Advice Letters to update the revenue requirements, including memorandum account interest, 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. Southern California Gas Company and 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 by this decision.

17. This proceeding is closed.

Dated _____, at San Francisco, California.