

Decision **PROPOSED DECISION OF ALJ AYOADE (Mailed 2/26/2019)**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of Southern California Gas Company (U904G) and San Diego Gas & Electric Company (U902G) for (A) Approval of the Forecasted Revenue Requirement Associated with Certain Pipeline Safety Enhancement Plan Projects and Associated Rate Recovery, and (B) Authority to Modify and Create Certain Balancing Accounts.

Application 17-03-021

DECISION GRANTING THE APPLICATION OF SOUTHERN CALIFORNIA GAS COMPANY AND SAN DIEGO GAS & ELECTRIC COMPANY FOR APPROVAL OF FORECASTED REVENUE REQUIREMENTS ASSOCIATED WITH CERTAIN PIPELINE SAFETY ENHANCEMENT PLAN PROJECTS AND ASSOCIATED RATE RECOVERY; AND AUTHORITY TO MODIFY AND/OR CREATE CERTAIN BALANCING ACCOUNTS

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DECISION GRANTING THE APPLICATION OF SOUTHERN CALIFORNIA GAS COMPANY AND SAN DIEGO GAS & ELECTRIC COMPANY FOR APPROVAL OF FORECASTED REVENUE REQUIREMENTS ASSOCIATED WITH CERTAIN PIPELINE SAFETY ENHANCEMENT PLAN PROJECTS AND ASSOCIATED RATE RECOVERY; AND AUTHORITY TO MODIFY AND/OR CREATE CERTAIN BALANCING ACCOUNTS

Summary

This decision approves Southern California Gas Company (SoCalGas) and San Diego Gas & Electric Company (SDG&E) (Applicants)' proposed Phase 2A Decision Tree presented in the Application; and grants approval to Applicants to proceed with the execution of the twelve Phase 1B and Phase 2A Pipeline Safety Enhancement Plan (PSEP) projects presented in Table 1 below as part of Phases 1B and 2A of the prioritization schedule and proposed Decision Tree for PSEP projects approved by the California Public Utilities Commission (Commission) in Decision (D.) 14-06-007.¹

This decision approves Applicants' forecasted expenditures associated with the twelve PSEP projects identified in Table 1 below in the amounts of approximately \$197.5 million in capital and \$57 million in operations and maintenance (O&M) for total forecasted expenditures of \$254.5 million, resulting in cumulative forecasted 2019 revenue requirements associated with completion of the twelve projects in this Application of approximately \$44.6 million for SoCalGas and \$562,000 for SDG&E; and authorizes Applicants to recover the cumulative forecasted 2019 revenue requirements in rates.

We grant Applicants one-way balancing account treatment of forecasted and actual costs associated with the twelve projects presented in this Application, on an aggregate basis, in order to require Southern California Gas Company and

¹ See Appendix 1.

San Diego Gas & Electric Company to refund ratepayers any over-collection in the revenue requirements authorized herein.

Finally, this decision grants Applicants the authority to modify the Safety Enhancement Expense Balancing Accounts and the Safety Enhancement Capital Cost Balancing Accounts authorized by the Commission in D.14-06-007; and create new one-way balancing accounts to record costs for Phase 2 projects. Lastly, this decision grants Applicants requested authority to allocate costs on a functional basis (e.g. backbone transmission; local transmission; or high pressure distribution, as illustrated in Page 16, Table 2 of the Application); implement in transportation rates the revenue requirements associated with the twelve PSEP projects effective January 1 of the year following a decision in this Application via Tier 1 Advice Letter; and grants other uncontested requests in this Application.

1. Historical Background

1.1. San Bruno Pipeline Explosion and Commission's Safety Directives to Utilities

On September 9, 2010, a natural gas transmission pipeline owned and operated by Pacific Gas and Electric Company (PG&E) ruptured and caught fire in the city of San Bruno, California. In response, the California Public Utilities Commission (Commission) initiated numerous proceedings to strengthen oversight of the utilities' gas system and operations, and assure safety. Among them was Rulemaking 11-02-019, which conducted "a forward-looking effort to establish a new model of natural gas pipeline safety regulation applicable to all California pipelines."² As a result of that proceeding the Commission ordered all California natural gas transmission pipeline operators prepare and file a

² R.11-02-019, at 1.

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.”³ The Implementation Plan must address retrofitting pipeline to allow for in-line inspection tools and, where appropriate, automated or remote controlled shut off valves. In addition, the Commission directed utilities to develop plans for testing or replacing all segments of natural gas transmission pipelines in California that have not been tested or for which reliable records are not available; and address all natural gas transmission pipeline including low priority segments, while obtaining the greatest amount of safety value for ratepayer expenditures. Many of the requirements of D.11-06-017 have been codified in California Public Utilities Code Sections 957 and 958.

1.2. Applicants’ Pipeline Safety Enhancement Plan (PSEP or “Implementation Plan”) and Subsequent Decisions

On August 26, 2011, Applicants filed their Implementation Plan in the form of their first PSEP.⁴ The PSEP included, among other things, a prioritization schedule for the Commission-ordered work and a proposed Decision Tree to guide whether individual gas pipeline segments should be pressure tested, replaced, de-rated,⁵ or abandoned.

To prioritize their PSEP work, Applicants divided projects into PSEP Phase 1 and Phase 2, with Phase 1 further divided into two sub-phases 1A and 1B. The scope of Phase 1A was to pressure test or replace transmission pipelines in Class

³ See D.11-06-017, at 18.

⁴ See A.11-11-002.

⁵ **Derating** (or de-rating) means, the operation of a machine, a device, or equipment, e.g. a pipeline, at less than it’s rated maximum capability in order to prolong its life. As used in Applicants’ submitted testimony, a pipeline “can be de-rated from high to medium pressure without any customer impact”. (See Applicants’ Exhibit SGC-03 (Gonzalez), Section VII at 16, lines 4-5.)

3 and 4 locations and Class 1 and 2 locations in high consequence areas that do not have sufficient documentation of a pressure test to at least 1.25 Maximum Allowable Operating Pressure (MAOP). Phase 1B focuses on the “replacement of non-piggable pipelines⁶ that were installed prior to 1946.”⁷

PSEP Phase 2 was sub-divided into Phase 2A and Phase 2B where Phase 2A consisted of the pressure testing or replacement of about 760 miles of pipeline in Class 1 and 2 non-high consequence areas that do not have sufficient documentation of a pressure test to at least 1.25 times MAOP.

In June 2014, the Commission issued D.14-06-007 approving Applicants’ proposed PSEP, adopted the concepts embodied in the Applicants’ Decision Tree; the intended scope of work as summarized by the Decision Tree; and the Phase 1 analytical approach for Safety Enhancement as embodied in the Decision Tree and related testimony.⁸

For Phase 1, D.14-06-007 authorized Applicants to: (1) begin work as described in their PSEP; (2) record costs in two-way balancing accounts (Safety Enhancement Expense Balancing Accounts (SEEBAs); and Safety Enhancement Capital Cost Balancing Accounts (SECCBAs)) subject to refund pending a subsequent reasonableness review. Alternatively, Applicants were permitted to seek preapproval of, or guidance with respect to, specific PSEP projects.⁹

⁶ **Pigging** in the context of pipelines refers to the practice of using devices known as “pigs” to perform various maintenance operations in pipelines. Typically, this is done without stopping the flow of the product in the pipeline. These operations may include but are not limited to cleaning and inspecting the pipeline.

⁷ See A.17-03-021 at 4.

⁸ See Appendix 1 herein which is “**Attachment II**” to D.14-06-007, the adopted PSEP Decision Tree in **D.14-06-007**; and Section 1.1 of D.14-06-007 (Executive Summary), in D.14-06-007.

⁹ See D.14-06-007 at 59; 61.

On June 17, 2015, Applicants filed Application (A.) 15-06-013 for authorization to proceed with Phase 2 of their PSEP. In its decision therein (D.16-08-003), the Commission authorized Applicants to implement 50% interim rate recovery with respect to the SEEBAs and SECCBAs subject to refund pending reasonableness review, and ordered Applicants to file a forecast application for Phase 2 project costs to be incurred in 2017 and 2018, as soon as possible. Applicants submitted this instant Application, A.17-03-021 in accordance with this Commission directive in D.16-08-003.

2. Procedural Background

2.1. The Application

On March 30, 2017, Southern California Gas Company (SoCalGas) and San Diego Gas & Electric Company (SDG&E) (together Applicants), submitted this Application (A.17-03-021) to the Commission requesting: (1) approval of the total forecasted revenue requirements and associated rate recovery for PSEP projects identified as part of Phases 1B and 2A; and (2) authority to (a) modify the existing SEEBAs and SECCBAs to record costs discretely for Phase 1B projects, and (b) create new balancing accounts to record costs for Phase 2 projects.

The Applicants presented cost forecasts for 12 Phase 1B and Phase 2A PSEP projects, consistent with the Commission decision approving PSEP (D.14-06-007), and two after-the-fact reasonableness reviews for completed system-wide pipeline safety enhancement projects.¹⁰ The Applicants estimated forecasted expenditures associated with the 12 safety projects at \$197.5 million in capital and \$57 million in O&M, resulting in a cumulative forecasted 2019 revenue requirements of approximately \$44.6 million for SoCalGas and \$562,000

¹⁰ See D.16-08-003.

for SDG&E.¹¹ Applicants further noted that if the Commission were to approve the application without change, the rate impact for the typical bundled residential core customer of SoCalGas using 35 thermal units per month will be a monthly bill increase of about \$0.19, or 0.5%, from \$41.16 to \$41.35; and for the typical bundled residential gas customer of SDG&E using 25 thermal units per month, a monthly bill increase of about \$0.12, or 0.3%, from \$37.07 to \$37.19. Actual individual customer bills may differ. Using the same factors as above, SoCalGas' core commercial and industrial customers will see a change from \$0.296 to \$0.297 (about \$0.1, or 0.3% increase); and SDG&E' core commercial and industrial customers will see a change from \$0.372 to \$0.373 (about \$0.000, or 0.1% increase).¹²

The Application appeared on the Commission's Daily Calendar on April 10, 2017, and protests/responses to the Application were timely filed pursuant to Rule 2.6(a) of the Commission's Rules of Practice and Procedure. On June 21, 2017, Applicants amended the Application. Accordingly, all references to "application" in this decision are to the June 21, 2017 Amended Application.

¹¹ According to Applicants' Opening Brief, "the [approximately \$44.6 million for SoCalGas and \$562,000 for SDG&E] revenue requirement calculation assumes all capital costs, including direct costs, overhead, escalation, and Allowance for Funds Used during Construction (AFUDC), are recovered through depreciation over the current authorized book-life of the assets. In addition to all incremental capital and O&M expenditures, the total revenue requirement for the twelve projects includes other costs required to support the investment, such as the authorized return on investment, taxes, and franchise fees and uncollectibles'. (Citing, Applicants' Exhibit SCG-06 at 1-3 - The fully loaded and escalated costs, as well as the forecasted revenue requirement, are shown at Tables 1 and 2, thereto). [Compare, Amended Application, which provides that the "cumulative forecasted 2019 revenue requirement are approximately \$44.6 million for SoCalGas and \$500,000 for SDG&E because "these amounts are exclusive of Franchise Fees and Uncollectibles (FF&U) and have been adjusted for rounding. Exact revenue requirements were set forth in the prepared direct testimony of Sharim Chaudhury (Applicants' Exhibit SCG-09)," per the Amended Application, Footnote 2].

¹² See Table 3 in the A.17-03-021.

2.2. Protests and Parties

The Commission timely received three protests, and one response from Shell Energy North America (US), L.P. The protests were filed by the Utility Reform Network (TURN), the Public Advocate's Office of the Public Utilities Commission (Cal Advocates),¹³ and the Southern California Generation Coalition (SCGC). These entities are parties to this proceeding.

2.3. Prehearing Conference; Evidentiary Hearings

On June 5, 2017, a prehearing conference (PHC) was held in this matter, before the Administrative Law Judge (ALJ).¹⁴ Following the PHC, the Scoping Memo and Ruling of Assigned Commissioner was issued on August 28, 2017 (Scoping Memo) pursuant to Rule 7.3 of the Commission's Rules of Practice and Procedure (Rules). The Scoping Memo discussed and established the permanent service list for this proceeding, determined the scope of the proceeding and issues (see below), and discussed the categorization of this proceeding, need for hearing, schedule for the proceeding and other procedural matters relevant to this proceeding.

On February 26 and 28, 2018, evidentiary hearings were held in this proceeding in San Francisco, California, and opening and reply briefs were submitted by the parties on March 26, 2018 and April 16, 2018, respectively. The record of this proceeding was closed upon the submission of the reply briefs on April 16, 2018, and the matter was submitted.

¹³ Formerly, the Commission's Office of Ratepayer Advocates (ORA). Senate Bill 854 (Stats. 2018, ch. 51) amended Pub. Util. Code § 309.5(a) renaming the Office of Ratepayer Advocates to "the Public Advocate's Office of the Public Utilities Commission." We will refer to this party as Cal Advocates. However, each Exhibit that was identified and/or submitted by ORA and admitted in this proceeding (prior to the name change) is identified in this record as "ORA Exhibit."

¹⁴ On May 30, 2017, the parties timely filed a joint prehearing conference statement, as directed in a ruling of the ALJ on May 12, 2017.

2.4. Applicants' Motion for Official Notice

On March 26, 2018, Applicants filed a motion for Official Notice of certain identified documents¹⁵ in Support of Applicants' Opening Brief (Motion). Applicants' Motion is denied, as the Motion, made pursuant to the Commission's Rules of Practice and Procedure (Rules), Rule 13.9,¹⁶ requesting that the Commission take official notice of certain identified documents (i.e. comments, briefs, testimony and/or application relating to other proceedings), appears improper.

While [decisional, constitutional, and statutory law of any state of the United States and the resolutions and private acts of the Congress of the United States and of the Legislature of this state, may be duly taken judicial notice of by the ALJ, the documents identified in the March 26, 2018 Motion for Official Notice do not meet these criteria.¹⁷ The documents are not records of "official acts" of the Commission,¹⁸ and it is unclear if the information contained in the documents represents such "facts and propositions that are not reasonably subject to dispute" and/or "are capable of immediate and accurate determination by resort to sources of reasonably indisputable accuracy."¹⁹ Accordingly, the March 26, 2018 Motion for Official Notice is denied.

Nonetheless, this ruling does not prevent any party from referencing, or citing to any relevant Commission's records, decisions, statutes or rules, or prior

¹⁵ Exhibits A-E attached to the Motion.

¹⁶ Rule 13.9 provides: "Official notice may be taken of such matters as may be judicially noticed by the courts of the State of California pursuant to Evidence Code section 450 et seq."

¹⁷ See California Evidence Code, Sections 450, 451, and 452.

¹⁸ Rather, these are comment(s), brief(s), testimony, and statement(s) by parties in prior applications before the Commission.

¹⁹ See, Evidence Code, Section 452, subdivisions (c) and (h).

acts or arguments (including prior inconsistent acts, position or arguments) taken by a party in this proceeding, as relevant and permitted by the Commission's rules, decisions, statute, or other applicable laws. These references and/or citations will be evaluated, and/or addressed on their own merits.

2.5. Record of the Proceeding

The record for this proceeding consists of the Application, documents filed and served by each party, the testimony and exhibits of parties admitted during the evidentiary hearings, and the evidentiary hearing transcripts, including cross-examination of witnesses on their prepared testimony. This record is the sole basis for this decision.

3. Specific Requests in the Application

3.1. Requested Authorization to Proceed with 12 PSEP Projects

Through this application, Applicants seek to execute and complete nine Phase 1B projects and three Phase 2A projects and recover the total associated revenue requirements in customer rates. The twelve projects and their estimated costs are summarized as follows:

Table 1²⁰

(Nine Phase 1B projects and three Phase 2A projects and forecasted Associated Costs for which Authority is requested in this Application)

Line	Phase	Action	Total Estimated Capital Cost (in 000s)	Total Estimated O&M Cost (in 000s)
127	1	Replace 0.003 mi. (15 feet) ²¹	\$1,830 ²²	*
7043	1	Replace 0.0014 mi (7.5 feet)	\$1,807	
36-37 Section 11	1	Replace 7.6 miles	\$64,672	
36-1001/45-1001	1	Replace 1.6 miles	\$14,981	
38-514	1	Replace 1.4 miles	\$9,992	
38-960	1	Replace 6.1 miles	\$24,423	
43-121	1	Replace 0.3 miles	\$11,060	
38-556	2	Replace 5.6 miles	\$17,357	
36-37 Section 12	1	De-Rate/ Abandon 31 miles	\$20,934	
36-1002	1	De-Rate 16.7 miles	\$6,372	
Segment 2000C	2	Test 23 miles	\$4,602	\$27,402
Segment 2000D	2	Test 14 miles	\$6,084	\$29,638

Applicants explained that, in complying with the Commission's directive to obtain "the greatest amount of safety value, i.e., reducing safety risk, for ratepayer expenditures,"²³ Applicants have included certain "incidental" and

²⁰ See A.17-03-021 at 8 (Table 1) for the list of PSEP projects presented in this Application, and their forecasted costs.

