BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

Application of San Diego Gas & Electric Company (U 902 G) and Southern California Gas Company (U 904 G) to Recover Costs Recorded in their Pipeline Safety and Reliability Memorandum Accounts.	Application 14-12-016 (Filed December 17, 2014)

OPENING BRIEF OF SOUTHERN CALIFORNIA GAS COMPANY (U 904 G) AND SAN DIEGO GAS & ELECTRIC COMPANY (U 902 G)

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SUMMARY OF RECOMMENDATIONS

Southern California Gas Company (SoCalGas) and San Diego Gas & Electric Company (SDG&E) respectfully request that the California Public Utilities Commission (Commission) take the following actions:

Legal Standards

- Apply the evidentiary standard of the preponderance of the evidence;
- Apply the reasonable manager standard to review the costs presented in this Application;
- Find that SoCalGas and SDG&E's actions comport with those of a reasonable manager;
- Confirm that competitive bidding practices is one way by which to demonstrate the reasonableness of costs;

Compliance with D.14-06-007

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

SoCalGas and SDG&E's Pipeline Safety Enhancement Plan

- Find that SoCalGas and SDG&E implemented reasonable oversight and control of their PSEP activities;
- Find that SoCalGas and SDG&E appropriately followed their approved Decision Tree process;
- Find that SoCalGas and SDG&E's safety enhancement activities comply with state and federal regulations;
- Find that SoCalGas and SDG&E's retention of external contractor personnel to augment internal company personnel and complete safety enhancement as soon as practicable was reasonable;
- Find that SoCalGas and SDG&E implemented reasonable contracting and procurement practices to promote cost effective safety enhancement efforts;
- Find that the Performance Partnership Program is a reasonable means to engage construction contractors;

- Find that SoCalGas and SDG&E implemented a reasonable process to track and verify the accuracy of PSEP costs;

Costs Recorded in the Pipeline Safety and Reliability Memorandum Accounts

- Find that SoCalGas and SDG&E's pipeline safety enhancement costs, presented for review and recovery in this Application, are reasonable;
- Find the costs to pressure test Line 2000-A reasonable and approve cost recovery in the amount of $26,374,878;
- Find the costs to replace Line 42-66-1 and abandon Line 42-66-2 reasonable and approve cost recovery in the amount of $813,327;
- Find the costs to pressure test Playa del Rey Phases 1 and 2 reasonable and approve cost recovery in the amount of $683,036;
- Find the costs associated with descoped projects reasonable and approve cost recovery in the amount of $367,559;
- Find SoCalGas and SDG&E's Program Management Office (PMO) costs reasonable and approve recovery in the amount of $2,116,361;
- Find SoCalGas and SDG&E's interim safety measure costs reasonable and approve recovery in the amount of $1,620,106;
- Find pressure protection equipment costs reasonable and approve recovery in the amount of $317,366;
- Find the costs of SoCalGas and SDG&E's other remediation activities reasonable and approve recovery in the amount of $484,031;
- Find that SoCalGas and SDG&E's facilities build-out costs reasonable approve recovery in the amount of $2,882,687;

Revenue Requirement and Cost Allocation

- Approve recovery of the SoCalGas revenue requirement of $26.81 million and SDG&E revenue requirement of $0.08 million;
- Confirm that SoCalGas and SDG&E correctly allocated costs to the backbone and local transmission rate categories;
- Clarify the method to allocate high pressure distribution costs;

- Approve SoCalGas and SDG&E's request to file Tier 1 Advice Letters to update the revenue requirements authorized by the Commission, including memorandum account interest, and incorporate the updated revenue requirements into rates on the first day of the next month following advice letter approval or in connection with other authorized rate changes implemented by SoCalGas and SDG&E; and

- Approve SoCalGas and SDG&E's request to file Tier 2 Advice Letters to incorporate future-year revenue requirements, associated with reasonably-incurred capital expenditures approved in this proceeding, into rates.

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I. INTRODUCTION AND SUMMARY

Southern California Gas Company (SoCalGas) and San Diego Gas & Electric Company (SDG&E) hereby present their Opening Brief in this Application (A.) to Recover Costs Recorded in their Pipeline Safety and Reliability Memorandum Accounts (PSRMAs). In this Application, SoCalGas and SDG&E explain the activities performed and costs incurred in response to the California Public Utilities Commission's (Commission or CPUC) safety enhancement orders. SoCalGas and SDG&E should be authorized to recover the costs presented in this Application because the costs were incurred to complete work that was mandated by the Commission and is required under State law, SoCalGas and SDG&E activities comply with Commission decisions and guidance, SoCalGas and SDG&E acted as a reasonable managers in implementing mandated safety enhancement work, and the costs incurred for safety enhancement work presented in this Application are reasonable.

Through PSEP, SoCalGas and SDG&E are tasked with simultaneously executing numerous unique and discreet projects as expeditiously as practicable, while continuing to maintain safe and reliable natural gas service to their customers. This requires SoCalGas and SDG&E to separately design, plan, and construct multiple projects in a coordinated and concerted manner.[1] As explained in greater detail below despite these challenges, the PSEP projects presented in this Application were initiated and completed successfully and reasonably and the associated costs should be recovered in rates.

In Section II, SoCalGas and SDG&E explain the impetus for SoCalGas and SDG&E's Pipeline Safety Enhancement Plan (PSEP) and the history of this Application and the Commission's safety enhancement efforts. Section III addresses the legal standards to be applied in this proceeding. Section IV addresses SoCalGas and SDG&E's compliance with D.14-06-007. Section V discusses SoCalGas and SDG&E's PSEP organization, standards, and practices. Section VI discusses the costs presented in this Application. Sections VII explains the revenue requirement and cost allocation associated with the costs presented in this Application.