²¹ Applicants explained in their application that while the Decision Tree analysis outcome was to replace this segment of Line 127, Applicants' analysis of the pipeline characteristics and related documentation suggests that non-destructive examination (NDE) would provide a reasonable level of assurance at a significantly lower cost to ratepayers. Applicants indicated that although they are prepared to replace this segment in accordance with the Decision Tree principles (and have included the cost therefor herein), Applicants request that the Commission review the alternative presented in Ronn Gonzalez's testimony (Applicants' Exhibit SGC-03 Section VII) and accompanying workpapers and provide guidance to Applicants as to preference between NDE and replacement.

²² Per Applicants, the total estimated Operations and Maintenance cost of the alternative NDE option presented is approximately \$911,000.

²³ See D.11-06-017 at 22.

“accelerated”²⁴ miles in the proposed scope of work. Applicants explained that, according to Applicants’ Exhibit SGC-01 (direct testimony of Hugo Mejia), their workpapers contained details of the scope of each project, the mileage to be addressed, and specific proposals for completing each project, per the Commission-approved Decision Tree in D.14-06-007 at 56. Applicants included justification for each project, and included descriptions of alternatives considered. As relevant, Applicants’ workpapers described plans for how Applicants will maintain service to customers while the projects are underway.²⁵

Applicants explained that their workpapers included detailed cost estimates for each project, and a proposed schedule based on a Seven Stage Review Process Applicants developed and have utilized to implement prior PSEP projects. The schedules are continually being updated as the projects are developed and evaluated. Applicants explained that their cost estimates included costs associated with project management, engineering and design, environmental permitting, land acquisition, material and equipment procurement, and construction, and further account for site mobilization, site facilities and management, materials, site activities, scope of work, pressure

²⁴ Applicants explained that “Accelerated” miles include segments that would otherwise be addressed in a later phase of PSEP under the Decision Tree prioritization process but are advanced in order to realize operating and cost efficiencies. “Incidental” miles are not scheduled to be addressed in PSEP but are included within the scope of work where it is determined addressing them improves cost and program efficiency, addresses implementation constraints, or facilitates the continuity of testing. That is, “any Phase 2B segments proposed to be addressed as part of the projects proposed in this Application are so proposed in order to improve cost and program efficiency, address implementation constraints, or facilitate the continuity of testing; i.e., there are no standalone Phase 2B projects proposed in this Application,” per Applicants. According to Applicants, these miles are specifically identified in their Application and/or supporting workpapers. (Application at 9 and Footnote 37.

²⁵ A.17-03-021 at 9.

testing, tie-ins, removal of existing pipeline activities, site restoration, field overheads, and support, among others.²⁶

3.2. Forecasted Costs and Revenue Requirements to Implement PSEP Projects

Applicants indicate that they “fully loaded and escalated forecasted costs” for the twelve Commission-ordered PSEP projects included in this Application are \$197.5 million for capital and \$57 million for O&M, for a total of \$254.5 million inclusive of engineering and design costs incurred to date. Per the Application, the forecasted costs translate to a cumulative forecasted 2019 revenue requirements of approximately \$44.6 million for SoCalGas and approximately \$562,000 for SDG&E, for total 2019 revenue requirements of approximately \$45.1 million (without Franchise Fees and Uncollectibles (FF&U) to be amortized in January 1, 2019 rates.²⁷ Applicants’ Exhibit SCG-06 (direct testimony of Karen Chan) includes the derivation of the annual revenue requirements for each of the Applicants.

The forecasted costs include all applicable costs associated with supporting the PSEP organization and PSEP project execution (referred to as General Management and Administration (GMA) costs), as described in the Applicants’ Exhibit SGC-05 (direct testimony of Jose Pech); incremental company overheads as described in Applicants’ Exhibit SGC-06; and actual planning and engineering design costs incurred to date, as described in the Applicants’ Exhibit SGC-03 (prepared direct testimony of Ronn Gonzalez).

²⁶ See A.17-03-021 at 11.

²⁷ Applicants’ Exhibit SGC-06 shows PSEP related costs of \$6.8, \$0.8, and \$38.4 million (with FF&U) in 2017, 2018 and 2019, respectively, for a combined total \$46 million to be recovered in January 1, 2019 rates, and while Applicants’ Exhibit SGC-06 discusses the revenue requirements without FF&U, the illustrative rates in Section D of the Application include FF&U.

Applicants' forecasts are based on certain assumptions detailed in the workpapers for each project and in Applicants' Exhibits SGC-03 and Applicants' Exhibit SGC-05. As described in the workpapers and testimony, factors considered includes project duration, construction method, environmental considerations, and that use of the Performance Partnership Program or other competitive sourcing methods will drive cost savings.

Finally, Applicants explained that they appropriately excluded, from the forecasted amounts provided in this Application, disallowances ordered by the Commission in the associated revenue requirements or rate calculation. Specifically, the twelve projects included in this Application do not implicate disallowances pertaining to: (a) testing or replacing post-1955 vintage pipelines (per D.14-06-00 at pp. 56-57); (b) executive incentive compensation (per D.14-06-007, at pp. 57-58 and Conclusions of Law 16 and 25); and (c) costs associated with searching for records of pipeline testing (per D.14-06-007 at 4 and 56, and Conclusion of Law 13).

3.3. Requested Proposed Regulatory Accounting Treatment of Costs

Applicants request balancing account treatment of actual total costs incurred in executing the twelve projects proposed herein, including the associated forecasted total revenue requirements on an aggregate basis. Applicants argue that balancing account treatment is consistent with Applicants' prior PSEP cost recovery, and promotes fairness to both ratepayers and Applicants for the Commission-mandated PSEP work.²⁸ According to

²⁸ In D.14-06-007, the Commission earlier authorized Applicants to create SECCBAs and SEEBAs to record costs associated with Applicants' Phase 1 projects, and In D.16-08-003, the Commission permitted Applicants to implement fifty-percent interim rate recovery with respect to the SEEBAs and SECCBAs, subject to refund in reasonableness review proceedings, among others. See D.16-08-003 at 16, 8 and 14, Ordering Paragraph 1, respectively.

Applicants, if actual costs of the PSEP projects fall short of forecasted expenditures, then ratepayers will benefit from Applicants' increased efficiencies and savings. Finally, Applicants argue that because unanticipated circumstances are nearly impossible to predict, it would be fair for costs above forecast to be borne by ratepayers as these Commission-ordered safety enhancements will result in tangible ratepayer benefits.²⁹

3.4. Requested Authorization to Implement Rate Recovery

Applicants explain that, they "fully loaded and escalated" forecasted costs for the twelve projects included in this Application, which are \$197.5 million for capital costs (including depreciation, taxes and return associated with the cost of the PSEP assets and \$57 million for operating and maintenance costs (including engineering and design costs incurred to date), which translate to a 2019 revenue requirements of approximately \$44.6 million for SoCalGas and approximately \$562,000 for SDG&E.

As authorized in D.14-06-007,³⁰ Applicants propose to allocate the revenue requirements consistent with the existing cost allocation and rate design for transportation rates, including allocation to the backbone function.³¹ Thus, PSEP costs associated with high pressure distribution costs will be allocated using the existing marginal demand measures for high pressure distribution costs.³²

According to Applicants' Exhibit SCG-09 (direct testimony of Sharim Chaudhury), the above costs will be amortized in transportation rates over a 12-month period commencing January 1 the year following the Commission's

²⁹ See D.90-09-088 at 6; D.97-08-055 at 54; and D.14-07-007 at 36.

³⁰ See D.14-06-007, at 50, 61; and Ordering Paragraph 9.

³¹ See Application 17-03-021 at 16 (Table 2).

³² See D.16-12-063, at 59.

decision on this Application. Finally, Applicants propose to implement rates by filing advice letters showing the illustrative rate impacts of these costs.³³

According to Applicants' Exhibit SCG-06 and Applicants' Exhibit SCG-07,³⁴ as projects are completed, Applicants will calculate on an aggregate basis for each year, and incorporate in rates the difference between actual capital-related and O&M costs and the associated revenue requirements adopted herein, until assets are rolled into authorized rate base in connection with each of the Applicants' respective General Rate Cases, and if there are differences between the two, they will be addressed in Applicants' annual regulatory account balance update filing, as appropriate, for rates effective January 1 of the following year.

4. Jurisdiction and Standard of Review

Pursuant to Pub. Util. Code § 451 "every public utility shall furnish and maintain such adequate, efficient, just, and reasonable service, instrumentalities, equipment, and facilities, . . . as are necessary to promote the safety, health, comfort, and convenience of its patrons, employees, and the public," and all rates and charges collected by a public utility must be "just and reasonable." Per § 454, a public utility may not change any rate "except upon a showing before the commission and a finding by the commission that the new rate is justified."

To enforce the above requirements, the Commission requires public utilities to demonstrate with admissible evidence that the costs they seek to include in their revenue requirements are reasonable and prudent. Accordingly,

³³ See Application at 17, Table 3.

³⁴ Direct testimony of Karen Chan, and Reginald Austria, respectively.

Applicants bear the burden of affirmatively establishing the reasonableness of all aspects of their requests herein.³⁵ That is, Applicants must demonstrate that the revenue requirements proposed herein for executing the 12 PSEP projects are just and reasonable, in light of the Commission's requirements that Applicants furnish and maintain adequate, efficient, just, and reasonable service, instrumentalities, equipment, and facilities as "necessary to promote the safety, health, comfort, and convenience of its patrons, employees, and the California public."

As this is a ratesetting proceeding, the applicable standard of proof in this proceeding is that of a preponderance of evidence. Preponderance of the evidence is typically defined "in terms of probability of truth, e.g., such evidence as, when weighed with that opposed to it, has more convincing force and the greater probability of truth."³⁶

In this proceeding, Applicants have the burden of affirmatively establishing the reasonableness of all aspects of the application and requests, and Applicants must meet the burden of proving that they are entitled to the relief sought. In order to meet their burden of proof, Applicants must present stronger evidence in support of the requested results than the evidence that would support an alternative outcome. In order to succeed in their requested relief,

³⁵ See, D.14-06-007 at 12, 55 (Conclusion of Law 3).

³⁶ See *Witkin*, Calif. Evidence, 4th Edition, Vol. 1, 184; also, see also D.12-12-030, at 44 (*Decision Mandating Pipeline Safety Implementation Plan, Disallowing Costs, Allocating Risk of Inefficient Construction Management to Shareholders, and Requiring Ongoing Improvement in Safety Engineering.*); and D.14-07-007 at 13.

Applicants need to show that their proposal, and/or revenue requirements are just and reasonable, and that the requested relief is supported by admissible evidence that outweighs other evidence in this record that would have supported an alternative outcome.

We observe that here, in order for Applicants to meet their burden of proof, Applicants do not have to show that the other parties' position is unreasonable, untenable or impossible to accept as persuasive, but simply that Applicants' evidence is more convincing.³⁷ That is, the Applicants' evidence must be more convincing than other evidence that would support an alternative outcome.

We have analyzed the record in this proceeding within these parameters done in other PSEP cases (including D.12-12-030 and D.16-08-003) which authorized cost recovery for prior PSEP projects, and we have come the conclusion that Applicants met their burden of proof regarding most of the requested relief in the Application, except for requests pertaining to two-way balancing accounts for the PSEP projects costs.

5. Issues to be Determined in this Proceeding

The Scoping Memo identified the following 18 issues as the issues to be determined in this proceeding:

³⁷ "The claim must be proved not only by evidence but also by the greater weight of the evidence. This is known as the **preponderance of the evidence**. **Preponderance of the evidence** does not **mean** the greater number of witnesses but the greater weight and the convincing character of the evidence that is introduced. * * * .! [*Southern Pacific Co. v. Raish*, 205 F.2d 389, 394, 1953 U.S. App. LEXIS 2590, *10.]

- i. Whether Applicants' application of the Commission-approved Decision Tree to Phase 2 of PSEP is appropriate;
- ii. Whether Applicants' forecasts of costs associated with the completion of the nine Phase 1B projects presented in the Application are reasonable;
- iii. Whether Applicants' forecasts of costs associated with the completion of the three Phase 2A projects presented in the Application are reasonable;
- iv. Whether Applicants should be permitted to conduct non-destructive examination of a segment of Line 127 rather than replacing it as provided in the Decision Tree;
- v. Whether the forecasted revenue requirements associated with the twelve projects in the Application are just and reasonable, and may be recovered by Applicants in rates;
- vi. Whether Applicants' proposed regulatory accounting treatment of forecasted and actual costs, on an aggregate basis, associated with the twelve projects in the Application is appropriate;
- vii. Whether Applicants may file the proposed preliminary statements submitted with the Application to create certain balancing accounts;
- viii. Whether Applicants may subdivide the existing SECCBA accounts into the two subaccounts proposed in the Application;
- ix. Whether Applicants may subdivide the existing SEEBA accounts into the two subaccounts proposed in the Application;
- x. Whether Applicants may create two new balancing accounts for Phase 2 as proposed in the Application, and transfer costs tracked in the Pipeline Safety Enhancement Memorandum Accounts (PSEPMA) into these new balancing accounts;

- xi. Whether Applicants' proposal in the Application for allocating the revenue requirements by functional area is consistent with prior Commission directive;
- xii. Whether Applicants may implement in transportation rates, through a Tier 1 Advice Letter, the revenue requirements associated with the twelve projects proposed in this Application effective January 1 of the year following a decision on the Application;
- xiii. Whether Applicants may balance, on an aggregate basis, the actual capital and O&M costs with the associated forecasted revenue requirements, and whether they may address differences in the Applicants' Annual Regulatory Account Balance Update Tier 2 Advice Letter filing with the Commission;
- xiv. Whether Applicants may recover the ongoing capital-related revenue requirements associated with the capital expenditures approved in this proceeding through a Tier 2 Advice Letter until such costs are incorporated in base rates in connection with Applicants' next general rate case;
- xv. Whether the information provided by Applicants adequately supports the inclusion of accelerated and incidental miles in the forecast;
- xvi. Whether Applicants should be required to provide specific cost information (e.g., inputs and outputs of the estimating tools, assumptions, and other methods of forecasting costs) in support of the requested funding and/or forecasted costs for its projects;
- xvii. Whether Applicants should be required to provide cost comparisons of similar or previous work done by Applicants or other utilities, in order to determine whether Applicants based cost estimates for the PSEP projects upon similar work in the industry; and

- xviii. Whether Applicants should proceed with the execution of nine Phase 1B projects previously approved by the Commission and three Phase 2A projects in compliance with D.11-06-017, and recover the total associated revenue requirements (\$197.5 million in capital-related costs and \$57 million in operations and maintenance costs) in customer rates.

6. Positions of the Parties

6.1. The Public Advocates Office of the Public Utilities Commission (Cal Advocates)

Cal Advocates recommends a reduction of approximately \$42 million in capital costs and \$22.7 million in O&M forecasted costs, for total recovery of \$189.8 million,³⁸ contending that the requested approximately \$197.5 million in forecasted capital costs and \$57 million in forecasted O&M costs, a total request of \$254.5 million, is too high.

Cal Advocates contends that its forecasting model and analysis used conservative assumptions and extensive data on recently completed pipeline projects in California, including “multiple-regression models to predict the total cost of replacement projects based on historical data and certain predictive factors like project length and pipeline diameter.”³⁹

Cal Advocates explained that it determined that: (1) the use of models is suitable and useful for predicting project costs; and (2) these costs are representative of future replacement project costs; and that its assumptions were based on analysis of data that Cal Advocates gathered from pipeline replacement

³⁸ See ORA Exhibit-01 (Executive Summary) at 3; ORA Exhibit-03 (Replacement Project Costs) at 6 (Table 1); ORA Exhibit-04 (Hydrotest Project Costs) at 9 (Table 1).