II. BACKGROUND

On September 9, 2010, a 30-inch diameter 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 Commission issued Resolution L-403, which found the San Bruno incident to be an "unforeseen emergency of local and statewide importance requiring immediate action by the Commission."[2] In that same resolution, the Commission ordered PG&E to, among other things, "conduct an accelerated leak survey of all natural gas transmission pipelines, giving priority to segments in class 3 and class 4 locations, within one month of the date of this letter and take corrective action as required and report the results to the Commission's Executive Director on or before October 12, 2010,"[3] "prepare a plan for a complete safety inspection of PG&E's entire natural gas transmission pipeline system and

[1] Ex. SCG-05 (Phillips) at 2.
[2] Commission Resolution No. L-403, Issued September 24, 2010, at 5.
[3] Commission Resolution No. L-403, Issued September 24, 2010, at 12 (Ordering Paragraph 12).

provide the plan to the Executive Director immediately,"[4] and took extraordinary steps to restrict the operating pressure on certain PG&E natural gas transmission pipelines.[5] The Commission also stated its intent to create an Independent Review Panel of experts to gather facts and make recommendations related to the incident.[6]

Soon after, on February 24, 2011, the Commission formally expanded its safety enhancement efforts to include the other California natural gas utilities by issuing Rulemaking (R.) 11-02-019, "a forward-looking effort to establish a new model of natural gas pipeline safety regulation applicable to all California pipelines."[7] In March 2011, Assigned Commissioner Florio highlighted the importance of these efforts and stressed that this was not "business as usual:"

> We are dealing with dire issues here concerning our public safety and human life. As we pointed out in the rulemaking, this proceeding is not business as usual, these are extraordinary circumstances, and we need extraordinary efforts to achieve our goal -- to make our natural gas pipeline infrastructure safe and reliable.[8]

SoCalGas and SDG&E, in response to the Commission's statements and instructions, began assessing their own systems to confirm the safety of their natural gas transmission systems. On April 15, 2011, SoCalGas and SDG&E reported to the Commission that it had expeditiously begun reviewing the records of its gas transmission pipeline segments and was actively engaged in developing an action plan to address pipelines in populated areas that lack

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[4] Commission Resolution No. L-403, Issued September 24, 2010, at 12 (Ordering Paragraph 14).
[5] Commission Resolution No. L-403, Issued September 24, 2010, at 11 (Ordering Paragraph 10); s*ee also* D.11-09-006, mimeo., at 6-7 and D.11-12-014, mimeo., at 6.
[6] Commission Resolution No. L-403, Issued September 24, 2010, at 10 (Ordering Paragraph 10).
[7] R.11-02-019, mimeo., at 1.
[8] R.11-02-019, March 24, 2011 Assigned Commissioner's Ruling Adding Items to Previously-Scheduled Comment Cycle, Addressing Ex Parte Contacts, Scheduling Public Participation Hearings, Setting Prehearing Conference and Encouraging Participation by Pipeline Hazardous Materials Safety Administration, at 1.

documentation of a post-construction pressure test to at least 1.25 times the Maximum Allowable Operating Pressure (MAOP) for that segment.[9] SoCalGas and SDG&E further indicated that, pending completion of that plan, they would undertake interim safety measures, including more frequent patrols, more frequent leak surveys, and where possible, pressure reductions, for those segments.[10]

On May 4, 2011, SoCalGas and SDG&E filed a motion requesting the establishment of the PSRMAs in order to track the incremental costs associated with compliance with the Commission's directives in R.11-02-019 ("Motion to Establish the PSRMAs").[11] SoCalGas and SDG&E requested that Commission approval of the PSRMAs be effective February 24, 2011, the date R.11-02-019 was issued.[12]

On June 9, 2011, in Decision (D.)11-06-017, the Commission declared that "natural gas transmission pipelines in service in California must be brought into compliance with modern standards for safety" and ordered all California natural gas transmission pipeline operators "to prepare and file a comprehensive Implementation Plan to replace or pressure test all natural gas transmission pipeline in California that has not been tested or for which reliable records are not available."[13] The Commission required that the plans provide for testing or replacing all such pipelines "as soon as practicable, due to significant public safety concerns."[14] In addition, the Commission required operators to implement interim safety enhancement measures, "including

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[9] *See* R.11-02-019, April 15, 2011, Report of Southern California Gas Company and San Diego Gas & Electric Company on Actions Taken in Response to the National Transportation Safety Board Safety Recommendations.
[10] *See* D.11-06-007, mimeo., at 10-11.
[11] R.11-02-019, May 4, 2011 Motion of Southern California Gas Company and San Diego Gas & Electric Company for Authorization to Establish Pipeline Safety and Reliability Memorandum Account, at 5.
[12] R.11-02-019, May 4, 2011 Motion of Southern California Gas Company and San Diego Gas & Electric Company for Authorization to Establish Pipeline Safety and Reliability Memorandum Account, at 5.
[13] D.11-06-017, mimeo., at 18-19.
[14] D.11-06-017, mimeo., at 20.

increased patrols and leak surveys, pressure reductions, prioritization of pressure testing for critical pipelines that must run at or near [Maximum Allowable Operating Pressure (MAOP)] values which result in hoop stress levels at or above 30% of [Specified Minimum Yield Stress (SMYS)], and other such measures that will enhance public safety during the implementation period."[15]

Because of the urgency and need to proceed "as soon as practicable," pipeline operators, including SoCalGas and SDG&E, were allowed only approximately two and half months to prepare and file their comprehensive natural gas transmission system safety implementation plans.

On August 26, 2011, California pipeline operators, including SoCalGas and SDG&E, filed their comprehensive implementation plans in response to D.11-06-017. SoCalGas and SDG&E's PSEP included a proposed pipeline segment prioritization process, a Decision Tree to guide whether specific segments should be pressure tested, replaced, or abandoned, and a proposed plan to augment existing shutoff valves and retrofit pipelines to allow for in-line inspection. The PSEP also included proposed technology enhancements, a proposal to develop an Enterprise Asset Management System blueprint, and preliminary cost forecasts.[16]

On December 2, 2011, SoCalGas and SDG&E amended their PSEP to include supplemental testimony to address issues identified in an Amended Scoping Ruling issued on November 2, 2011.[17]

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[15] D.11-06-017, mimeo., at 29 (Ordering Paragraph 5).
[16] *See* R.11-02-019, August 26, 2011, Pipeline Safety Enhancement Plan of Southern California Gas Company and San Diego Gas Company Pursuant to D.11-06-017, Requiring all California Natural Gas Transmission Operators to File a Natural Gas Transmission Pipeline Comprehensive Pressure Testing Implementation Plan.
[17] *See* R.11-02-019, December 2, 2011, Amended Pipeline Safety Enhancement Plan of Southern California Gas Company and San Diego Gas & Electric Company Pursuant to D.11-06-017, Requiring all