³⁹ Cal Advocates explained that multiple regression models describe how a single dependent variable, in this case the total cost of a replacement project, depends on a number of predictor variables. (See Cal Advocates’ Opening Brief at 2.

and hydrotest projects completed over an approximately five-year period, throughout California. Cal Advocates contends that its model reflected the variations that could be expected from a wide array of natural circumstances.⁴⁰ Cal Advocates explained that, to establish its model, it created a database with input data (on which regressions were run for the replacement model) by compiling data on actual replacement and hydrotest costs incurred in PSEP work completed pursuant to Commission directives between 2011 and 2016, by California utilities, including PG&E, SoCalGas/SDG&E, and Southwest Gas.

Cal Advocates explained that its database had 429 completed PSEP hydrotest and replacement projects that were used for the development of the linear regression model and other statistical analyses; and that only projects consisting solely of replacement projects were used in linear regression for determining replacement project costs, while both “strictly hydrotest and mixed hydrotest and replacement projects were included in the hydrotest cost analysis.”⁴¹

Cal Advocates used a “statistical analysis method called linear regression” to find an appropriate replacement cost model, which it believes produces more accurate and project-specific predictions than a simple average.⁴² According to Cal Advocates, multiple cost models of different forms, with different predictor variables, and with different exclusions were considered, with each model evaluated based on its satisfaction of the regression assumptions, the quality of the model fit to the data, and its predictive power. Cal Advocates submits that its cost predictions were generated by evaluating the fitted model at the values of the predictor variables provided in the Applicants’ workpapers, and “prediction

⁴⁰ See ORA Exhibit-02 (Statistical Models and Data) at 1-2.

⁴¹ Cal Advocates’ Opening Brief at 3

⁴² See ORA Exhibit-02 at 4-6.

intervals at the 90% cumulative probability level were calculated for each of the proposed projects.”⁴³ Cal Advocates contends that it determined that the most suitable model of the options evaluated for predicting replacement costs was a robust linear regression model, with the length and diameter as the predictor variables;⁴⁴ and that using this model, prediction intervals were calculated at the 90% cumulative probability that a future project’s cost would fall at or below that upper bound.⁴⁵

Regarding hydrotest costs, Cal Advocates argues that none of the linear regression options explored for hydrotest costs was suitable as predictive models since they failed to be significantly more accurate than a simple average. Thus, in place of a regression-based predictive model, Cal Advocates performed an analysis of historical hydrotest costs based on its database of PSEP projects. Cal Advocates’ analysis calculated an historical per-mile cost for projects of a representative length of those presented in Applicants’ application. Cal Advocates contends that the median of hydrotest projects with a length greater than three miles⁴⁶ was the most suitable prediction of cost due to the desire to balance sufficiently-long projects (similar to those in the Application) with a sufficiently large dataset. Here also, prediction intervals at the 90% cumulative probability level were calculated for the data using a non-parametric method;⁴⁷ and based on the prediction intervals of historical per-mile hydrotest costs and

⁴³ See ORA Exhibit-02 at 6-7.

⁴⁴ See ORA Exhibit-02 at 8-9 and Appendix A, Table A-1; ORA Exhibit-05 at 1-15.

⁴⁵ See ORA Exhibit-02 at 9-10.

⁴⁶ The focus was on the total length of a project, rather than individual segments of a project. See, e.g., 2 RT 269:23-28 (ORA/Molla) (“My statement about regarding the cut-off of three miles, we did our analysis on a per-project basis, not on a per-segment basis so it would have been irrelevant whether the segments included in these projects were less than three miles.”)

⁴⁷ See ORA Exhibit-02 at 10-12 and Appendix A, Table A-2. Non-parametric prediction intervals are those that do not assume any underlying distribution of the data. See ORA Exhibit-07 (Supporting Attachments), p. 52 for a more detailed explanation of the method; see ORA Exhibit-05 (Workpapers) at 24 for the calculated prediction intervals.

the 90th percentile ranking of historical per-mile costs, Cal Advocates recommended an upper threshold of approximately \$1.216 million/mile for the hydrotest projects in this Application.

In explaining its recommendations, and why the Commission should adopt them, Cal Advocates stated that it is “aware of the limitations of its numerical models as applied to the real world,” and as such it took reasonable steps to build “conservative assumptions into its pressure test analysis,”⁴⁸ including “the inclusion or use of higher per-mile cost values rather than lower, and methodological approaches and techniques that lead to a wider prediction interval range and a higher maximum threshold even when a lower threshold or narrower range may be acceptable or reasonable”⁴⁹

Cal Advocates explained that it applied the following assumptions in its analysis: (1) use of 90% cumulative interval to increase confidence that the per-mile cost accurately reflects real-world conditions; (2) inclusion of mixed hydrotest/replacement projects; (3) use of a small-length dataset;⁵⁰ and (4) use of Phase 1A projects data, including those completed by PG&E and Applicants. Cal Advocates incorporated data from PSEP projects completed in urban areas and those involving shorter lengths, thus making them comparatively, on average, more expensive on a per-mile basis than proposed Phase 1B or Phase 2 PSEP projects herein,⁵¹ while not factoring in expected cost improvement over time due to expertise and/or experience gained by Applicants in completing prior PSEP projects.⁵²

Cal Advocates concludes that Applicants’ forecasted costs for the PSEP

⁴⁸ See ORA Exhibit-04 at 9.

⁴⁹ ORA Exhibit-04 at 10.

⁵⁰ ORA Exhibit-04 at 11.

⁵¹ ORA Exhibit-04 at 11.

⁵² ORA Exhibit-04 at 12; 2 RT 332:25-28 to 333:1-9.

project presented herein are too high, and as such the Commission should adopt its cost forecasts for the PSEP projects rather than those proposed by Applicants.

Finally, Cal Advocates recommends that Applicants' hydrotest project O&M costs should be subject to one-way balancing account treatment, rather than two-way balancing account treatment. A one-way balancing account would not allow Applicants to collect ratepayer funds for costs above the permitted forecasted values, but would require Applicants to refund any cost savings from those projects to ratepayers.⁵³

Finally, Cal Advocates explained that it did not take a position in its prepared testimony regarding balancing account treatment of other O&M costs⁵⁴ or capital costs related to Applicants' proposed replacement or hydrotest projects, but acknowledged that it is aware of TURN and SCGC's recommendation that the Commission deny balancing account treatment for all O&M and capital-related revenue requirements associated with the PSEP projects at issue in this proceeding.⁵⁵ Cal Advocates indicated that it does not oppose TURN/SCGC's recommendation.

Lastly, Cal Advocates clarifies that it is taking no position on the following issues set forth in the Scoping Ruling:⁵⁶ (1) Issue 1 - whether Applicants' application of the Commission-approved Decision Tree to Phase 2 of PSEP is appropriate; (2) Issue 4 - whether Applicants should be permitted to conduct

⁵³ ORA recommends that such an approach be used regardless of the ultimate per-mile or total project cost that the Commission authorizes, because "since O&M costs are generally a 'pass-through' to ratepayers, ratepayers should not be required to pay for forecasted costs that are higher than predicted. Nor should ratepayer dollars be passed on to shareholders if the utilities are able to perform the hydrotesting work at a lower cost than predicted." (See, Cal Advocates' Opening Brief at 12-13; and ORA Exhibit 04 at 12-13)

⁵⁴ There is an NDE alternative to the Line 127 replacement project. The NDE option has an estimated O&M cost of \$911,000. See Amended Application at 8, Table 1 and fn. 35; Applicants' Exhibit SCG-03 at 11.

⁵⁵ Citing, TURN/SCGC Exhibit -01 at 4-5.

⁵⁶ See Scoping Ruling at 5-6.

non-destructive examination of a segment of Line 127 rather than replacing it as provided in the Decision Tree; (3) Issue 11 - whether Applicants' proposal in the Application for allocating the revenue requirements by functional area is consistent with prior Commission directive; and (4) Issue 12 - whether Applicants may implement in transportation rates, through a Tier 1 Advice Letter, the revenue requirements associated with the twelve projects proposed in this Application effective January 1 of the year following a decision on the Application.

6.2. The Utility Reform Network and the Southern California Generation Coalition (TURN-SCGC)

TURN and SCGC (hereinafter, TURN-SCGC) collaborated in this proceeding to submit joint testimony and briefs.⁵⁷ TURN-SCGC recommend that the Commission authorize: (1) a forecast of \$117,452,580 for the eight pipe replacement projects (a reduction of \$28,669,552; (2) forecast of \$38,847,535 for the two hydrotest projects (a reduction of \$28,877,498); and (3) a forecast of \$15,151,257 for the two de-rate and/or abandonment projects (a reduction of \$12,154,426). In summary, TURN-SCGC recommends a disallowance of \$44,288,856 in capital and \$24,252,126 in O&M expenses for the PSEP projects, "modified by the appropriate addition of proportionate AFUDC/Taxes."

In support of its positions, TURN-SCGC argues that unlike non-regulated private enterprises, the monopoly utility does not need to worry about any

⁵⁷ In their Opening Brief, TURN-SCGC explained that they represent "the interests of residential and small commercial customers of the Sempra Utilities," and "the interests of electric generation customers of SoCalGas," respectively, and both have collaborated together to provide more reasonable forecasts of costs and ratemaking treatment. (See TURN-SCGC's Opening Brief, at 1, Footnote 2) They explained that their proposals, analyses and recommendations were presented in TURN-SCGC Exhibit 01 (expert testimony of witness Catherine Yap), which is in the record, and that "Ms. Yap has over three decades of experience in utility ratemaking, and specifically in reviewing gas corporation costs and activities." See TURN-SCGC's Opening Brief at 2.

competitive pressures to control costs, such that “the primary task of Commission review and ratemaking is to prevent the utility from earning excess profits due to its monopoly status.”⁵⁸ TURN-SCGC contends that the Commission must first review forecasted costs to prevent Applicants from making inflated forecasts since ratepayers will be paying rates based on those forecasts; and then secondly, the Commission must place the risk that actual costs will be higher or lower than forecast on the Applicants, thus providing the Applicants with an incentive to manage costs in the absence of any competitive pressures. Thus, TURN-SCGC recommend that the Commission entirely deny Applicants’ request for balancing account protection for the capital and O&M expenses for these projects.

TURN-SCGC pointed out that the key dispute in this case concerns the forecasted costs for the PSEP projects presented in this Application, in addition to the question of cost recovery with or without balancing accounts discussed above. TURN-SCGC argued that while Applicants have developed and modified a project cost estimation tool that they used to forecast costs for each individual project, and claim that their project-specific estimation is the most accurate way to forecast costs for projects that each have its own unique characteristics, Applicants’ tool is a mere “laundry list of all possible cost drivers that depends on subject matter experts providing inputs regarding the time and costs based on numerous project characteristics.”⁵⁹ Thus, TURN-SCGC conclude that while the forecasting model has likely improved over time, Applicants’ outputs remain greatly dependent upon subjective considerations or assumptions regarding project characteristics.

⁵⁸ TURN-SCGC’s Opening Brief at 3.

⁵⁹ TURN-SCGC’s Opening Brief at 4-5.

In conclusion, TURN-SCGC argues that, they and Cal Advocates separately, used two different approaches to benchmark project costs against the actual historical costs of other projects, and that while TURN-SCGC' witness (Cathy Yap) considered only approximately 30 PSEP projects completed by the Applicants over the past four years and developed a "cost per mile" benchmark for each proposed project by comparing it to completed projects with similar characteristics considering pipeline diameter, terrain, and degree of urbanization; Cal Advocates considered PSEP projects completed by SCG/SDG&E, Southwest Gas and PG&E, consisting of over 400 projects.⁶⁰ It pointed out that Cal Advocates' upper bound cost figure is \$118.6 million, only one million more than TURN-SCGC's project-specific benchmark forecast of \$117.4 million for pipe replacement, and that while Cal Advocates did not develop a regression equation for the two hydrotest projects, Cal Advocates recommended using the median per mile cost from all historical projects, resulting in a forecast of \$45.0 million for the two projects, compared to TURN-SCGC's forecast of \$38.8 million based on benchmarking.

Thus, TURN-SCGC submitted that their Opening Brief, written testimony, accompanying exhibits, as well their expert's oral testimony at hearings show that the Commission can ensure both safety, as well as just and reasonable rates, by authorizing revenue requirements using lower cost forecasts more reasonably based on actual historical costs, and denying Applicants the benefit of total balancing account protection, "which would obviate any incentive for the company to manage ongoing costs in its monopoly operation of the gas system."⁶¹

⁶⁰ Citing, ORA Exhibit -02 at 3.

⁶¹ TURN-SCGC's Opening Brief, at 2.

6.3. Southern California Gas Company and San Diego Gas & Electric Company (Applicants)

Applicants explained that they have a singular objective in this proceeding, which is to obtain authorization and sufficient funding to comply with the Commission's directive to execute PSEP safety enhancement projects "as soon as practicable;"⁶² and that through this Application, they request authority to recover in rates the forecasted revenue requirements to complete twelve PSEP projects and seek a mechanism to record and balance the costs of continuing to implement the Commission-mandated PSEP projects.⁶³

Although not required, Applicants indicated that they included detailed project scopes and cost estimates for two Phase 1B projects in the Application to allow Intervenors an opportunity to review Applicants' plans to address these pipelines prior to completing construction.⁶⁴

In support of this Application, Applicants contend that they "prepared detailed cost estimates following detailed project-specific engineering, design, and planning work - which was specifically authorized by the Commission in its decision on A.15-06-013, and was unopposed by [Cal Advocates, TURN, and SCGC - the Parties or "Intervenors"] for the Phase 2 safety projects included in the Application."⁶⁵

⁶² *Citing*, D.11-06-007 at 19.

⁶³ *Citing*, D.11-06-017 at 31; and Pub. Util. Code §§ 957, 958.

⁶⁴ That is, "because the Commission has already authorized Applicants to complete Phase 1 work and further authorized Applicants to record Phase 1 costs in two-way balancing accounts" in D.14-06-007 at 22, 26-27, it is not required to include Phase 1B projects in the scope of this Application.

⁶⁵ *Citing*, D.16-08-003 at 1, which provides: "On June 17, 2015, Southern California Gas Company (SoCalGas) and San Diego Gas & Electric Company (SDG&E) (applicants) filed this application seeking authorization to proceed with Phase 2 of their Pipeline Safety Enhancement Plan (PSEP) and to establish memorandum accounts to record approximately \$22 million in planning and engineering design costs." "Today's decision grants the applicants' unopposed request for memorandum accounts....". *See also, id.* at 13 (Conclusion of Law 1), 14 (Ordering Paragraph 1).

In their Opening Brief, applicants argue that having had the opportunity to review the twelve PSEP projects, the Intervenors have not opposed: (1) the scope of work proposed by Applicants;⁶⁶ (2) the engineering activities Applicants have engaged in;⁶⁷ (3) the construction methods proposed by Applicants,⁶⁸ or (4) the inclusion of accelerated or incidental miles in this Application.⁶⁹ Thus, Applicants contend that, after their extensive engagement in engineering, design and planning work needed to prepare the detailed cost estimates that form the basis for Applicants' request in this proceeding,⁷⁰ the Intervenors should not be allowed to "take a step backward" and instead base funding for the twelve unique projects presented for review in this proceeding on rudimentary non-project-specific cost estimates offered by the Intervenors. Doing so, Applicants argue, would require the Commission to ignore the detailed project-specific engineering, design and planning work that Applicants undertook – after receiving express authorization from the Commission to do so and receiving no opposition from Intervenors – to prepare detailed project-specific scopes of work and cost estimates for Commission and Intervenor review.

Separately, Applicants point out that, while the Intervenors' cost proposals on an aggregate basis are significantly lower than the project-specific Class 3 estimates prepared by Applicants, they also demand regulatory accounting

⁶⁶ Hearing Transcript at 285:12-23, 310:5-21.

⁶⁷ *Id.*

⁶⁸ *Id.*

⁶⁹ Cal Advocates does not oppose the inclusion of accelerated or incidental miles.

TURN-SCGC recommend that Applicants be required to attest that "each of the projects included in this application, any Phase 2B mileage that they recommend including in a project is included solely to minimize the cost of conducting the Phase 1B or Phase 2A pressure test, replacement, de-rate, or de-rate with abandonment project." See TURN/SCGC Exhibit 01 at 2.

⁷⁰ D.16-08-003 at 1; Applicants' Exhibit SCG-19-C.

treatment that would have the effect of penalizing Applicants if the reasonable costs of executing safety enhancement work for the benefit of ratepayers exceed the rudimentary estimates proposed by Intervenor, by denying Applicants two-way balancing accounts treatments for the PSEP costs.⁷¹ Applicants assert that this would be unreasonable and contrary to what the Commission contemplated in mandating PSEP, i.e., "to strike a fair balance between ratepayers and shareholders."⁷² Accordingly, Applicants believe that the two-way balancing accounts for the PSEP project costs are equitable and consistent with Commission precedent in Phase 1 of PSEP,⁷³ such that ratepayers pay no more than the actual costs of executing PSEP projects, and Applicants are not penalized for shortfalls in their cost projections. Thus, Applicants argue that the Commission should approve each of their various requests in this Application, including their requests for two-way balancing accounts for the PSEP projects costs, as presented in their "summary of recommendations" on pages iv-v of their Opening Brief.