On December 21, 2011, assigned Commissioner Florio issued a ruling seeking comments on the possible reassignment of SoCalGas' and SDG&E's PSEP to SoCalGas and SDG&E's Triennial Cost Allocation Proceeding (TCAP) –A.11-11-002.[18] On January 13, 2012, SoCalGas and SDG&E filed comments supporting the transfer of PSEP to A.11-11-002 and providing further detail on the proposed PSRMAs.[19]

On April 19, 2012, in D.12-04-021, the Commission transferred SoCalGas and SDG&E's PSEP to A.11-11-002 and authorized SoCalGas and SDG&E to create a "memorandum account to record for later Commission ratemaking consideration the escalated direct and incremental overhead costs of its Pipeline Safety Enhancement Plan, as described in Attachment A to their January 13, 2012, filing, and costs of document review and interim safety measures as set forth in Attachment B to the January 13, 2012, filing."[20] In so ordering, the Commission again reminded SoCalGas and SDG&E of their obligation to test or replace "as soon as practicable."[21] On May 18, 2012, the PSRMAs were established pursuant to SoCalGas and SDG&E Advice Letters 4359 and 2106-G.[22]

California Natural Gas Transmission Operators to File a Natural Gas Transmission Pipeline Comprehensive Pressure Testing Implementation Plan.

[18] R.11-02-019, December 21, 2011 Assigned Commissioner's Ruling Modifying Schedule to Allow Operators to Respond to Consumer Protection and Safety Division Reports and Providing Further Direction on the Reassignment of Certain Reasonableness, Cost Allocation, and Cost Recovery Issues from the Rulemaking to Another Proceeding, at 2.

[19] In R.11-02-019, January 13, 2012, Comments of Southern California Gas Company and San Diego Gas & Electric Company in Response to Assigned Commissioner's Ruling and Supplemental to Request for Memorandum Accounts, SoCalGas and SDG&E provided two attachments to their filing: Attachment A provided PSEP work estimates and Attachment B showed current and forecast costs for interim safety measures and records review.

[20] D.12-04-021, mimeo., at 12 (Ordering Paragraph 3). SoCalGas and SDG&E were authorized to continue to record and report on PSEP costs in the PSMRAs per the July 26, 2013 Administrative Law Judge's Ruling to Continue Tracking Interim Pipeline Safety Enhancement Plan Costs in Authorized Memorandum Accounts in A.11-11-002.

[21] D.12-04-021, mimeo., at 2.

[22] Ex. SCG-01 (Phillips) at 3.

During 2012, SoCalGas and SDG&E initiated implementation of their PSEP. SoCalGas and SDG&E's efforts to begin this safety enhancement work in a timely manner were spurred by the Commission's consistent instructions that safety enhancement work must proceed "as soon as practicable."[23] As such, soon after SoCalGas and SDG&E filed their PSEP, but prior to a Commission decision on the PSEP, SoCalGas and SDG&E began development of the PSEP Organization and work on higher priority PSEP projects.[24]

First, in light of the volume and scope of PSEP work expected to be performed, and the Commission's directive to implement safety enhancement work "as soon as practicable," in 2012, SoCalGas and SDG&E undertook efforts to engage contractors to augment SoCalGas and SDG&E's resources. This included engaging the market to acquire contractors to provide support services in the area of the Program Management Office (PMO), engineering design, project controls, supply management, and environmental.[25]

Consistent with the prioritization process described in the PSEP, SoCalGas and SDG&E began work on higher priority PSEP projects, the costs for three of which are presented in this Application. In October 2012, SoCalGas and SDG&E began defining the scope of a pressure test project at the Playa del Rey storage field and initiated scoping and engineering design work for Line 2000-A.[26] In November 2012, SoCalGas and SDG&E initiated engineering design work on Lines 42-66-1 and 42-66-2.[27] Shortly thereafter, in December 2012, in recognition of the large amount of work expected to be initiated and large growth in the PSEP workforce,

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[23] Ex. SCG-01 (Phillips) at 5; *see also* D.11-06-017, mimeo., at 19, 20, 29 (Conclusion of Law 5) and 31 (Ordering Paragraph 5) and D.12-04-021, mimeo., at 2.
[24] Ex. SCG-01 (Phillips) at 6.
[25] Ex. ORA-03 at 216; *see also* Ex. SCG-04 (Phillips) at 7-20.
[26] Ex. SCG-08 (Mejia) at 18 and 31.
[27] Ex. SCG-08 (Mejia) at 28.

SoCalGas and SDG&E began evaluating options to acquire additional work space to house the PSEP organization.[28]

On December 20, 2012, the Commission issued D.12-12-030, which approved PG&E's safety enhancement plan and again recognized the "public safety challenges" of the natural gas system and the "extreme public safety consequences of neglecting safe system construction and operation."[29] The Commission further stressed the need to "expeditiously" enhance the safety of PG&E's natural gas system.[30]

After again seeing the Commission stress the importance of expeditiously addressing safety enhancement work, SoCalGas and SDG&E continued their efforts, still absent a decision approving their proposed PSEP, to enhance the safety of their natural gas transmission system. In January 2013, construction began on the Playa Del Rey Phase 1 and 2 pressure test.[31] In June 2013, construction began on the Line 2000-A pressure test.[32] In October 2013, construction began on the Line 42-66-1 replacement and Line 42-66-2 abandonment.[33] By 2014, in addition to the completed projects presented in this application (Playa Del Rey Phase 1 and 2, Line 2000-A, and Lines 42-66-1 and 42-66-2), SoCalGas and SDG&E had also initiated over 100 replacement, pressure test, and valve enhancement projects to be presented in future reasonableness review applications.[34] As a result, by the latter half of 2013, the PSEP workforce (contractors and employees) had increased significantly when compared to earlier 2012

[28] *See* Ex. SCGC-TURN-02-C (Yap) at Attachment C (SoCalGas and SDG&E Response to SCGC-04, Question 4.3.10).
[29] D.12-12-030, mimeo., at 43.
[30] D.12-12-030, mimeo., at 126 (Ordering Paragraph 1).
[31] Ex. SCG-08 (Mejia) at 33.
[32] Ex. SCG-08 (Mejia) at 21.
[33] Ex. SCG-08 (Mejia) at 30.
[34] Ex. SCG-01 (Phillips) at 6; Ex. SCG-02 (Phillips) at 11.