7. Resolution of the Issues

While each of Applicants' requests will be specifically clarified, discussed and/or authorized below based on the issues as identified in the Scoping Memo, we find it expedient and helpful here to present a summary of the record in this proceeding with respect to the scoping issues. For ease of reference and resolution, this section is sub-divided into two categories, vis-à-vis, "Undisputed Issues" and "Disputed Issues", as follows

⁷¹ D.11-06-017 at 31; Pub. Util. Code §§ 957, 958.

⁷² Citing, D.14-06-007 at 19, and 22.

⁷³ D.14-06-007 at 22, 26-27.

7.1. Undisputed Issues 1, 4, 11, 12, 15, 16, and 17

Based on this record, certain issues and requested relief are undisputed, either because the parties offered no conflicting evidence on the issues or the parties have not opposed the requested relief pertaining to those issues as contained in the Application..

Applying this standard, we find that Applicants established, and no party presented any evidence to the contrary, that the twelve projects in the application are within the scope of PSEP.

We find that Applicants' request for approval of their Phase 2A Decision Tree is consistent with the Commission-approved Decision tree in D.14-06-007. The Phase 2A Decision Tree presented in this Application utilized a step-by-step analysis to determine whether pipeline segments should be tested or replaced, as approved by the Commission for Phase 1 in D.14-06-007.⁷⁴ We are persuaded that the implementation of the Phase 2A Decision Tree will not interrupt service to core customers, and that Applicants will work with noncore customers to prevent avoidable outages. Finally, we find that Applicants have, and will consider costs and engineering factors, along with the improvement of the pipeline asset, in executing the Phase 2A PSEP projects.⁷⁵

We conclude that Applicants established by a preponderance of the evidence that "incidental" and "accelerated" miles are reasonably included in the twelve projects presented in this Application, as further discussed below, and we find that the inclusion of Phase 2B PSEP miles in this application is justified.

We agree with Applicants that the Phase 1B projects included in this application were previously approved for execution by the Commission in D.14-06-007, with direction to Applicants to submit/file annually for

⁷⁴ See D.14-06-007 at 59 (Ordering Paragraph 1).

⁷⁵ See Applicants' Exhibit SCG-01 at 10-13.

after-the-fact reasonableness review of the costs of completed projects which costs were ordered by the Commission to be recorded in the two-way balancing accounts: Phase 1 Safety Enhancement Capital Cost Balancing Account (P1-SECCBA); and the Phase 1 Safety Enhancement Expense Balancing Account (P1-SEEBA), pursuant to D.14-06-007 at 60, Ordering Paragraphs 4 and 5.

Finally, we clarify that this decision does not change the balancing accounts treatment for previously completed Phase 1 PSEP projects and associated costs ordered in D.14-06-007 to be recorded in the P1-SECCBA and P1-SEEBA for purposes of after-the-fact reasonable reviews of such completed Phase 1 projects.⁷⁶

To explain the above findings and conclusions, we must first note here that the scope of work for the twelve projects, inclusive of accelerated and incidental miles, as presented in Applicants' Opening Brief at 16-17 is as follows:

Table 2
Scope of PSEP Projects
Incidental and Accelerated Mileage

Project	Project Length	Accelerated Miles	Incidental Miles	Reason for Inclusion
Line 127	15 Feet	0	0	N/A
Line 7043	7.5 Feet	0	2 Feet	Constructability
Line 36-37 Section 11	7.635 Miles	264 Feet	0	Constructability
Line 36-1001/45-1001	1.579 Miles	0	.35 Miles	Re-route to avoid mountainous terrain and environmentally sensitive habitats
Line 38-514	1.387 Miles	0	26 Feet	Constructability

⁷⁶ In contract, the forecasted costs and/or revenue requirements authorized in this decision are for yet-to-be-completed twelve PSEP projects, and thus only one-way balancing account treatment is authorized herein in order to impose discipline and/or incentive on Applicants to manage their forecasted costs for the twelve projects which are fully authorized herein.

Line 38-960	6.112 Miles	21 Feet	0	Constructability
Line 43-121	.258 Miles	0	48 Feet	Constructability
Line 38-556	5.571 Miles	0	37 Feet	Constructability
Total Replacement	22.546 Miles	285 Feet	1,961 Feet	
Line 36-37 Section 12	30.916 Miles	5.708 Miles	4.574 Miles	Necessary in order to de-rate/abandon the entire section
Line 36-1002	16.683 Miles	6.797 Miles	8.116 Miles	Necessary in order to de-rate/abandon the entire section
Total De-Rate / Abandon	47.599 Miles	12.505 Miles	12.69	
Line 2000 C	22.910 Miles	0	174 Feet	Constructability
Line 2000 D	14.038 Miles	.352 Miles	0	Constructability
Total Pressure Test	36.948 Miles	.352 Miles	174 Feet	

Based on the above table, we accept Applicants' uncontested testimony that the incidental and accelerated miles in the twelve projects account for approximately 1.9% of total replacement project miles (.425/22.546 miles) and approximately 1% of total pressure test project miles (.385/36.981 miles),⁷⁷ and that 94% (1,848 feet of 1,951 feet) of incidental miles included in replacement projects are included in the Line 36-1001/45-1001 replacement project based on re-routing of the project to avoid mountainous terrain and environmentally sensitive habitats.⁷⁸ According to Applicants, the remaining 113 feet of incidental mileage was included in four replacement projects (Lines 7043, 38-514, 43-121, 38-556) for constructability purposes;⁷⁹ and the 174 feet of incidental mileage

⁷⁷ See Applicants' Exhibit SCG-10, Workpaper Summary (immediately prior to WP-II-A1.)

⁷⁸ Applicants' Exhibit SCG-03 at 13; and Applicants' Opening Brief at 16-17.

⁷⁹ See Applicants' Exhibit SCG-10 at WP-II-A11, WP-II-A-40, WP-II-A-59, WP-II-A-69.

included in the Line 2000-C pressure test project were also included for constructability reasons.⁸⁰

We find Applicants persuasive in their argument that including the incidental and accelerated miles in this application meets the Commission-approved prioritization goal, and complies with the Commission's directive to obtain "the greatest amount of safety value, i.e., reducing safety risk, for ratepayer expenditures."⁸¹ Accordingly, we accept Applicants' proposal that the accelerated miles (miles that would otherwise been addressed in a later phase of PSEP under the Decision Tree prioritization process) should be advanced and included here in order "to realize operating and cost efficiencies;"⁸² and that incidental miles (miles which are not scheduled to be addressed as part of PSEP) have been included because Applicants have determined that addressing them improves cost and program efficiency, addresses implementation constraints, or facilitates continuity of testing.⁸³ Applicants argue that both incidental and accelerated miles are included: 1) to minimize customer impacts, 2) in response to operational constraints, or (3) because of the cost and operational efficiencies gained by incorporating them into the project scope rather than executing a project circumventing them.⁸⁴ There is no evidence in this record challenging the veracity of the above assertions by Applicants.

As explained by Applicants, the inclusion of Phase 2B miles in this application is justified because these miles are included for constructability and practical purposes and it would have been "impractical to de-rate or abandon only the Phase 1B segments of this pipeline and circumvent the adjoining

⁸⁰ See Applicants' Exhibit SCG-10 at WP-II-A99.

⁸¹ D.11-06-017 at 22.

⁸² Applicants' Exhibit SGC-03 at 3.

⁸³ Applicants' Exhibit SGC-03 at 4.

⁸⁴ Applicants' Exhibit SGC-03 at 3-4; and Applicants' Opening Brief at 15-17.

incidental and accelerated segments.”⁸⁵ Moreover, Applicants persuasively argue that non-contiguous abandonment is illogical and would require additional equipment and cost to keep those segments operating at the higher MAOP.⁸⁶ Thus, for these and other reasons provided by Applicants,⁸⁷ we conclude that inclusion of the following Phase 2B miles in this application is both justified and appropriate:

(1) Line 36-37 Section 12 de-rating project, including 4.574 incidental miles and 5.708 accelerated Phase 2B miles located between Phase 1B segments;⁸⁸

(2) Line 36-1002 project entailing 16.683 de-rating miles, 1.77 of which are Phase 1B, and 4.987 are Phase 2A;⁸⁹

(3) Line 36-37 Section 11 including 264 feet of Phase 2B pipe appearing in seven segments along the pipeline and mostly located between Phase 1B segments;⁹⁰

(4) Line 38-960, a 6.112-mile replacement project including 21 feet of Phase 2B accelerated pipe that sits between Phase 2B mileage (included for constructability purposes, allowing for one continuous pressure test and eliminating the need for additional tie-in activities and associated costs);⁹¹ and

(5) 14.038-mile Line 2000-D pressure test project including 0.352 miles of accelerated Phase 2B pipe made up of eight separate segments located between Phase 2A pipe subject to testing (included for cost-effectiveness and cost savings, and to minimize customer impacts).⁹²

⁸⁵ Applicants’ Exhibit SGC-02 (Mejia, Rebuttal) at 4.

⁸⁶ Applicants’ Exhibit SGC-02 at 4.

⁸⁷ See Applicants’ Opening Brief at 15-18, for various contentions regarding the scope of the PSEP.

⁸⁸ See Applicants’ Exhibit SGC-02 at 3-4; and Exhibit SGC-10 at WP-II-A80.

⁸⁹ See Applicants’ Exhibit SGC-02 at 4; and Exhibit SGC-10 at WP-II-A90.

⁹⁰ See Applicants’ Exhibit SGC-02 at 4-5.

⁹¹ See Applicants’ Exhibit SGC-02 at 5; and Exhibit SGC10 at WP-II-A49-50.

⁹² See Applicants’ Exhibit SGC-02 at 5; Exhibit SGC-10 at WP-II-A110.

We find that the Applicants' proposal to conduct non-destructive examination of Line 127 rather than replacing the segment as called for by the Decision Tree is reasonable and will save costs without compromising safety. Applicants' proposal for non-destructive examination of Line 127 was based on supported findings, by Applicants, relating to specific pipeline characteristics and documentation pertaining to this segment. As put forward by Applicants, the characteristics considered include: (a) the pipe is seamless; (b) the segment is approximately 15 feet; (c) the segment has a record of a pressure test performed in 1968; (d) the segment is located before a pig launcher; and (e) the segment is located where Line 127 starts within SoCalGas' La Goleta storage facility. Applicants established that because of where the segment is located, it is more easily observed and examined, and replacement of this segment will not enhance system piggability.⁹³

Again here, as noted above, there is no evidence in this record challenging the veracity of the above assertions by Applicants. Further, there is no evidence in this record supporting a conclusion that the scope of work for any of the twelve projects included in this application is not appropriate, and Applicants' arguments regarding the appropriateness of the 12 PSEP projects, including the inclusions of the accelerated and incidental miles and inclusions of Phase 2B miles are found persuasive, and accepted herein.

We find that Applicants met their burden regarding their proposal to allocate the revenue requirements authorized in this decision by functional area. The proposal is consistent with the Commission's decision in D.16-12-063, and is appropriate and should be granted. Finally, we find that Applicants met their burden regarding their unopposed proposal to implement the revenue

⁹³ See Applicants' Exhibit-SCG-03 at 11-12; Exhibit SCG-10 at WP-II-A119-A125.

requirements authorized herein in transportation rates through a Tier 1 advice letter. This is a standard practice, and accordingly, we concluded that Applicants' proposal herein appropriate and should be granted.

Based on the preponderance of the evidence standard (i.e. based on the weight of Applicants' evidence compared to Intervenors' non-opposition and/or failure to produce other evidence of more weight that could support alternative outcomes than the requested reliefs), Applicants met their burden of proof on the following issues, and are thus entitled to the requested relief related to those issues. **Accordingly, based on this record, the following issues/requested relief are unopposed, and accordingly, are to be granted based on the evidence submitted by Applicants:**

- 1) ISSUE 1. A finding that Applicants' application of the Commission-approved Decision Tree to Phase 2A of PSEP is appropriate, and that Applicants' Phase 2A Decision Tree should be approved.⁹⁴
- 2) ISSUE 4. A finding that Applicants should be permitted to conduct non-destructive examination of a segment of Line 127 rather than replacing it as provided in the Decision Tree.⁹⁵
- 3) ISSUE 11. A finding that Applicants' proposal to allocate the revenue requirements by functional area consistent with the Commission's decision in D.16-12-063 is appropriate and thus approved.
- 4) ISSUE 12. A finding that Applicants' proposal to implement the revenue requirements in transportation rates through a Tier 1 advice letter, which is standard practice, is appropriate and

⁹⁴ Intervenors have been afforded an opportunity to review the Phase 2A Decision Tree and Applicants' application of the Phase 2A Decision Tree principles to the projects in this proceeding and no objections have been raised. See Applicants' Opening Brief at 37-38.

⁹⁵ TURN-SCGC support the non-destructive examination option for Line 127, and Cal Advocates did not oppose the proposal.

approved;

- 5) **ISSUE 15.** A finding that the information provided by the Applicants adequately supports the inclusion of accelerated and incidental miles in the Application.⁹⁶
- 6) **ISSUE 16.** A finding that Issue 16 in the Scoping Memo should be dismissed as moot, as all pending motions and/or requests for information have been met, resolved or withdrawn.⁹⁷
- 7) **ISSUE 17.** A finding that Issue 17 in the Scoping Memo should be dismissed as moot, as all pending motions and/or requests for information have been met, resolved or withdrawn.⁹⁸

7.2. Disputed Issues

The remaining issues (Issues 2, 3, 5, 6, 7, 8, 9, 10, 13, 14, and 18) are disputed. For ease of reference, the disputed issues are presented here again:

- **ISSUE 2.** Whether Applicants' forecasts of costs associated with the completion of the nine Phase 1B projects presented in the Application are reasonable;
- **ISSUE 3.** Whether Applicants' forecasts of costs associated with the completion of the three Phase 2A projects presented in the Application are reasonable;
- **ISSUE 5.** Whether the forecasted revenue requirements associated with the twelve projects in the Application are just and reasonable and may be recovered by Applicants in rates;
- **ISSUE 6.** Whether Applicants' proposed regulatory accounting

⁹⁶ See Applicants' Exhibit SGC-10 at WP-II-A11, WP-II-A20, WP-II-A29, WP-II-A40, WP-II-A50, WP-II-A59, WP-II-A69, WP-II-A80, WP-II-A90, WP-II-A99, WP-II-A110; and TURN/SCGC Exhibit 01 at 4.

⁹⁷ See Hearing Transcript, pp. 13-28; see also, also Applicants' Exhibit SGC-19-C; ORA Exhibit 06-C-A at 5-6; and ORA Exhibit 09-C-A.

⁹⁸ See Hearing Transcript at 13-28; see also, also Applicants' Exhibit SGC-19-C; ORA Exhibit 06-C-A at 5-6; and ORA Exhibit-09-C-A.

treatment of forecasted and actual costs, on an aggregate basis, associated with the twelve projects in the Application is appropriate;

- **ISSUE 7.** Whether Applicants may file the proposed preliminary statements submitted with the Application to create certain balancing accounts;
- **ISSUE 8.** Whether Applicants may subdivide the existing SECCBA accounts into the two subaccounts proposed in the Application;
- **ISSUE 9.** Whether Applicants may subdivide the existing SEEBBA accounts into the two subaccounts proposed in the Application;
- **ISSUE 10.** Whether Applicants may create two new balancing accounts for Phase 2 as proposed in the Application, and transfer costs tracked in the PSEPMAAs into these new balancing accounts;
- **ISSUE 13.** Whether Applicants may balance, on an aggregate basis, the actual capital and O&M costs with the associated forecasted revenue requirements, and whether they may address differences in the Applicants' Annual Regulatory Account Balance Update Tier 2 Advice Letter filing with the Commission;
- **ISSUE 14.** Whether Applicants may recover the ongoing capital-related revenue requirements associated with the capital expenditures approved in this proceeding through a Tier 2 Advice Letter until such costs are incorporated in base rates in connection with Applicants' next general rate case; and
- **ISSUE 18.** Whether Applicants should proceed with the execution of nine Phase 1B projects previously approved by the Commission and three Phase 2A projects in compliance with Decision 11-06-017, and recover the total associated revenue requirements (\$197.5 million in capital-related costs and \$57 million in operations and maintenance costs) in customer rates?