numbers.[35] Throughout the period of 2011 to 2014, the Commission repeatedly stated the importance of completing safety enhancement work "as soon as practicable."[36] SoCalGas and SDG&E heard and complied with the Commission's clear instructions; creating an entirely new PSEP organization and beginning work to enhance the safety of their transmission system.[37] All of this work occurred absent a decision on SoCalGas and SDG&E's PSEP, but was done to confirm the safety of SoCalGas and SDG&E's system and respond to Commission directives to complete safety enhancement work expeditiously.[38]

On June 12, 2014, in D.14-06-007, the Commission approved SoCalGas and SDG&E's PSEP, with some limited exceptions, but did not authorize the pre-approval of PSEP implementation costs. Specifically, the decision "adopt[ed] the concepts embodied in the Decision Tree,"[39] "adopt[ed] the intended scope of work as summarized by the Decision Tree,"[40] and "adopt[ed] the Phase 1 analytical approach for Safety Enhancement…as embodied in the Decision Tree…and related descriptive testimony."[41] Rather than preapprove cost recovery based on SoCalGas and SDG&E's preliminary cost forecasts, the Commission adopted a process for reviewing and approving PSEP implementation costs after-the-fact.[42] For the costs recorded in the PSRMAs, SoCalGas and SDG&E were ordered to "file an application with testimony and

[35] Ex. SCGC-TURN-02-C (Yap) at Attachment C (SoCalGas and SDG&E Response to SCGC Data Response, Question 4.3) and Attachment E (SoCalGas and SDG&E Response to SCGC-TURN Data Response 12, Questions 12.3, 12.4, 12.5, and 12.7).
[36] D.11-06-017, mimeo., at 19, 20, 29 (Conclusion of Law 5) and 31 (Ordering Paragraph 5); *see also* D.12-04-021, mimeo., at 2.
[37] Ex. SCG-01 (Phillips) at 5-6.
[38] Ex. SCG-01 (Phillips) at 5-6.
[39] D.14-06-007, mimeo., at 2.
[40] D.14-06-007, mimeo., at 22.
[41] D.14-06-007, mimeo., at 59 (Ordering Paragraph 1).
[42] D.14-06-007, mimeo., at 26 and 59 (Ordering Paragraph 2).

work papers to demonstrate the reasonableness of the costs incurred which would justify rate recovery."[43]

On December 17, 2014, SoCalGas and SDG&E filed A.14-12-016 requesting review and recovery of certain capital and O&M expenditures recorded in their PSRMAs. SoCalGas and SDG&E amended the Application on July 8, 2015 to withdraw certain requests and reduce certain costs and the corresponding revenue requirement.

III. LEGAL STANDARDS

A. Standard of Proof

The standard of proof to be applied in this proceeding is the preponderance of the evidence.[44] Preponderance of the evidence was the standard previously used in determining the reasonableness of SoCalGas and SDG&E's PSEP,[45] and is 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.'"[46] Meaning, SoCalGas and SDG&E "must present more evidence that supports the requested result than would support an alternative outcome."[47]

Here, as explained further below, SoCalGas and SDG&E have ample evidence that the activities undertaken were consistent with those of a reasonable manager, based on the information the utilities had at the time, and the associated costs were reasonably incurred.

B. Reasonable Manager Standard

The standard established by the Commission to assess the reasonableness of utility costs is the reasonable manager standard. To meet this standard, "[t]he act of the utility should

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[43] D.14-06-007, mimeo., at 39.
[44] A.14-12-016, April 1, 2015, Assigned Commissioner and Administrative Law Judges' Scoping Memo and Ruling, at 5.
[45] D.14-06-007, mimeo., at 13 *referencing* D.12-12-030, mimeo., at 44.
[46] D.14-06-007, mimeo., at 13, D.08-12-058; citing Witkin, Calif. Evidence, 4th Edition, Vol. 1, 184.
[47] D.14-06-007, mimeo., at 13.

comport with what a reasonable manager of sufficient education, training, experience and skills using the tools and knowledge at his disposal would do when faced with a need to make a decision and act."[48] Under this standard, the Commission holds utilities to "a standard of reasonableness based upon the facts that are known or should have been known at the time."[49] In other words, the utility's actions are evaluated on the basis of facts and circumstances the utility knew or should have known when the utility made the decision or took the action. As explained by the Commission, this is to "avoid the application of hindsight in reviewing the reasonableness of a utility decision."[50]

As explained elsewhere by the Commission, "reasonable and prudent acts do not require perfect foresight or optimum outcomes, but may fall within a spectrum of possible acts consistent with utility needs, ratepayer interests, and regulatory requirements."[51] While the act of the utility should "logically be expected, at the time the decision is made, to accomplish the desired result at the lowest reasonable cost consistent with good utility practices,"[52] the Commission has explained repeatedly that perfection and foresight are not required:

> No utility manager can have perfect foresight but a prudent manager would seek flexibility to deal with unexpected conditions. The record indicates that Edison was aware of the need for flexibility in its lsfo purchases and was trying to lower the minimum contract volumes and the facilities charge. …. Rather, Edison's efforts were within the spectrum of possible actions a prudent and reasonable manager would take under the circumstances.[53]

Further, the Commission has looked to the decision making process and information available to the manager to assess whether the course of action was within the "bounds of reasonableness:"

[48] D.90-09-088, mimeo., at 16.
[49] D.90-09-088 (*cited in* D.11-10-002, mimeo., at 11, Footnote 2).
[50] D.90-09-088, mimeo., at 15.
[51] D.90-09-088, mimeo., at 16; D.97-08-055, mimeo., at 54.
[52] D.90-09-088, mimeo., at 16.
[53] D.87-06-021, mimeo., at 23.

> Thus, a decision may be found to be reasonable and prudent if the utility shows that its decision making process was sound, that its managers considered a range of possible options in light of information that was or should have been available to them, and that its managers decided on a course of action that fell within the bounds of reasonableness, even if it turns out not to have led to the best possible outcome. As we have previously stated, the action selected should logically be expected, at the time the decision is made, to accomplish the desired result at the lowest reasonable cost consistent with good utility practices.[54]

Finally, where parties challenge the utility's showing, "such parties have the burden of producing evidence in support of such challenge and in support of adoption of their recommended ratemaking disallowance or adjustment, but the ultimate burden of proof of reasonableness is never shifted from the utility to the challenging parties."[55]

C. SoCalGas and SDG&E's Actions are Consistent with those of a Reasonable Manager

Under the reasonable manager standard, the Commission must consider SoCalGas and SDG&E's desired result and the facts and circumstances known at the time they began working toward that result. Here, SoCalGas and SDG&E's desired result was to comply with Commission directives to enhance the safety of their natural gas transmission system cost effectively and expeditiously.[56] In achieving this result, SoCalGas and SDG&E knew that their safety enhancement efforts were driven by a "catastrophic" event.[57] SoCalGas and SDG&E knew that, because of this event, the Commission had declared a state of local and state

[54] D.89-02-074, mimeo., at 169 (Conclusion of Law 3).
[55] D.87-12-067, mimeo., at 297 (Finding of Fact 3); *see also* D.94-03-050, mimeo., at 223 (Finding of Fact 10) ("Where other parties challenge the utility's showing as to its prudence, those parties bear the burden of presenting competent evidence in support of such challenges and in support of their ratemaking disallowances but the ultimate burden of proof of reasonableness is never shifted from the utility to the challenging parties.")
[56] Ex. SCG-01 (Phillips) at 6.
[57] Commission Resolution No. L-403, Issued September 23, 2010, at 2 ("San Bruno explosion may be the largest transmission pipeline explosion in an urban/suburban setting in U.S. history, certainly the most catastrophic in California history.")

emergency.[58] SoCalGas and SDG&E knew that they had been ordered to pursue the safety enhancement efforts, which were the largest infrastructure enhancement plan in their history,[59] "as soon as practicable," to address "significant public safety concerns."[60] SoCalGas and SDG&E also knew that they are required to maintain safe and reliable service to customers and that existing resources and personnel were insufficient to implement and execute such a significant undertaking.[61] It is also important to consider what was not known. Particularly, because of the need to act expeditiously, SoCalGas and SDG&E took actions and incurred costs prior to a Commission Decision on SoCalGas and SDG&E's PSEP. Meaning, all of the actions presented in this Application were taken without the benefit of the guidance, structure, and findings issued in D.14-06-007. As explained more fully in Sections V and VI, this knowledge, or lack of knowledge, frames SoCalGas and SDG&E's early PSEP efforts.

Organizationally, SoCalGas and SDG&E knew that the work to be done over the coming years was extensive. SoCalGas and SDG&E knew they would need to develop a PSEP organization and augment internal resources to initiate and execute the hundreds of valve, pressure test, and replacement projects to be addressed as part of PSEP. SoCalGas and SDG&E knew that existing resources would be insufficient to implement and execute PSEP work "as soon as practicable."[62] Based on this knowledge, SoCalGas and SDG&E took reasonable steps to develop a PSEP organization and engage external contractors.[63]

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[58] Commission Resolution No. L-403, Issued September 24, 2010, at 5.
[59] Ex. SCG-05 (Phillips) at 4.
[60] D.11-06-017, mimeo., at 20.
[61] Ex. SCG-05 (Phillips) at 4.
[62] Ex. SCG-05 (Phillips) at 5.
[63] Ex. SCG-05 (Phillips) at 5.

For Line 2000-A, SoCalGas and SDG&E knew it was a high priority pipeline.[64] SoCalGas and SDG&E knew beginning Line 2000-A work with existing SoCalGas resources would allow for more expeditious completion of the pressure test.[65] SoCalGas and SDG&E knew that transitioning Line 2000-A to the PSEP Organization during construction would enable greater oversight of this project and allow the newly-formed PSEP Organization to engage in management of this early PSEP project.[66] SoCalGas and SDG&E knew that using some form of competitive bidding would help manage costs.[67] Based on this knowledge, and given the Commission's clear instructions to complete safety enhancement work "as soon as practicable," it was reasonable for SoCalGas and SDG&E to bid the majority of project costs and take steps to pressure test the project expeditiously. Notably, Line 2000-A was pressure tested successfully and on schedule.[68]

For Lines 42-66-1 and 42-66-2, SoCalGas and SDG&E knew this was a seventy-year old, extremely short, length of pipe, and SoCalGas and SDG&E knew there were potential customer natural gas shut-in concerns associated with pressure testing.[69] SoCalGas and SDG&E knew that these short segments would be identified for replacement under their PSEP Decision Tree.[70] SoCalGas and SDG&E also knew that a replacement project could be configured in a manner that would enable Line 42-66-2 to be abandoned, thereby lowering costs for customers.[71] SoCalGas and SDG&E also knew that tasking the SoCalGas Distribution Region Organization with this work, with oversight by the PSEP Organization, would allow for prompt replacement of

[64] Ex. SCG-09 (Mejia) at 19.
[65] Ex. SCG-08 (Mejia) at 18.
[66] Ex. SCG-09 (Mejia) at 19.
[67] Ex. SCG-09 (Mejia) at 21-25.
[68] Ex. SCG-09 (Mejia) at 21.
[69] Ex. SCG-08 (Mejia) at 28.
[70] Ex. SCG-08 (Mejia) at 28.
[71] *See* Ex. SCG-09 (Mejia) at 40.

Line 42-66-1 and abandonment of Line 42-66-2.[72] Based on this knowledge, SoCalGas and SDG&E had the SoCalGas Distribution Region Organization begin this project and, to help manage costs, procured the majority of direct costs through some form of competitive solicitation.[73] As such, SoCalGas and SDG&E reasonably executed this high priority PSEP replacement project.

For Playa del Rey, SoCalGas and SDG&E knew that certain piping at the storage field needed to be tested or replaced as part of PSEP.[74] SoCalGas and SDG&E knew that a larger infrastructure project had been initiated at the Playa del Rey storage field and that an experienced contractor was onsite to perform that work.[75] Based on that knowledge, SoCalGas and SDG&E reasonably determined to accelerate the Playa del Rey PSEP pressure test and use the construction contractor already performing work at the storage field for that pressure testing project.[76] SoCalGas and SDG&E actions comported with those of a reasonable manager.

D. The Costs Presented for Review in this Application are Reasonable

The costs presented in this Application were incurred because of SoCalGas and SDG&E's efforts to cost effectively enhance the safety of their natural gas transmission system, expeditiously, and without the benefit of formal Commission guidance on their proposed PSEP. As explained more fully in the sections that follow, the costs incurred and presented in this Application are reasonable and should be approved.