We resolve each of the above-listed 11 disputed/yet-to-be-resolved issues below, based on the evidence that was offered and admitted in this matter.

7.2.1. Issues 2, 3 and 5- Are the Forecasted Revenue Requirements Associated with the Twelve Projects in the Application Just and Reasonable and May they Be Recovered by Applicants in Rates?⁹⁹

On Issues 2 and 3 in the Scoping Memo, we conclude that the Applicants demonstrated, by preponderance of the evidence, that their forecasts of costs for the completion of the twelve PSEP projects (nine Phase 1B projects and three Phase 2A projects) are reasonable. We find that Applicants have numerous practices in place to manage their PSEP costs, implement useful oversight, and improve PSEP project implementation to the benefit of ratepayers.¹⁰⁰

In accepting Applicants' cost forecasts, we find the forecasts comply with Commission directives regarding disallowances, and further find that Applicants' forecasts excluded certain costs that the Commission has deemed not recoverable in rates (disallowances), including: (1) executive incentive compensation costs; (2) costs associated with searching for pipeline testing records;¹⁰¹ (3) costs pertaining to post-1955 vintage pipe that is tested or replaced as part of PSEP.¹⁰²

In arriving at their forecasts for the PSEP, we find that Applicants engaged in scope validation and/or reduction, and other cost avoidance efforts regarding the PSEP as set forth in the unrebutted direct testimony of Hugo Mejia¹⁰³. The record established Applicants were "able to reduce the scope of Phase 1B by

⁹⁹ Section 7.2.1 addresses Issues 2, 3 and 5 in the August 28, 2017 Scoping Memo.

¹⁰⁰ See Applicants' Opening Brief, at 22.

¹⁰¹ Applicants' Exhibit SGC-03 at 2-3.

¹⁰² See Applicants' Opening Brief, p. 19, (Section IV (B) (1)).

¹⁰³ Applicants' Exhibit SGC-01 at 6.

approximately 38 miles – saving customers approximately \$250 million – by de-rating or abandoning pipeline”¹⁰⁴ based on a “thorough review of the ability of adjoining lines to meet current and future load requirements and verification that there will be no anticipated customer impacts or system constraints.”¹⁰⁵ As a result of these reviews, Applicants recommend in this application the non-destructive examination for Line 127 rather than to replace the segment as provided in the Decision Tree. This recommendation has not been opposed by any Intervenor.¹⁰⁶

Based on the testimony and this record, Applicants demonstrated that they appropriately included certain costs in their forecasts. First, we find that Applicants appropriately included estimated GMA costs of approximately ten percent of total project forecasted costs,¹⁰⁷ and Applicants were persuasive in arguing that the GMA costs were included in order to minimize support costs, “maximize the effectiveness of safety investments, improve organizational and project execution efficiency, and provide consistency in the implementation of PSEP projects.”¹⁰⁸ Further, Applicants demonstrated that they have internal processes for ensuring that allowed GMA costs are appropriately used and/or appropriated. Due to these internal processes, Applicants are able to: (1) track GMA costs based on functional groups and their activities; (2) allocate GMA costs; (3) review and approve costs on a monthly basis; and (4) identify, report and correct mischarges to the GMA costs, among others.¹⁰⁹ Further, Applicants

¹⁰⁴ Applicants’ Exhibit SGC-01 at 6-7; and Applicants’ Exhibit SGC-01, Attachment A.

¹⁰⁵ Applicants’ Exhibit SGC-01 at 7.

¹⁰⁶ Applicants’ Exhibit SGC-01 at 8; *see* Cal Advocates’ Opening Brief, Section III at 14.

¹⁰⁷ Applicants’ Exhibit SGC-05 at 6. The expected allocation per GMA category, based on Applicants’ prior experience with PSEP, is set forth at Applicants’ Exhibit SGC-05 at 2.

¹⁰⁸ Applicants’ Exhibit SGC-05 at 1-6.

¹⁰⁹ Applicants’ Exhibit SGC-05 at 6-8.

demonstrated that GMA costs are distinct from the incremental company-wide overheads applied to PSEP.¹¹⁰

Second, Applicants demonstrated that they appropriately included company overheads in their forecast, as done in their prior reasonableness review application.¹¹¹ Applicants explained that unlike GMA, which are direct charges to PSEP (because they can be traced directly to PSEP), company overheads or “indirect” charges associated with direct costs that benefit a project but are not directly charged to a project.¹¹² Applicants reflected their company overheads in their “fully loaded costs” which include: payroll tax, vacation and sick time, benefits (non-balanced only), workers’ compensation, public liability/property damage, incentive compensation plan, purchasing, administrative and general, and insurance.¹¹³ No Intervenor opposed Applicants’ forecast of company overhead costs.

Overall, based on the Application and the submitted testimony, we accept Applicants’ arguments that the GMA costs are “necessary for the cost-effective and successful execution of PSEP”¹¹⁴ and that the company overheads are appropriately included. We agree that these types of activity and associated allocation have been authorized by the Commission in prior reasonableness review applications filed by Applicants,¹¹⁵ and we note that no Intervenor opposed Applicants’ GMA forecasts or company overhead costs.¹¹⁶

¹¹⁰ The nine GMA categories applied to the PSEP, and the non-incremental overheads not charged to PSEP are identified in Applicants’ Opening Brief, Footnotes 106 and 117. (See also, Applicants’ Exhibit SGC-05 at 8-9.)

¹¹¹ D.16-12-063 at 12-14.

¹¹² Applicants’ Exhibit SGC-06 at 1; Applicants’ Exhibit SGC-05 at 8-9.

¹¹³ Applicants’ Exhibit SGC-05 at 8-9; Applicants’ Exhibit SGC-06, 1; and WP-1-1.

¹¹⁴ Applicants’ Exhibit SGC-05 at 1-2. According to Applicants, the GMA captures functional supporting costs for the PSEP organization that are not captured in non-incremental overheads typically charged to projects.

¹¹⁵ See, D.16-12-063 at 14; MON, Ex. B at 19-24 (A.16-09-005).

¹¹⁶ See Applicants’ Opening Brief at 19-20.

Regarding Applicants' engineering, design, and planning costs, we find that Applicants appropriately included Phase 2 engineering, design, and planning costs in their forecasts for the PSEP cost and revenue requirement. We note that planning, engineering and design costs for Phase 2 PSEP were authorized in D.16-08-003, and "recorded to the PSEPMA's earlier authorized,"¹¹⁷ and that no party opposed Applicants' proposal to engage in Phase 2 engineering, design and planning work when presented, even though each had the opportunity to do so.¹¹⁸ Finally here, we find that neither Cal Advocates nor TURN-SCGC has argued that Applicants' planning, design and engineering work presented in the Applicants' forecast is unreasonable.

Additionally, based on an extensive list of factors considered, design and engineering data utilized, and the depth of analysis undertaken by Applicants in arriving at their forecasts, we find that Applicants' forecasts are robust, and thus are worthy of consideration as a reasonable basis for setting the revenue requirement, as further discussed below.

As pointed out by Applicants, the Commission found in D.14-06-007 that "it is only fair that ratepayers should have the benefit of detailed plans for this Commission to consider before authorizing or preapproving the expenditure of many hundreds of millions of dollars."¹¹⁹ Accordingly, Applicants sought and obtained authority to incur and record the costs of completing engineering, design and planning activities to prepare detailed Class 3 estimates of the costs to complete Phase 2 work,¹²⁰ following the Commission's directive.

¹¹⁷ Applicants' Exhibit SGC-03 at 5-6.

¹¹⁸ See D.16-08-003, where applicants sought and were granted "authorization to proceed with Phase 2 of their Pipeline Safety Enhancement Plan (PSEP) and to establish memorandum accounts to record approximately \$22 million in planning and engineering design costs." None of the parties herein opposed the request, per Finding of Fact 1.

¹¹⁹ See D.14-06-007 at 23.

¹²⁰ D.16-08-003 at 1.

Here, Applicants established that their forecasts are based on detailed and project-specific characteristics as identified and evaluated during the design and engineering phase of each project. The forecasts were developed by experienced individuals who have worked and/or implemented prior PSEP projects, and Applicants included detailed costs estimates for each project.¹²¹ The cost estimates¹²² include breakdown of costs for different components of each project.

As summarized in their Opening Brief, Applicants' estimates for each project account for project-specific characteristics, including: (1) number of laydown yards required for a project;¹²³ (2) whether nighttime permit conditions impact labor;¹²⁴ (3) site facility costs;¹²⁵ (4) whether electrolysis test stations are required to be installed;¹²⁶ and (5) how many Baker Tanks are required.¹²⁷ Their estimates, Applicants argue, incorporate their knowledge and experience in operating the system¹²⁸ and were based on information "derived by Applicants after assessing and confirming project parameters, undertaking site visits, developing preliminary designs for Geographic Information System alignment sheets, identification of special crossings, survey and preparation of base maps, analysis of environmental restrictions to work locations and seasonal restrictions,

¹²¹ That is, per Applicants' Opening Brief at 23: "For each of the twelve projects in this Application, Applicants prepared detailed workpapers regarding each proposed PSEP project. The workpapers, among others, describe: (a) the project; (b) alternative(s) considered; (c) forecast methodology utilized; (d) project schedule; (e) costs of materials, construction, environmental requirements, land and right-of-way rights, labor, GMA, etc.; (f) assumptions (such as pricing based on project location, permit requirements, traffic control, etc.); and (g) project-specific maps, including elevation profile where it affects the scope of work or costs."

¹²² Applicants' Exhibit SGC-19-C.

¹²³ Applicants' Exhibit SGC-10 at WP-II-A61.

¹²⁴ Hearing Transcript at 80:7-27; and 109:9-27.

¹²⁵ Applicants' Exhibit SGC-10 at WP-II-A71.

¹²⁶ Applicants' Exhibit SGC-10 at WP-II-A32.

¹²⁷ Applicants' Exhibit SGC-10 at WP-I-A22.

¹²⁸ See, Hearing Transcript at 81:6-24, 104:18 - 105:11.

identification of valve sites, identification of access roads, identification of workspaces (including potential material staging areas), review of feature studies (which depict and describe all the physical components of a pipeline and all the attributes associated with those components), and coordinating with Gas Engineering and Pipeline Integrity to identify repairs/cut-outs for anomalies and in-line inspection compatibility.”¹²⁹

Based on Applicants’ un rebutted testimony, Applicants’ cost estimate for each project included consideration of several other factors relating to: (1) project execution; (2) engineering design; (3) construction/constructability issues; (4) environmental impacts; (5) land services and permitting requirements; (6) possible impacts of the PSEP on compressed natural gas/liquefied natural gas loads to customers; and (7) issues relating to supply management.¹³⁰ Applicants validated their forecasting methodology by engaging KPMG, an auditing firm.¹³¹ KPMG determined that Applicants’ “estimating procedures are consistent with industry practice for developing an AACEi 56R-08, Class 3 Estimate” and the “estimating process and methods... are consistent with industry practice.”¹³²

Cal Advocates developed an opposing cost forecast based on a database comprised of numerous past/completed actual replacement and hydrotest PSEP projects (about 429 completed PSEP hydrotest and replacement projects) that were completed between 2011 and 2016 pursuant to Commission directives. These projects were completed by PG&E (about 90% of the projects in the database); the Applicants; and Southwest Gas.¹³³ While the database is large and

¹²⁹ Applicants’ Exhibit SGC-03 at 5-6; also, Applicants’ Opening Brief at 24-25.

¹³⁰ Applicants’ Exhibit SGC-03 at 5-9.

¹³¹ KPMG is a global network of professional firms providing Audit, Tax and Advisory services. (Source: <https://home.kpmg.com/us/en/home.html>.)

¹³² Applicants’ Exhibit SGC-04, Attachment A at 1. As noted, KPMG reviewed 11 Phase 1B estimates prepared by Applicants.

¹³³ ORA Exhibit-02 at 3; Applicants’ Exhibit SGC-04 at 4.

robust, Cal Advocates' utilization of only two attributes/variables (pipeline length and diameter) for its predicted cost of the replacement projects¹³⁴ appears too narrow, given the diversity of the actual PSEP projects proposed herein. In addition, for hydrotest projects, Cal Advocates calculated a cost-per-mile, while excluding 119 hydrotest projects that are less than 3 miles in length. Applicants have pointed out that the vast majority of segments in the two hydrotest projects in this proceeding are well under 3 miles in length.¹³⁵ Further, Applicants have argued that specific projects have unique features which should be examined and accounted for in a process of bottoms-up estimation.¹³⁶ Cal Advocates' forecast failed to account for the unique features in the specific projects presented in this Application.

Regarding TURN-SCGC's forecast, while these Intervenors considered more attributes/variables in their analysis of replacement projects, including pipeline diameter; length;¹³⁷ geographic terrain,¹³⁸ and urban versus rural, or mixed urban-and-rural, TURN-SCGC only utilized a limited database of twenty-nine completed projects. Applicants further pointed out that: (1) although there are 29 projects in the TURN-SCGC utilized database, they only used 1-5 projects to compare to each project in this proceeding;¹³⁹ (2) in the analysis of hydrotest projects, TURN-SCGC did not make any of the foregoing distinctions (pipeline diameter, length, geographic terrain, and urban versus rural, or mixed urban-and-rural); and (3) the analysis of hydrotest projects excluded the projects that are most like the Line 2000-C and 2000-D projects in

¹³⁴ ORA Exhibit-01 at 4.

¹³⁵ ORA Exhibit-04 at 3-4; Hearing Transcript, pp. 266:15 - 269:28; and Applicants' Exhibit SGC-10 at WP-II-A97- WP-II-A98, WP-II-A108 - WP-II-A109.

¹³⁶ See Applicants' Opening Brief at 26-29; Applicants' Exhibit 04 at 3, 5, 20, Attachment A at 1.

¹³⁷ TURN-SCGC Exhibit 01 at 7. Hearing Transcript at 135: 7-15.

¹³⁸ TURN-SCGC Exhibit 01 at 7.

¹³⁹ TURN-SCGC Exhibit 01 at 6, and 10-17; Applicants' Exhibit SGC-04 at 18.

this proceeding and included capital costs for replacement work.¹⁴⁰ Applicants made other persuasive arguments, as presented on pages 30-32, of their Opening Brief, and pointed out that no engineering or design comparison was done among the projects to determine whether they are reasonable comparisons to the proposed projects.¹⁴¹

Applicants successfully argued that cost drivers are not limited to pipeline diameter, length, urban versus rural environment, and geographic terrain. They come in many forms: soil conditions,¹⁴² installation requirements (the means and methods of installation details),¹⁴³ permitting conditions,¹⁴⁴ environmental consideration and mitigation,¹⁴⁵ and underground facility density.¹⁴⁶ Applicants explained that construction duration typically has the largest impact on overall project cost, and even projects of similar length and diameter can have drastically different construction durations depending on factors such as population density, permitting conditions, etc.¹⁴⁷ These and many other factors were considered by experienced professionals in the detailed cost estimates prepared by Applicants.¹⁴⁸ Neither TURN/SCGC nor Cal Advocates considered these factors. We agree that recognizing and considering the unique attributes of each PSEP project individually is more likely to result in a robust estimate than relying on a sample of completed projects that share two to four similar attributes.

¹⁴⁰ TURN-SCGC Exhibit 01 at 14. In this respect, the projects in Ms. Yap's hydrotest database are similar to the PG&E projects in Cal Advocates' database, i.e., sufficiently different by excluding capital costs so as to prevent an apples-to-apples comparison with Applicants' projects which have capital components. Applicants' Exhibit SGC-10 at WP-II-A98, WP-II-A109.

¹⁴¹ Applicants' Exhibit SGC-04 at 6.

¹⁴² Applicants' Exhibit SGC-04 at 7-8.

¹⁴³ Applicants' Exhibit SGC-04 at 8.

¹⁴⁴ Applicants' Exhibit SGC-04 at 8-9.

¹⁴⁵ Applicants' Exhibit SGC-04 at 9.

¹⁴⁶ Applicants' Exhibit SGC-04 at 9-10; *see* Applicants' Opening Brief at 31.

¹⁴⁷ Applicants' Exhibit SGC-04 at 21.

¹⁴⁸ Applicants' Exhibit SGC-19-C.

Based on this record, we find that Applicants heeded Commission direction in D.14-06-007,¹⁴⁹ and prepared detailed plans for this Commission to consider in authorizing expenditures for the proposed PSEP projects. In addition, we find that Applicants' forecasts for the proposed PSEP projects are supported by completed engineering, design and planning activities related to these projects, following the Commission's directive. In contrast, neither Cal Advocates nor TURN-SCGG's conducted as detailed an evaluation of the various components of each project and, as a result, their forecasts are less likely to correctly reflect the costs to be incurred in executing the twelve projects than the forecasts proposed by Applicants.

While we do not accept Applicants' argument in their Opening Brief, that Cal Advocates and TURN-SCGG (Intervenors)' methodologies used in arriving at their proposed authorized funding levels for the twelve projects in this proceeding are "rudimentary," we conclude here that the intervenors' forecasts are not detailed enough, and may be inadequate for Applicants to complete the proposed PSEP projects herein.

Specifically, we find that Cal Advocates' forecasted costs in this proceeding relied on predictive model that was too narrow or limited, utilizing only length and diameter as the predictor variables. TURN-SCGG' forecasting model (while it included more variables) only utilized 29 out of about 429 prior completed PSEP projects included in Cal Advocates' forecasting model database. These failings were not adequately addressed or explained in this record.

Additionally, neither Cal Advocates nor TURN-SCGG disagreed and/or contested the scope of work required for each of the PSEP projects presented herein (as supported by already completed project-specific engineering, design,

¹⁴⁹ See D.14-06-007 at 23.

and planning work for the Phase 2 safety projects included in the Application, and as authorized by the Commission in its decision on A.15-06-013, and unopposed by Cal Advocates, TURN, and/or SCGC). Accordingly, we cannot accept Cal Advocates or TURN-SCGG's forecasted costs, based on the preponderance of the evidence standard applicable in this proceeding. Because Cal Advocates' and TURN-SCGG's forecasts did not offer the "detailed plans" that the Commission ordered to be provided in D.14-06-007 for ratemaking purposes,¹⁵⁰ their forecasts are not accepted for the PSEP projects herein. Cal Advocates' and TURN-SCGG's forecasting efforts are in the right direction, and may be useful and persuasive, with more details and a robust list of predictor variables.

Based on this record, Applicants have established by a preponderance of the evidence that their proposed forecasts/forecasted costs are just and reasonable. Applicants examined the unique attributes of each project, engaged in extensive engineering, design and planning work, and assigned costs to the various attributes of each project based on their knowledge as pipeline operators and actual experience executing PSEP.

Accordingly, we find that Applicants have met their burden of proof by "presenting more evidence that supports the requested result than would support an alternative outcome."¹⁵¹ Accordingly, we accept Applicants' forecasts of costs for the completion of the twelve PSEP projects (nine Phase 1B projects and three Phase 2A projects) presented in this Application, as further discussed below.

Pursuant to the discussion, and findings above, we find that Applicants' forecasted revenue requirements associated with the twelve projects in the

¹⁵⁰ D.14-06-007 at 23.

¹⁵¹ D.14-07-007 at 13.

Application are just and reasonable, and as such may be recovered by Applicants in rates.

7.2.2. Issue 5 – Are the Forecasted Revenue Requirement Associated with the Twelve Projects in the Application Just and Reasonable and May They be Recovered by Applicants in Rates?

Pursuant to the above discussion, and findings under Issues 2 and 3, above, we find that Applicants' forecasted revenue requirement associated with the twelve projects in the Application are just and reasonable, and as such may be recovered by Applicants in rates.

7.2.3. Issue 6 - Is Applicants' Proposed Regulatory Accounting Treatment of Forecasted and Actual Costs, on an Aggregate Basis, Associated with the Twelve Projects in the Application Appropriate?

In this Application, Applicants seek two-way balancing account treatment, on an aggregate basis, for costs incurred in executing the twelve projects. In order to implement two-way balancing account treatment for the twelve projects in this Application on an aggregate basis, and to "appropriately track" the revenue requirements associated with the costs of executing the twelve Phase 1B and Phase 2A projects separately, Applicants propose that SoCalGas and SDG&E be authorized to:

- a) Subdivide the existing Phase 1 SECCBA account into two subaccounts so as to track costs for Phases 1A and 1B separately (i.e., SECCBA Phase 1A Subaccount; and SECCBA Phase 1B

- Subaccount);¹⁵²
- b) Subdivide the existing Phase 1 SEEBA account into the two subaccounts (SEEBA Phase 1A Subaccount; and SEEBA Phase 1B Subaccount) so as to track costs for Phases 1A and 1B separately; and
 - c) Create two new balancing accounts for Phase 2 – SECCBA-P2 and SEEBA-P2.¹⁵³
 - d) Transfer costs currently tracked in the PSEPMAAs (i.e., the costs associated with Phase 2 planning, engineering, and design work that were authorized to be tracked in the memorandum accounts) into the latter new balancing accounts.¹⁵⁴

Applicants argue that their request is consistent with the Commission’s prior decision ordering two-way balancing account treatment of costs incurred in executing Phase 1.¹⁵⁵ Applicants noted that the Commission has permitted balancing account treatment in order “to strike a fair balance between ratepayers and shareholders;”¹⁵⁶ and that while the Commission often ordered certain disallowances – activities and items for which Applicants would bear costs rather than ratepayers¹⁵⁷ – the Commission has been clear that ratepayers should bear the reasonable costs of implementing PSEP that have not been disallowed.¹⁵⁸

Applicants argue that to the extent that certain Intervenors have expressed concerns that a two-way balancing account constitutes a “blank check,”¹⁵⁹ there is an oversight mechanism available to ensure that costs exceeding the

¹⁵² See Applicants’ Exhibit SGC-07 at 1-2. In D.16-08-003 at 7(citing D.15-12-020) the Commission granted Applicants interim rate increases, and memorandum accounts subject to refund for costs properly recorded in the applicants’ SECCBAs and SEEBAs, which are two-way balancing accounts, with “an opportunity to review the reasonableness of these PSEP-related costs through other Commission proceedings and processes.” (*Id.* at 7.)

¹⁵³ Applicants’ Exhibit SGC-07 at 2-3.

¹⁵⁴ Applicants’ Exhibit SGC-07 at 3; D.16-08-003 at 14 (Ordering Paragraph 1).

¹⁵⁵ D.14-06-007 at 60 (Ordering Paragraph 4).

¹⁵⁶ D.14-06-007 at 19 and 22.

¹⁵⁷ D.14-06-007 at 32-34, as modified by D.15-12-020.

¹⁵⁸ See, D.14-06-007 at 31.

¹⁵⁹ Hearing Transcript at 180:10-20.

Commission-authorized level may only be recovered after reasonableness review. That mechanism is a true-up of balances that is addressed in Applicants' annual regulatory account balance update advice letter filing for gas transportation rates effective January 1 of the following year. Thus, Applicants argue that Intervenors and other interested parties would have the opportunity to review costs exceeding authorized levels and state their objections, if any; and Applicants will have an opportunity to recover their actual costs in executing Commission-mandated safety enhancement work.

In its testimony and at the evidentiary hearing Cal Advocates did not oppose balancing account treatment for capital costs or the costs associated with the replacement, de-rate, or abandonment projects in this proceeding.¹⁶⁰ However, Cal Advocates' requested that the Commission only permit a one-way downward balancing account for the O&M costs for the hydrotesting projects.

In their testimony, and at the hearing, TURN-SCGC proposed that the Commission grant Applicants no balancing accounting treatment whatsoever, as there is no valid policy reason for continuing balancing account treatment for the pipeline safety enhancement program.¹⁶¹ TURN-SCGC argued that the one of the primary purposes of forecast ratemaking is to provide the utility with some "pressure" to manage its costs so as to stay within its forecast budget. TURN-SCGC noted that this principle has long guided Commission ratemaking, and the Commission has repeatedly acknowledged that balancing accounts can minimize "the utility's incentive to contain costs." Applicants' ratemaking witness Reginald Austria admitted to this at the hearing - that without a two-way balancing account treatment, Applicants "would have to manage [their] costs a

¹⁶⁰ Hearing Transcript at 308:22 - 309:20; also Hearing Transcript at 328:26 - 329:5.

¹⁶¹ See TURN-SCGC'S Opening Brief at 7-17.

little bit more.”¹⁶²

TURN-SCGC cited D.16-06-056, where the Commission, in rejecting PG&E’s proposal to change the transmission integrity management program balancing account to a two-way balancing account, found that:

While we agree a two-way balancing account would allow any savings to be passed on to ratepayers, it also subjects ratepayers to the risk of higher rates in the event PG&E’s costs exceed authorized amounts. Further, PG&E is proposing to seek additional funding when it anticipates incurring costs above the total adopted expenses and capital revenue requirements. We agree with TURN that this could allow PG&E to seek recovery for cost overruns and does not encourage PG&E to seek reasonable costs.¹⁶³

TURN-SCGC argue that the Commission has articulated in numerous decisions that balancing accounts are appropriate when costs are highly uncertain and difficult to forecast either because the utility is implementing a new program, so that there are no historical costs, or because the costs are driven by external factors not subject to utility control. TURN-SCGC cited D.14-08-032, where the Commission declined to approve balancing account treatment for DIMP [distribution integrity management program] costs for the 2014 General Rate Case (GRC), either on a one-way or two-way basis, because “as noted by PG&E, the DIMP balancing account treatment was implemented in the 2011 GRC at a time when the DIMP was new. The DIMP has now become more established, and its costs can reasonably be estimated without the extraordinary requirements for balancing account treatment.”¹⁶⁴ (See, for example, D.14-08-032 at 212-213; and D.09-03-025, Ordering Paragraph 16 (adopting balancing account

¹⁶² Hearing Transcript at 217:23.

¹⁶³ See D.16-06-056 at 253.

¹⁶⁴ See D.14-08-032 at 56; and D.13-05-010 at 34 (rejecting continued memorandum account treatment of Market Redesign and Technology Upgrade (MRTU) costs since “there is no longer uncertainty about MRTU and its related costs.”

for Palo Verde expenses because costs are forecast by Arizona Public Service and highly uncertain); also, D.06-05-016, Ordering Paragraph 19 (adopting two-way balancing for Mohave shut down costs “due to the many uncertainties related to this issue.”); D.16-05-016, at 173-174; and D.06-11-026, Ordering Paragraph 12). TURN-SCGC argue that neither of these justifications applies to this second phase of the PSEP program, which entails hydrotesting or replacing natural gas transmission pipelines – the type of work that Applicants have performed for decades as part of their construction and maintenance of the gas transmission system. Further, TURN-SCGC noted that the Commission did not adopt any balancing accounts for PG&E in the first round of PSEP applications, but “reluctantly authorized balancing accounts for SoCalGas and SDG&E only because there was ‘not a reasonable forecast of cost.’”¹⁶⁵

Lastly, TURN-SCGC request that if the Commission authorizes balancing account treatment, contrary to their recommendations, at a minimum, the Commission should require that any cost overruns be appropriately evaluated for reasonableness in either the next rate case, or in a stand-alone application, as was done with the last PSEP balancing account in A.16-09-005. TURN-SCGC contend that the Applicants’ proposal that the true-up of balances in their proposed balancing subaccounts be done in the annual regulatory account balance update advice letter process would provide inadequate opportunity to test the reasonableness of utility spending. Accordingly, TURN-SCGC recommended that the Commission deny Applicants’ request for balancing account protection for the capital and O&M expenses for these projects in full.

We agree with TURN-SCGC that balancing accounts are appropriate when costs are highly uncertain and/or difficult to forecast, either because the utility is

¹⁶⁵ See D.14-06-007 at 27.

implementing a new program or because the costs are driven by external factors not subject to utility control.¹⁶⁶ We find that these justifications (uncertainty and/or difficulty of forecasting) do not apply to the PSEP projects presented in this Application.

In this proceeding, we found above that Applicants presented “detailed plans” that complied with Commission directive in D.14-06-007, and that Applicants’ forecasted costs are based on a robust forecasting model, supported by “extensive engineering, design and planning work” done on each of the specific projects included in this Application, and based on their knowledge as pipeline operators and actual experience executing PSEPs. We relied on these detailed engineering, design and planning work already completed by Applicants in authorizing and/or approving the forecasted expenditures presented by the Applicants in this Application for the PSEP projects herein.

Accordingly, Applicants’ request for two-way balancing account treatment must be denied, based on this record, and Applicants should be held to their detailed forecasting model and the resultant forecasted costs. Applicants should not be permitted to collect ratepayer funds for costs above the authorized forecasted costs for the replacement and hydrotest projects herein authorized.

~~Additionally, the Commission is sympathetic to the arguments made by Cal Advocates and TURN-SCGC that Applicants’ forecasting tool may have included a “laundry list” of cost drivers;¹⁶⁷ and that some of Applicants’ forecasted costs for the replacement and hydrotest projects presented in the Application are unreasonable.¹⁶⁸ Thus, rather~~ Rather than rejecting the idea of balancing account treatment outright (as argued by TURN-SCGG), we find that

¹⁶⁶ See D.14-08-032 at 56; and D.13-05-010 at 34.

~~¹⁶⁷ TURN-SCGC’s Opening Brief at 4.~~

~~¹⁶⁸ Cal Advocates’ Opening Brief at 7-13.~~

this record supports the adoption of one-way balancing accounts for both the capital and O&M forecasted costs of the replacement and hydrotest projects herein authorized. If authorized, one-way balancing accounts will require Applicants to refund any over-collection in the capital and O&M costs associated with each of their twelve PSEP projects herein authorized and to refund any cost savings (over-collection) to ratepayers.¹⁶⁹167

7.2.4. Issues 8 and 9 - May Applicants Subdivide the Existing Phase 1 SECCBA and SEEBA Accounts into Two Subaccounts Proposed in the Application?

Applicants propose modification of existing balancing accounts for their Phase 1 PSEP costs, and to subdivide the existing Phase 1 SEEBAs and SECCBAs.¹⁷⁰168 These proposals identified in the Scoping Memo as Issues 8 through 10 interrelate (but only Issues 8 and 9 are resolved in this Section), and are thus discussed together here under this section.

Currently, Applicants have existing balancing accounts – the SEEBAs and SECCBAs to record the revenue requirements related to Phase 1 PSEP costs. Applicants propose to modify each of their existing SEEBAs and SECCBAs to create two subaccounts “in order to appropriately track costs separately for Phases 1A and 1B O&M and capital projects costs, respectively.

Cal Advocates has no position on this request, and while TURN-SCGC argues that the Commission should deny Applicants the benefit of total

¹⁶⁹167 While Cal Advocates argues for one-way balancing account treatment in this proceeding due to the real chance of over-estimation/over-collection only for O&M costs associated with Applicants’ two PSEP hydrotest projects, we adopt this recommendation generally, and for both O&M and Capital costs authorized herein.

¹⁷⁰168 Subdivision of the existing SEEBA account into the two subaccounts (SEEBA Phase 1A Subaccount and SEEBA Phase 1B Subaccount); and Subdivision of the existing Phase 1 SECCBA account into two subaccounts (SECCBA Phase 1A Subaccount and SECCBA Phase 1B Subaccount). *See* Applicants’ Exhibit SGC-07 at 1-2.

balancing account protection for proposed Phase 1B and 2A projects, TURN-SCGC seem not to have any opposition to this request to modify each of their existing SEEBAs and SECCBAs to create two subaccounts in order to separately track costs for Phases 1A and 1B.

Applicants met their burden, and the request to modify each of their existing SEEBAs and SECCBAs to create two subaccounts in order to separately track costs for Phases 1A and 1B is granted. As proposed by Applicants, the existing Phase 1 SEEBAs and SECCBAs and the two new subaccounts (Phase 1A and Phase 1B SEEBAs and SECCBAs in order to track costs separately for Phases 1A and 1B O&M and capital projects costs, separately) to be created shall continue to record Phase 1 PSEP activity and other Phase 1 projects that are not included in this Application. The accounts will remain subject to fifty percent interim rate recovery, subject to refund as authorized in D.16-08-003.

However, for the revenue requirements adopted in this Application (for the nine Phase 1B previously approved PSEP projects by the Commission; and three Phase 2A projects), only one-way balancing accounts are authorized for the costs of both the replacement and hydrotest projects. This applies to both the capital and O&M costs associated with each of their twelve PSEP projects herein authorized. With one-way balancing accounts, Applicants will be able to record and collect costs associated with the twelve PSEP projects herein authorized, and refund ratepayers any over estimation/over collection in the revenue requirements adopted in this Application.¹⁷⁴¹⁶⁹

The Phase 1B one-way balancing account/subaccount will record, on an aggregate project basis, the difference between the forecasted revenue

¹⁷⁴¹⁶⁹ With the one-way balancing accounts, Applicants will not be permitted to collect ratepayer funds for costs above the permitted forecasted values, but any cost savings would be refunded to ratepayers.

requirements adopted in this Application and the actual costs of the nine Phase 1B projects proposed herein. Like the original SEEBAs and SECCBAs, the subaccounts shall be interest-bearing accounts.