In this Application, SoCalGas and SDG&E describe their prudent cost tracking and management efforts. At the organizational and programmatic level, this includes efforts to

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[72] Ex. SCG-08 (Mejia) at 28.
[73] Ex. SCG-10-C (Mejia) at 37.
[74] Ex. SCG-08 (Mejia) at 31.
[75] Ex. SCG-08 (Mejia) at 31-32.
[76] Ex. SCG-08 (Mejia) at 33.

accurately document and track costs and competitively bid contractor support services.[77] At the project and activity level, this includes efforts to realize project-specific efficiencies, accurately document and track costs, and competitively bid materials and contractor services.[78] ORA has acknowledged the accuracy of audited costs and supporting cost documentation presented in this Application. Specifically, ORA audited booked costs and supporting documentation (e.g., invoice, control sheet, and other source data) representing 41% of the total costs in the PSRMAs,[79] and based on that audit recommended no adjustments.[80] As such, the costs presented in this application are accurate, and, as explained below, reflect reasonable efforts to manage and lower costs.

To manage and lower costs and demonstrate reasonableness, SoCalGas and SDG&E have aimed to use competitive bidding practices.[81] In so doing, SoCalGas and SDG&E have endeavored to use competitive market forces to reduce costs and promote market-driven rates and materials.[82] The Commission has previously recognized that "The use of a competitive bidding process would tend to support the reasonableness of the resulting cost."[83] In fact, the Commission has found competitive bidding to be sufficient to determine that the costs were reasonable "Reasonableness of cost may be addressed in a variety of ways. One way is the use of competitive bids. If a project is put out for bid such that a reasonable pool of potential bidders

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77 *See* Ex. SCG-04 (Phillips).
78 *See* Ex. SCG-04 (Phillips).
79 *See* Ex. ORA-02 (Lee).
80 Ex. ORA-02 (Lee) at 3 ("Based solely on the audit, ORA recommends no adjustment to the SCG and SDG&E request of $9.7 million Capital costs and $48.4 million O&M costs recorded in the PSRMA memorandum account during the period from February 24, 2011 to June 12, 2014.")
81 TURN and SCGC Witness Ms. Yap, acknowledged that competitive bidding practices is one way to demonstrate reasonableness. *See* Tr. at 295 (SCGC/TURN/Yap) (Sealed).
82 Ex. SCG-01 (Phillips) at 19; Ex. SCG-04 (Phillips) at 14-16.
83 D.09-06-027, mimeo., at 47.

is made aware of the opportunity, the resulting bids provide some indication of market prices."[84] ORA (then referred to as the DRA or the Division of Ratepayer Advocates), in opposing a Petitions for Modification to defer for one year the competitive bid process for third-party administration of low income energy efficiency programs, pressed for additional competitive bidding to "assure a reasonably priced program."[85] The Commission ultimately granted the Petitions for Modification, but generally agreed with ORA, noting "competitive bidding may not only promote efficient program administration but may also promote innovation and equity."[86] SoCalGas and SDG&E have reasonably used competitive market forces to promote reasonably priced implementation of their PSEP. SoCalGas and SDG&E's PSEP costs, presented for review and recovery in this Application, are reasonable and should be recovered in rates.

IV. SOCALGAS AND SDG&E HAVE COMPLIED WITH THE REQUIREMENTS OF D.14-06-007

A. PSRMA Cost Recovery

In D.14-06-007, the Commission approved the proposed PSEP, with some limited exceptions, but did not authorize the pre-approval of PSEP implementation costs. Rather, in order to recover PSEP costs, SoCalGas and SDG&E were ordered to file an application to demonstrate the reasonableness of the costs and justify rate recovery.[87] The Commission indicated:

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[84] D.09-06-027, mimeo., at 30; *see also* D.00-07-020, mimeo., at 137 (Conclusion of Law 6) ("Based on the experience with competitive bidding for LIEE programs to date, it is reasonable to conclude that bidding can reduce unit costs appreciably, resulting in more homes being weatherized under the program.")

[85] D.07-06-004, mimeo., at 4 ("The Division of Ratepayer Advocates (DRA) filed in opposition to the petitions, arguing that competitive bidding will assure a reasonably priced program, consistent with Commission policy.")

[86] D.07-06-004, mimeo., at 4.

[87] D.14-06-007, mimeo., at 39.

> At a minimum we would expect that SDG&E and SoCalGas could document and demonstrate an overview of the management of Safety Enhancement which might include: ongoing management approved updates to the Decision Tree and ongoing updates similar to the Reconciliation. The companies should be able to show work plans, organization charts, position descriptions, Mission Statements, etc., used to effectively and efficiently manage Safety Enhancement. There would likely be records of contractor selection controls, project cost control systems and reports, engineering design and review controls, and of course proper retention of constructions records, retention of pressure testing records, and retention of all other construction test and inspection records, and records of all other activities mandated to be performed and documented by state or federal regulations.[88]

In this Application, SoCalGas and SDG&E present and describe their compliance with Decision 14-06-007;[89] describe their development of the PSEP organization, policies, and procedures;[90] explain PSEP oversight and documentation of engineering, planning, and construction decisions;[91] and present PSEP costs, activities, and projects.[92] In so doing, SoCalGas and SDG&E demonstrate compliance with D.14-06-007.

B. PSEP Disallowances

In D.14-06-007, the Commission determined that certain PSEP costs should be disallowed. The majority of these costs are associated with post-July 1961 pipelines that do not have sufficient record of a pressure test. Specifically, D.14-06-007 disallowed: the cost of pressure testing post-July 1961 pressure test projects;[93] the system average cost of pressure testing post-July 1961 replacement projects;[94] and the remaining undepreciated book value for

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[88] D.14-06-007, mimeo., at 36-37.
[89] A.14-12-016, mimeo., at 6-7.
[90] Ex. SCG-01 (Phillips) at 5-20; Ex. SCG-07 (Mejia) at 1-8; Ex. SCG-07 (Mejia) at 8-18.
[91] Ex.SCG-04 (Phillips) at 3-6; Ex. SCG-07 (Mejia); Ex. SCG-09 (Mejia) at 5-8.
[92] Ex. SCG-02 (Phillips) Ex. SCG-03 (Phillips); Ex. SCG-04 (Phillips) at 6-7; Ex. SCG-08 (Mejia) at 18-35; and Ex. SCG-09 (Mejia) at 8-13.
[93] D.14-06-007, mimeo., at 34.
[94] D.14-06-007, mimeo., at 34-35

post-July 1961 replacement or abandonment projects.[95] In addition to costs associated with pressure testing post-July 1961 pipelines, D.14-06-007 also disallowed PSEP executive incentive compensation[96] and costs associated with searching for records of pipeline testing.[97]

Consistent with the above, SoCalGas and SDG&E excluded $17.41 million from this Application. This includes $16.94 million for costs associated with searching for records of pipeline testing and $0.47 million for post-July 1961 PSEP pipelines without sufficient record of a pressure test.[98] Because there was no executive salary included in the PSRMAs[99] and no post-July 1961 replacement or abandonment project is included in the Application, there were no costs associated with PSEP executive incentive compensation or undepreciated book value for post-July 1961 replacement or abandonment projects presented in this Application.[100]

V. SOCALGAS AND SDG&E'S PIPELINE SAFETY ENHANCEMENT PLAN

Consistent with Commission directives to begin PSEP work "as soon as practicable," SoCalGas and SDG&E began implementing the Commission's safety directives prior to a Commission determination as to the reasonableness of SoCalGas and SDG&E's proposed PSEP. SoCalGas and SDG&E created the PSEP organization, began developing the necessary PSEP programs and processes, and began PSEP work.[101] As such, safety enhancement efforts continue to evolve and grow as PSEP implementation continues, but are guided by efforts to comply with SoCalGas and SDG&E's PSEP mission to: (1) enhance public safety; (2) comply with the Commission's directives; (3) minimize customer impacts; and (4) maximize the cost-

[95] D.14-06-007, mimeo., at 36
[96] D.14-06-007, mimeo., at 38.
[97] D.14-06-007, mimeo., at 39.
[98] These post-1961 costs are associated with Line 45-163 and pipe segments within the Playa del Rey and Goleta storage fields. Ex. SCG-02 (Phillips) at 2, Footnote 6.
[99] Tr. 257 (SoCalGas/SDG&E/Austria).
[100] Ex. SCG-02 (Phillips) at 2.
[101] Ex. SCG-01 (Phillips) at 5.

effectiveness of safety investment.[102] To accomplish these objectives, SoCalGas and SDG&E developed and created a separate PSEP Organization and PSEP-specific standards and practices.

As of June 2014, when a decision on SoCalGas and SDG&E's PSEP was issued, PSEP work was well underway. In fact, SoCalGas and SDG&E had over 100 projects underway[103] and a PSEP workforce in excess of seven hundred.[104] Activity has increased since then. In Phase 1A alone, SoCalGas and SDG&E expect to address approximately 270 miles of pipeline through approximately 230 PSEP projects.[105] These projects span SoCalGas and SDG&E's 24,000 square mile service territory; including 13 counties and 82 cities.[106]

Each project is unique in terms of scope and complexity, often traversing varying terrain and urban settings, so the costs of addressing and mitigating these conditions are equally varied and unique. The complexities of this Commission-mandated program are heightened by the Commission's requirement that work proceed "as soon as practicable." SoCalGas and SDG&E have risen to these challenges and implemented their PSEP work safely, timely, and reasonably.[107]

A. SoCalGas and SDG&E's PSEP Organization

The PSEP Organization oversees implementation, provides project and process controls during the project life cycle, allows SoCalGas and SDG&E to assess whether projects are on budget and on schedule, and communicates PSEP progress to various stakeholders.[108] The PSEP Organization is responsible for developing, implementing, and overseeing various PSEP-specific

[102] Ex. SCG-01 (Phillips) at 6.
[103] Ex. SCG-01 (Phillips) at 6.
[104] Ex. SCG-05 (Phillips) at 6.
[105] Ex. SCG-05 (Phillips) at 2-3.
[106] Ex. SCG-09 (Mejia) at 1.
[107] Ex. SCG-09 (Mejia) at 1.
[108] Ex. SCG-01 (Phillips) at 7.

standards and practices and initiating PSEP work. To accomplish this massive undertaking, the PSEP Organization includes approximately 200 Company and 500 Contractor personnel (not including construction contractors) working on approximately 230 individual projects in PSEP Phase 1A.[109]

1. <u>Contractor and Supplier Procurement</u>

Due to the aggressive timeframe and magnitude of work to be completed, additional resources (human and otherwise) were needed to augment the utilities' staff and operational capabilities. As such, SoCalGas and SDG&E endeavored to utilize competitive solicitation processes to identify and select qualified contractors and suppliers to support PSEP activities.[110]

In order to obtain necessary PMO expertise, SoCalGas and SDG&E sought out engineering firms with extensive experience managing multi-billion dollar infrastructure projects.[111] To determine which firm to contract with, a multi-step process was employed by SoCalGas and SDG&E. The process began by issuing a Request for Information to seven firms and continued through consideration of proposals, reviews, interviews, and presentations. Following a negotiation process, SoCalGas and SDG&E ultimately awarded the PMO contract to Jacobs Engineering Group (Jacobs).[112] Similar processes were employed to acquire engineering support,[113] environmental support,[114] land services support,[115] and survey and mapping

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[109] Ex. SCG-05 (Phillips) at 6.
[110] *See* Ex. SCG-01 (Phillips) at 19.
[111] Ex. SCG-04 (Phillips) at 8.
[112] Ex. SCG-04 (Phillips) at 8-9.
[113] SoCalGas and SDG&E met with 14 engineering firms to assess their capabilities to provide this service to PSEP. Negotiated agreements were reached with 11 of the 14 firms. SoCalGas and SDG&E validated the reasonableness of the negotiated rates by using an RFP for non-PSEP related engineering services issued by the SoCalGas Gas Engineering Department as a benchmark. The rates for PSEP engineering support were validated as being within range of existing non-PSEP awarded contracts and are consistent across the firms selected. *See* Ex. SCG-04 (Phillips) at 10.
[114] Ex. SCG-04 (Phillips) at 10-11.

support.[116] The solicitation processes are rigorous and designed to validate that SoCalGas, SDG&E, and its customers are receiving the best value.