7.2.5. Issues 7 and 10 - May Applicants File the Proposed Preliminary Statements Submitted with the Application to Create Certain Balancing Accounts (Issue 7); and May Applicants Create Two New Balancing Accounts for Phase 2 (PSEP Projects) as Proposed in the Application, and Transfer Costs Tracked in the PSEPMAS into these New Balancing Accounts (Issue 10)?

Applicants may proceed to file the proposed preliminary statements submitted with the Application to create certain balancing accounts.

Similar to the SECCBAs and SEEBAs established pursuant to Commission order for Phase 1 in D.14-06-007,¹⁷²¹⁷⁰ Applicants seek the creation of two balancing accounts to record (on an aggregate project basis) the difference between the forecasted revenue requirements approved by the Commission pursuant to this Application and the corresponding actual costs related to implementing Phase 2 of PSEP. They propose to create the following accounts: (a) Safety Enhancement Expense Balancing Account – Phase 2 (SEEBAs-P2); and (b) Safety Enhancement Capital Cost Balancing Account (SECCBA-P2). As requested in the Application, Applicants propose to transfer to the SEEBAs-P2 and SECCBA-P2: (a) Phase 2A planning and engineering design costs associated with O&M projects that are currently recorded in the PSEPMAs; and (b) Phase

¹⁷²¹⁷⁰ See Ordering Paragraph 4 at 60.

2A planning and engineering design costs associated with capital projects that are currently recorded in the Construction Work in Progress accounts.¹⁷³¹⁷¹

Based on the discussion above, only one-way balancing account treatment is authorized for the capital and O&M costs of the replacement and hydrotest projects authorized in this decision. Applicants met their burden and their request to create Phase 2 balancing accounts (SECCBA-P2 and SEEBA-P2) is granted, with the qualification that only one-way balancing account treatment is authorized.

As requested by the Applicants, the SEEBA-P2s will be interest-bearing accounts to record on an aggregate basis the difference between actual and forecasted revenue requirements associated with O&M projects. The SECCBA-P2s will be interest-bearing accounts, which will record on an aggregate basis the difference between the actual and forecasted revenue requirements associated with capital projects.¹⁷⁴¹⁷²

In accordance with the above finding and conclusion, Applicants are further authorized to transfer their: (1) Phase 2A planning and engineering design costs associated with O&M projects that currently are recorded in the PSEPMA; and (2) Phase 2A planning and engineering design costs associated with capital projects that currently are recorded in the Construction Work in Progress accounts into the SEEBA-P2s and SECCBA-P2s, as requested by Applicants.

¹⁷³¹⁷¹ The costs currently tracked in the PSEPMA include costs associated with Phase 2 planning, engineering, and design work that were authorized to be tracked in the memorandum accounts. (See Applicants' Exhibit SGC-07 at 2-3; and D.16-08-003 at 14 (Ordering Paragraph 1). Also, see the Application at 15, for additional details about Applicants' rationales for this request).

¹⁷⁴¹⁷² See Applicants' Exhibit SCG-07.

7.2.6. Issue 13 - May Applicants Balance, on an Aggregate Basis, the Actual Capital and O&M Costs with the Associated Forecasted Revenue Requirements and Address the Differences in Applicants' Annual Regulatory Account Balance Update Tier 2 Advice Letter Filing with the Commission?

In this application, Applicants propose to balance, on an aggregate basis, the actual capital and O&M costs with the associated authorized forecasted revenue requirements for the 12 PSEP projects; and propose that a true-up of balances be addressed in Applicants' annual regulatory account balance update Tier 2 Advice Letter filing for gas transportation rates effective January 1 of the following year.¹⁷⁵¹⁷³

Cal Advocates did not address this request. TURN-SCGG in their Opening Brief, argue that the Commission should ensure that any cost overruns for the 12 PSEP projects be appropriately evaluated for reasonableness in a rate case, or in a stand-alone application, rather than in a Tier 2 Advice Letter filing with the Commission, if the Commission authorizes two-way balancing accounts requested by applicant. TURN-SCGC argues that the annual update advice letter process provides inadequate opportunity to test the reasonableness of utility spending, as there is often: (1) insufficient time to conduct the necessary discovery; and (2) limited or no opportunity to present expert testimony or conduct cross examination. Thus, TURN-SCGC concludes that the annual update advice letter process provides minimal incentives for the utility to control costs or prevent cost overruns, *citing*, D.16-06-056 at 253.

In this proceeding, Applicants are not authorized to collect ratepayer funds for costs above the permitted forecasted values/revenue requirements

¹⁷⁵¹⁷³ See Applicants' Exhibit SCG-07 at 6.

adopted in this Application for these twelve PSEP projects, but Applicants must refund any cost savings to ratepayers.

That is, as found under Issues 6, 8 and 9, only one-way balancing accounts are authorized in this proceeding, for the forecasted revenue requirements adopted in this proceeding for the twelve replacement and hydrotest projects as approved in this decision. With the authorized one-way balancing accounts, Applicants will be able to: (1) collect and record costs associated with the twelve PSEP projects herein authorized; (2) balance, on an aggregate basis, the revenue requirements associated with the actual capital and O&M costs with the associated authorized forecasted revenue requirements herein authorized for the twelve PSEP projects; (3) true-up the balances (between the revenue requirement associated with the actual costs of the PSEP projects and the authorized, collected and/or recorded revenue requirements); and (4) refund ratepayers of any over estimation/over collection in the revenue requirements adopted in this Application for these twelve PSEP projects.¹⁷⁶¹⁷⁴

Accordingly, as proposed by Applicants, for the purposes of refunding any cost savings to ratepayers, a true-up of balances may be addressed in Applicants' annual regulatory account balance update Tier 2 advice letter filing for gas transportation rates effective January 1 of the following year. As proposed by Applicants, any over-collections in these balancing accounts that are permanent differences shall be incorporated in the following year's gas transportation rates; and if there are over-collections in these balancing accounts that are attributable to timing differences rather than permanent differences, the balances would be carried over to the following year and not incorporated in the following year's

¹⁷⁶¹⁷⁴ With the one-way balancing accounts, Applicants will not be permitted to collect ratepayer funds for costs above the permitted forecasted values, but any cost savings would be refunded to ratepayers.

gas transportation rates.¹⁷⁷175 For the capital cost related PSEP balancing accounts (i.e., Phase 1B Subaccounts of the SECCBAs and the SECCBA-P2 accounts), these accounts will continue to balance, on an aggregate project basis, the difference between actual and forecasted capital-related revenue requirements until the Phase 1B and Phase 2 PSEP assets are rolled into authorized rate base in connection with the Applicants' next General Rate Case,¹⁷⁸176 but only as to one-way balancing accounts authorized herein.

7.2.7. Issue 14 - May Applicants Recover the Ongoing Capital-Related Revenue Requirements Associated with the Capital Expenditures Approved in this Proceeding through a Tier 2 Advice Letter until Such Costs are incorporated in Base Rates in Connection with Applicants' Next General Rate Case?

Again here, as discussed in Issue 13 above, and as found in Issue 6, 8 and 9, only one-way balancing accounts are authorized in this proceeding, and concerns raised by TURN-SGCC regarding cost overruns and recovery for ratepayers, appear no longer applicable. Other than as authorized herein, based on a review of the record developed regarding the reasonableness of Applicants' forecasted costs associated with the completion of the nine Phase 1B projects and three Phase 2A projects, Applicants are not authorized to collect ratepayer funds for costs above the values adopted in this decision. Accordingly, as proposed by Applicants and subject to one-way balancing accounts authorized in this proceeding for purposes of refunding ratepayers any over-collections of funds, Applicants may recover the ongoing capital-related revenue requirements associated with the capital expenditures approved in this proceeding through a

¹⁷⁷175 Applicants' Exhibit SGC-07 at 6.

¹⁷⁸176 Applicants' Exhibit SGC-07 at 6.

Tier 2 Advice Letter until such costs are incorporated in base rates in connection with Applicants' next general rate case.

7.2.8. Issue 18 - Should Applicants Proceed with the Execution of Nine Phase 1B Projects Previously Approved by the Commission and Three Phase 2A Projects in Compliance with Decision 11-06-017, and Recover the Total Associated Revenue Requirements (\$197.5 Million in Capital-Related Costs and \$57 Million in Operations and Maintenance Costs) in Customer Rates?

We found above that Applicants established that their application of the Commission-approved Decision Tree to Phase 2A of PSEP is appropriate, and that the Phase 1B projects included in this application were approved for execution by the Commission in D.14-06-007. We further found that the twelve projects in the application are within the scope of PSEP projects; that "incidental" and "accelerated" miles are reasonably included in the scope of the PSEP projects presented in this Application; and that the inclusion of Phase 2B PSEP miles in this application is justified.

In Issues 2 and 3 above, we concluded that Applicants' forecasts of costs associated with the completion of the nine Phase 1B projects and the three Phase 2A projects presented in the Application are reasonable, and in Issue 5, we concluded that forecasted revenue requirements associated with the twelve projects in the Application are just and reasonable, and may be recovered by Applicants in rates. We resolved other issues relating to recovery of certain ongoing capital-related revenue requirements associated with the capital expenditures approved in this proceeding (Issue 14), and those involving regulatory treatment of certain accounts.

Accordingly, based on the preponderance of the evidence, the record in this proceeding supports a conclusion that Applicants may proceed with the execution of nine Phase 1B projects previously approved by the Commission and three Phase 2A projects in compliance with D.11-06-017, and recover the total associated revenue requirements (\$197.5 million in capital-related costs and \$57 million in O&M costs) in customer rates, and Applicants are authorized accordingly.

8. Confidential Testimony and Exhibits Admitted Under Seal

The parties submitted certain exhibits, testimony and/or workpapers designated as “Confidential.” The marking of these workpapers, exhibits and testimony as “confidential” is deemed to be a request by each party for leave to file those workpapers, exhibits and testimony under seal pursuant to Rule 11.4, and/or General Order (GO) 66-C. These materials, including: (a) SoCalGas and SDG&E’s Attachment A to their January 22, 2018 Motion To Strike Portions of Direct Testimony Provided by Cal Advocates; (b) Cal Advocates’ Workpapers, supporting attachments (including ORA-06-C; ORA-06-HC; ORA-09-C; and ORA-09-HC) submitted by Cal Advocates on December 11, 2017 with its testimony; and (c) Confidential Attachments B-G to TURN-SCGC Exhibit 01 are deemed to contain sensitive data, operational and other privileged information, the disclosure of which could impose serious disadvantage or unfair business disadvantage on parties or other stakeholders. Accordingly, the requests to place these materials under seal pursuant to Rule 11.4 and/or GO 66-C are granted as set forth in the Ordering Paragraphs below.

9. Comments on the Proposed Decision

The proposed decision of ALJ Ayoade in this matter was mailed to the parties in accordance with Section 311 of the Public Utilities Code and comments were allowed under Rule 14.3 of the Commission's Rules of Practice and Procedure. Comments were timely filed on March 18, 2019 by Applicants and Cal Advocates, and reply comments were filed on March 25, 2019 by TURN-SCGC, Cal Advocates and Applicants. As a result of the comments received, non-substantive changes were made to the proposed decision to provide clarifications on the one-way balancing account treatment authorized in this decision. No other changes were made to the proposed decision.

10. Assignment of Proceeding

Clifford Rechtschaffen is the assigned Commissioner, and Adeniyi A. Ayoade is the assigned ALJ to the proceeding.

Findings of Fact

1. Applicants' plans to execute the twelve Phase 1B and Phase 2A PSEP projects presented in this Application are consistent with D.14-06-007, and Public Utilities Code Sections 957 and 958.
2. Applicants' request for approval of their Phase 2A Decision Tree is supported by a step-by-step analysis that the Commission found sufficient in D.14-06-007 for Phase 1, and the Phase 1B projects included in this Application were approved for execution by the Commission in D.14-06-007.
3. Applicants' request for authority to proceed with the execution of nine Phase 1B projects previously approved by the Commission, and three Phase 2A projects in compliance with D.11-06-017, and recover the total revenue requirements (associated with \$197.5 million in capital costs and \$57 million in operations and maintenance costs) in customer rates, is reasonable and

supported by a preponderance of the evidence.

4. Applicants' proposal for non-destructive examination of Line 127 rather than replacing the segment as called for by the Decision Tree is reasonable and well supported. The proposal was supported by detailed analysis of safety needs and costs, and will save costs to ratepayers without compromising safety.

5. Applicants established that they will implement the Phase 2A Decision Tree without service interruption to core customers, and with limited service outages to noncore customers, and in ways that will maximize benefit to ratepayers with due consideration to project costs, engineering factors and need for pipeline safety.

6. Applicants' cost forecasts comply with Commission directives regarding disallowances, and excluded certain costs from the PSEP costs forecasts that the Commission has deemed not recoverable in rates (disallowances). Applicants established that they appropriately excluded all disallowances previously ordered by the Commission in D.14-06-007 to be excluded from Applicants' forecasts.

7. Applicants' forecasted capital costs associated with completion of the twelve projects presented in the Application in the amount of \$197.5 million are reasonable; and Applicants' forecasted operations and maintenance costs associated with completion of the twelve projects presented in the Application in the amount of \$57 million are reasonable.

8. Applicants engaged in scope validation and/or made other efforts that led to cost reduction and other cost avoidance, including Applicants' decision to conduct non-destructive examination of Line 127 rather than replace the segment as provided in the Decision Tree.

9. Applicants appropriately included Phase 2 engineering, design, and

planning costs in their forecasts for PSEP revenue requirement, as authorized in D.16-08-003 and previously recorded to the PSEPMAAs earlier authorized.

10. Applicants considered an extensive list of factors, utilized design and engineering data, and undertook detailed analysis in arriving at their forecasts.

11. Applicants' forecasts are robust, and thus are worthy of consideration as a reasonable basis for ratemaking and revenue requirement.

12. Applicants' proposed cumulative forecasted 2019 revenue requirements of approximately \$44.6 million for SoCalGas and \$562,000 for SDG&E, associated with completion of the twelve projects in the Application are just and reasonable, and it is reasonable to authorize Applicants to recover these cumulative forecasted 2019 revenue requirement associated with completion of the twelve projects as provided in this Application in the amounts of approximately \$44.6 million for SoCalGas and \$562,000 for SDG&E.

13. Because we find in this record that Applicants successfully demonstrated that their forecasted capital and operations and maintenance costs associated with completion of the twelve PSEP projects presented in the Application are reasonable (because Applicants demonstrated that their forecasted costs associated with the twelve PSEP projects are supported by a robust analysis of each project; are based on specific project design and engineering data developed; and are worthy of consideration as a reasonable basis for ratemaking and revenue requirement requested in the Application), and have thus authorized Applicants, in this decision, to recover in full their requested cumulative forecasted revenue requirement associated with completion of the twelve PSEP projects, we find this record failed to establish that two-way balancing account treatment of the forecasted and/or actual costs associated with

the twelve projects presented in this Application, on an aggregate basis, is either reasonable or appropriate.

14. Authorizing a one-way balancing account treatment of forecasted and actual costs associated with the twelve projects, on an aggregate basis, is reasonable in order to require Applicants to refund ratepayers any over-collection in the authorized revenue requirements and associated rate recovery associated with the twelve Phase 1B and Phase 2A PSEP projects herein authorized. One-way balancing accounts treatment puts an upper bound on the costs to be recovered from ratepayers given that we are adopting the Applicants' cost estimates. One-way balancing account treatment will be applied on an aggregate basis where the total combined O&M and capital costs will be compared to the corresponding forecasted amounts approved in this decision. To the extent there is an overspending in the actual, aggregate costs incurred relative to the PSEP aggregate costs authorized at completion of the PSEP projects forecasted herein, the revenue requirements associated with the overall cost overrun will not be subject to balancing account treatment and appropriate adjustments will be made to the applicable PSEP balancing accounts to ensure ratepayers do not pay for these costs.

15. Applicants' request (included with Applicants' Exhibit SCG-07) to file proposed preliminary statements for the balancing accounts proposed in the Application is not opposed by any party and nothing in the record supports a conclusion that this request should not be granted.

16. Applicants' request for authority to subdivide the existing SECCBA accounts into the two subaccounts (i.e. SECCBA Phase 1A Subaccount and SECCBA Phase 1B Subaccount) in order to appropriately track costs separately for Phases 1A and 1B PSEP projects as proposed in the Application, is not

opposed by any party and nothing in the record supports a conclusion that this request should not be granted. Granting this request may simplify and/or enhance PSEP costs accounting and recovery.

17. Applicants' request for authority to subdivide the existing SEEBA accounts into the two subaccounts (i.e. SEEBA Phase 1A Subaccount and SEEBA Phase 1B Subaccount), in order to appropriately track expenses separately for Phases 1A and 1B PSEP projects as proposed in the Application, is not opposed by any party and nothing in the record supports a conclusion that this request should not be granted. Granting this request may simplify and/or enhance PSEP costs accounting and recovery.

18. Applicants' request for authority to create two new balancing accounts for Phase 2 PSEP projects (SECCBA-P2 and SEEBA-P2) and transfer costs currently tracked in the PSEMA into new SECCBA-P2 and SEEBA-P2 balancing accounts, is consistent with Applicants' prior cost recovery applications and/or requests; is not opposed by any party; and nothing in the record supports a conclusion that this request should not be granted. The SECCBA-P2 and SEEBA-P2 will be interest-bearing accounts, and unlike the existing Phase 1 balancing accounts, the SEEBA-P2s and SECCBA-P2s will reflect a credit for the forecasted revenue requirements approved. Granting this request may simplify and/or enhance PSEP costs accounting and recovery.

19. Applicants' proposal to allocate the revenue requirements by functional area is consistent with the Commission's decision in D.16-12-063, is not opposed by any party and nothing in the record supports a conclusion that this request should not be granted. Granting this request would permit Applicants to allocate costs on a functional basis such that costs functionalized as high pressure distribution are allocated using the existing marginal demand measures for high

pressure distribution, and may simplify and/or enhance PSEP costs accounting and rate recovery.

20. Applicants' proposal to implement the revenue requirements in transportation rates through a Tier 1 advice letter is consistent with Commission practice and prior authorizations permitting such to be addressed in each utility's annual regulatory account balance update filing for gas transportation rates effective January 1 of the year following a decision on the requesting application.¹⁷⁹¹⁷⁷ In addition, the request is not opposed by any party and nothing in the record supports a conclusion that this request should not be granted.

21. Applicants' request to balance, on an aggregate basis, the actual capital and operations and maintenance revenue requirements with the associated forecasted revenue requirements and to address any differences, as appropriate, in the Applicants' Annual Regulatory Account Balance Update Tier 2 Advice Letter filing with the Commission, as specifically authorized in this decision (one-way balancing account treatment on aggregate costs as described in detail in Finding of Fact 14) is consistent with Commission practice and prior authorizations permitting such filings. In addition, the request is not opposed by any party and nothing in the record supports a conclusion that this request should not be granted.

22. Applicants' request to recover the ongoing capital-related revenue requirements associated with capital expenditures approved in this proceeding through a Tier 2 Advice Letter until such costs are incorporated in base rates in connection with Applicants' next General Rate Case proceeding, as specifically authorized in this decision is consistent with Commission practice and prior

¹⁷⁹¹⁷⁷ See D.14-06-007 at 50, 61 (Ordering Paragraph 9).

authorizations permitting such filings. This request is not opposed by any party and nothing in the record supports a conclusion that this request should not be granted.

23. Applicants substantiated their requests to include accelerated and incidental miles in the scope of the PSEP projects presented in this Application, and established that the request meets Commission-approved prioritization goal, and complies with the Commission's directive in D.11-06-017 to obtain the greatest amount of safety value for ratepayer expenditures.

24. All motions and/or requests for information regarding Issue 16 in the Scoping Memo have been resolved, withdrawn, or met, and Applicants have provided cost information in support of the requested funding as requested by other parties in this proceeding.

25. All motions and/or requests for information regarding Issue 17 in the Scoping Memo have been resolved, withdrawn, or met, and Applicants have provided cost comparisons of similar or previous work done by Applicants or other utilities, in order to determine whether Applicants' cost estimates are reasonable.

Conclusions of Law

1. The applicable standard of proof in this proceeding is the preponderance of the evidence.

2. Applicants' proposed Phase 2A Decision Tree as presented in the Application should be approved.

3. Applicants should be authorized to proceed with the execution of nine Phase 1B projects previously approved by the Commission, and three Phase 2A projects in compliance with D.11-06-017.

4. Applicants' request for: (1) approval of the total forecasted revenue requirements and associated rate recovery for certain PSEP projects identified as part of Phases 1B and 2A; and (2) authority to (a) modify the existing SEEBAs and SECCBAs in order to record costs discretely for Phase 1B projects, and (b) create new balancing accounts to record costs for Phase 2 projects, should be granted as specifically provided below.

5. Applicants should be authorized to remediate the Line 127 project presented in this application through non-destructive examination rather than replacement recommended in the Decision Tree.

6. Applicants should be authorized to address the incidental and accelerated mileage included in this Application within the scope of projects presented in this Application and authorized herein.

7. Applicants' forecasts of costs associated with the completion of the nine Phase 1B projects and the three Phase 2A projects presented in the Application should be authorized as reasonable.

8. Applicants' forecasted revenue requirements associated with the twelve projects in the Application are just and reasonable, and should be authorized, and Applicants should be authorized to recover the authorized revenue requirements associated with the twelve projects in the Application in rates.

9. Applicants' forecasted expenditures of approximately \$197.5 million in capital and \$57 million in operations and maintenance, resulting in a cumulative forecasted 2019 revenue requirements of approximately \$44.6 million for SoCalGas and \$562,000 for SDG&E, associated with the twelve PSEP projects proposed in the Application should be authorized as reasonable.

10. Applicants should be authorized to recover the total revenue requirements (i.e., associated with \$197.5 million in capital costs and \$57 million in operations

and maintenance costs) in customer rates.

11. Applicants' request to receive two-way balancing accounting treatment of forecasted and actual costs associated with the twelve projects, on an aggregate basis, as presented in this Application should be denied.

12. Applicants should be authorized to receive one-way balancing account treatment of forecasted and actual costs associated with the twelve projects, on an aggregate basis, as presented in this Application in order to require Applicants to refund ratepayers of any over-collection in the revenue requirements authorized herein. One-way balancing account treatment will be applied on an aggregate basis where the total combined O&M and capital costs will be compared to the corresponding forecasted amounts approved in this decision. To the extent there is an overspending in the actual, aggregate costs incurred relative to the PSEP aggregate costs authorized at completion of the PSEP projects forecasted herein, the revenue requirements associated with the overall cost overrun will not be subject to balancing account treatment and appropriate adjustments will be made to the applicable PSEP balancing accounts to ensure ratepayers do not pay for these costs.

13. Applicants should be authorized to file their proposed preliminary statements submitted with the prepared direct testimony of Reginal Austria for the authorized balancing accounts.

14. Applicants should be authorized to subdivide the existing SECCBAs into two subaccounts (i.e. SECCBA Phase 1A Subaccount and SECCBA Phase 1B Subaccount), as proposed in the Application.

15. Applicants should be authorized to subdivide the existing SEEBAs into two subaccounts (i.e. SEEBAs Phase 1A Subaccount and SEEBAs Phase 1B Subaccount), as proposed in the Application.

16. Applicants should be authorized to create two new one-way balancing accounts (SECCBA-P2 and SEEBAs-P2) to record Phase 2 PSEP projects costs and/or revenue requirements authorized herein and to transfer costs tracked in the PSEMs into these new SECCBA-P2 and SEEBAs-P2 balancing accounts.

17. Applicants should be authorized to allocate the authorized revenue requirements herein by functional area, consistent with the Commission's decision in D.16-12-063, such that costs functionalized as high pressure distribution are allocated using the existing marginal demand measures for high pressure distribution.

18. Applicants should be authorized to implement in transportation rates the authorized revenue requirements associated with the twelve projects proposed in the Application effective its next scheduled rate change or January 1 of the year following a decision on this Application via Tier 1 Advice Letter.

19. Applicants should be authorized to balance, on an aggregate basis, the actual capital and operations and maintenance revenue requirements with the associated forecasted revenue requirements and address any differences, as appropriate, in the Applicants' Annual Regulatory Account Balance Update Tier 2 Advice Letter filing with the Commission, as specifically authorized in this decision and described in detail in Conclusion of Law 12.

20. Applicants should be authorized to recover the ongoing capital-related revenue requirements associated with capital expenditures approved in this proceeding through a Tier 2 Advice Letter until such costs are incorporated in

base rates in connection with Applicants' next General Rate Case proceeding, as specifically authorized in this decision.

21. Issue 16 in the Scoping Memo is moot and should be dismissed as all pending motions or requests for information in this proceeding have been resolved.

22. Issue 17 in the Scoping Memo is moot and should be dismissed as all pending motions or requests for information in this proceeding have been resolved.

23. Applicants' forecasted capital costs associated with completion of the twelve projects presented in the Application in the amount of \$197.5 million should be adopted and approved.

24. Applicants' forecasted operations and maintenance costs associated with completion of the twelve projects presented in the Application in the amount of \$57 million should be adopted and approved.

25. Applicants' cumulative forecasted 2019 revenue requirements of approximately \$44.6 million for SoCalGas and \$562,000 for SDG&E, associated with completion of the twelve projects in the Application are just and reasonable, and should be adopted and approved.

26. Applicants should be authorized to recover in rates the cumulative forecasted 2019 revenue requirements associated with completion of the twelve projects in the Application in the amounts of approximately \$44.6 million for SoCalGas and \$562,000 for SDG&E.

O R D E R**IT IS ORDERED** that:

1. Southern California Gas Company and San Diego Gas & Electric Company's proposed Phase 2A Decision Tree presented in the Application is approved.
2. Southern California Gas Company and San Diego Gas & Electric Company's request for: (1) approval of the total forecasted revenue requirements and associated rate recovery for certain Pipeline Safety Enhancement Plan projects identified as part of Phases 1B and 2A; and (2) authority to (a) modify the existing Safety Enhancement Expense Balancing Accounts and Safety Enhancement Capital Cost Balancing Accounts in order to record costs discretely for Phase 1B projects, and (b) create new balancing accounts to record costs for Phase 2 projects, are granted as specifically provided below.
3. Southern California Gas Company and San Diego Gas & Electric Company's plans to execute the twelve Phase 1B and Phase 2A safety enhancement projects presented in this Application are approved, as specifically authorized below.
4. Southern California Gas Company and San Diego Gas & Electric Company shall proceed with the execution of nine Phase 1B projects previously approved by the Commission, and three Phase 2A projects in compliance with Decision 11-06-017.
5. Southern California Gas Company and San Diego Gas & Electric Company's forecasts of costs associated with the completion of the nine Phase 1B projects and the three Phase 2A projects presented in the Application are authorized.

6. Southern California Gas Company and San Diego Gas & Electric Company's forecasted capital costs associated with completion of the twelve projects presented in the Application in the amount of \$197.5 million are approved and adopted.

7. Southern California Gas Company and San Diego Gas & Electric Company's forecasted operations and maintenance costs associated with completion of the twelve projects presented in the Application in the amount of \$57 million are approved and adopted.

8. Southern California Gas Company and San Diego Gas & Electric Company shall recover the total revenue requirements (i.e., associated with \$197.5 million in capital costs and \$57 million in operations and maintenance costs) associated with the twelve projects in the Application in customer rates.

9. Southern California Gas Company and San Diego Gas & Electric Company shall recover the cumulative forecasted 2019 revenue requirements associated with completion of the twelve projects in the Application in the amounts of approximately \$44.6 million for SoCalGas and \$562,000 for SDG&E.

10. Southern California Gas Company and San Diego Gas & Electric Company shall remediate the Line 127 project presented in this application through non-destructive examination rather than replacement recommended in the Decision Tree.

11. Southern California Gas Company and San Diego Gas & Electric Company's request to receive two-way balancing accounting treatment of forecasted and actual costs associated with the twelve projects, on an aggregate basis, as presented in this Application is denied.

12. Southern California Gas Company and San Diego Gas & Electric Company shall receive one-way balancing account treatment of forecasted and actual costs

associated with the twelve projects, on an aggregate basis, as presented in this Application in order to require Southern California Gas Company and San Diego Gas & Electric Company to refund ratepayers any over-collection in the revenue requirements authorized herein. One-way balancing account treatment will be applied on an aggregate basis where the total combined O&M and capital costs will be compared to the corresponding forecasted amounts approved in this decision. To the extent there is an overspending in the actual, aggregate costs incurred relative to the PSEP aggregate costs authorized at completion of the PSEP projects forecasted herein, the revenue requirements associated with the overall cost overrun will not be subject to balancing account treatment and appropriate adjustments will be made to the applicable PSEP balancing accounts to ensure ratepayers do not pay for these costs.

13. Southern California Gas Company and San Diego Gas & Electric Company shall file with the Commission their proposed preliminary statements submitted with the prepared direct testimony of Reginal Austria for the authorized balancing accounts, as specifically authorized herein.

14. Southern California Gas Company and San Diego Gas & Electric Company shall subdivide the existing Safety Enhancement Capital Cost Balancing Accounts into the two subaccounts (i.e. SECCBA Phase 1A Subaccount and SECCBA Phase 1B Subaccount), as proposed in the Application.

15. Southern California Gas Company and San Diego Gas & Electric Company shall subdivide the existing Safety Enhancement Expense Balancing Accounts into the two subaccounts (i.e. SEEBA Phase 1A Subaccount and SEEBA Phase 1B Subaccount), as proposed in the Application.

16. Southern California Gas Company and San Diego Gas & Electric Company shall create two new one-way balancing accounts for Phase 2 PSEP projects, namely, the Safety Enhancement Expense Balancing Account – Phase 2 (SEEBA-P2); and the Safety Enhancement Capital Cost Balancing Account (SECCBA-P2), and are authorized to transfer costs tracked in the Pipeline Safety Enhancement Memorandum Accounts into these new SECCBA-P2 and SEEBA-P2 balancing accounts.

17. Southern California Gas Company and San Diego Gas & Electric Company shall allocate the authorized revenue requirements herein by functional area, consistent with the Commission’s Decision 16-12-063, such that costs functionalized as high pressure distribution are allocated using the existing marginal demand measures for high pressure distribution.

18. Southern California Gas Company and San Diego Gas & Electric Company shall implement in transportation rates the authorized revenue requirements associated with the twelve projects proposed in the Application effective its next scheduled rate change or January 1 of the year following this Decision in this Application via Tier 1 Advice Letter.

19. Southern California Gas Company and San Diego Gas & Electric Company shall balance, on an aggregate basis, the actual capital and operations and maintenance revenue requirements with the associated forecasted revenue requirements and address any differences, as appropriate, in the Applicants’ Annual Regulatory Account Balance Update Tier 2 Advice Letter filing with the Commission, as specifically authorized in this decision and described in detail in Ordering Paragraph 12.

20. Southern California Gas Company and San Diego Gas & Electric Company shall recover the ongoing capital-related revenue requirements associated with capital expenditures approved in this proceeding through a Tier 2 Advice Letter until such costs are incorporated in base rates in connection with Southern California Gas Company and San Diego Gas & Electric Company's next General Rate Case proceeding, as specifically authorized in this decision.

21. Southern California Gas Company and San Diego Gas & Electric Company shall address the incidental and accelerated mileage included in this Application within the scope of projects presented in this Application and authorized herein.

22. Issue 16 in the August 28, 2017 Scoping Memo and Ruling of Assigned Commissioner is dismissed as moot.

23. Issue 17 in the August 28, 2017 Scoping Memo and Ruling of Assigned Commissioner is dismissed as moot.

24. The request to place: (a) Southern California Gas Company and San Diego Gas & Electric Company's Attachment A to their January 22, 2018 Motion To Strike Portions of Direct Testimony Provided by Cal Advocates; (b) Public Advocate's Office of the Public Utilities Commission's (Cal Advocates') Workpapers, supporting attachments (including ORA-06-C; ORA-06-HC; ORA-09-C; and ORA-09-HC) submitted by Cal Advocates on December 11, 2017 with its testimony; and (c) Confidential Attachments B-G to TURN-SCGC Exhibit 01, under seal as confidential materials under Rule 11.4, and/or General Order 66-C, is granted for three years from the date of this decision. The above confidential materials shall remain under seal for three years. During the three-year period, this information shall not be publicly disclosed except on further Commission order or by an Administrative Law Judge ruling. If the parties believe that it is necessary for this information to remain under seal for

longer than three years, the parties may file new motions showing good cause for extending this order by no later than 30 days before the expiration of this order.

25. All pending motions in this proceeding that are not specifically addressed in this decision, or previously addressed in this proceeding, are denied.

26. Application 17-03-021 is closed.

This order is effective today.

Dated _____, at San Francisco, California.

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