In addition to PSEP support activities, in order to promote reasonable cost services and materials, SoCalGas and SDG&E, where practicable, competitively solicited bids for materials and services.[117] Specifically SoCalGas and SDG&E generally utilize competitive solicitations for contracts over $75,000. If a competitive solicitation process is not used, a justification is provided. For example, a competitive solicitation may not be conducted if a vendor has specialized skills or products, or there is an existing SoCalGas or SDG&E agreement with previously-negotiated rates that PSEP is able to utilize to avoid administrative costs and achieve the goal of completing work "as soon as practicable." While the $75,000 threshold is utilized to promote the use of competitive solicitations, it is not viewed as a floor, and agreements under $75,000 may be competitively bid.[118] While pricing is a major factor used in the selection process, other factors such as supplier performance, experience, availability, and history are considered.[119]

In addition to generally utilizing competitive forces, PSEP material requisition is designed to promote cost effectiveness and timely delivery of items needed for project construction. To leverage previous efforts to vet and engage vendors, SoCalGas and SDG&E's Approved Manufacturers List is utilized for the supply of materials and equipment needed for the various projects.[120] Whenever possible, PSEP acquires materials by aggregating material needs

[115] Ex. SCG-04 (Phillips) at 11.
[116] Ex. SCG-04 (Phillips) at 11-12.
[117] Ex. SCG-04 (Phillips) at 7; Ex. SCG-09 (Mejia) at 17.
[118] Ex. SCG-09 (Mejia) at 17-18.
[119] Ex. SCG-01 (Phillips) at 19.
[120] Ex.SCG-04 (Phillips) at 12.

from all PSEP projects thereby making periodic buys for larger quantities of materials.[121] These larger purchases enable SoCalGas and SDG&E to obtain more favorable pricing. Project-specific buys are done based on specific design parameters to standardize materials for efficiency and pricing. As appropriate, items may be transferred between projects—reducing the higher cost of last minute buys and shipping costs, as well as potentially avoiding costly delays.[122]

SoCalGas and SDG&E took reasonable steps to cost effectively and expeditiously acquire the resources necessary to begin PSEP implementation.

2. <u>PSEP Organization Contractor and Employee Composition</u>

SoCalGas and SDG&E's PSEP hiring and contractor engagement objective is designed to acquire personnel with the necessary skills and expertise to efficiently plan, execute, and oversee PSEP work while maintaining safe and reliable service to customers.[123] In furtherance of that objective, the PSEP Organization retained both Company and external personnel needed to perform a wide range of project work activities, including project management, project engineering, logistics, purchasing, contracting, project cost and schedule controls, environmental monitoring, and land acquisition.[124]

SCGC and TURN argue that "reliance" on contractors is not a reasonable approach and argue the Commission should disallow approximately one-third of the consulting engineering costs charged for Line 2000-A, Lines 42-66-1 and 42-66-2, Playa Del Rey Phases 1 and 2, and the PMO.[125] In total, SoCalGas and SDG&E calculate TURN and SCGC to be recommending a

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[121] Ex.SCG-04 (Phillips) at 12.
[122] Ex. SCG-09 (Mejia) at 17.
[123] Ex. SCG-05 (Phillips) at 8.
[124] Ex. SCG-05 (Phillips) at 8.
[125] Ex.SCGC-TURN-01 (Yap) at 2 and 26-30.

$2.23 million disallowance attributable to the use of contractors.[126] In making this recommendation, however, TURN and SCGC underestimate the amount of incremental activity and resources demanded by PSEP, overestimate the availability of existing resources and qualified employee candidates, and discount the propriety of engaging temporary resources (*e.g.*, contractors) for temporary projects.

SoCalGas and SDG&E non-PSEP staffing levels are set at a level based on the expected annual amount of pipeline work—a level far below the level of work required to implement PSEP.[127] As such, there were no idle Company employees waiting for a PSEP-type program to come along. To the contrary, SoCalGas and SDG&E were concerned that drawing too many experienced employees from other SoCalGas and SDG&E departments would impact their ability to continue to safely and reliably maintain their pipeline system and maintain compliance with state and federal regulations.[128] On numerous occasions, SoCalGas and SDG&E explained to parties and the Commission the lack of available Company resources to fully staff the PSEP Organization.[129] Indeed, in SoCalGas and SDG&E's initial PSEP filing, SoCalGas and SDG&E expressly described the utilities' intent to draw upon the expertise and knowledge of external engineering companies, consultants, and construction contractors; co-locate external and internal personnel; and utilize such personnel to support SoCalGas and SDG&E's supervision, implementation, and execution of PSEP through a PMO.[130] Notably, the concept of a mix of

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[126] Ex. SCG-06-C (Phillips) at 2.
[127] Ex. SCG-05 (Phillips) at 5.
[128] Ex. SCG-05 (Phillips) at 5.
[129] Ex. SCG-05 (Phillips) at 5-7 *citing* A.11-11-002, SoCalGas and SDG&E Amended Testimony of Richard Morrow at 24-25 and R.11-02-19, Technical Report of the Consumer Protection and Safety Division Regarding the Southern California Gas Company and San Diego Gas and Electric Company Pipeline Safety Enhancement Plan dated January 17, 2012, Page 22.
[130] Ex. SCG-05 (Phillips) at 6-7 *citing* A.11-11-002, SoCalGas and SDG&E Amended Testimony of Joseph Rivera at 98.

internal and external resources, co-located, and tasked with overseeing PSEP execution through a PMO was not contested by TURN or SCGC in the original PSEP Application.

While it is reasonable to augment internal resources with external resources, SoCalGas and SDG&E have and continue efforts to hire, qualified personnel.[131] However, it will be difficult (if not impossible) to cost-effectively hire sufficient Company personnel to meet the Commission's expectation that work be completed "as soon as practicable."[132] As such, SoCalGas and SDG&E augment Company resources with contractor personnel.[133] SoCalGas and SDG&E expect that, over time, additional contract resources will be displaced by SoCalGas and SDG&E employees.[134]

In addition, SoCalGas and SDG&E know that PSEP is not a permanent program. In other words, PSEP will eventually wind down and PSEP-dedicated Company personnel will need to be transitioned to other positions within the Companies.[135] Based on this knowledge, contractors are used to augment Company personnel because they can more readily be increased or decreased depending on the needs of PSEP activity.[136]

Although SoCalGas and SDG&E have always maintained that their system is safe, it would have been imprudent for SoCalGas and SDG&E to ignore the Commission's clear calls to enhance the safety of their natural gas system as soon as practicable. While SoCalGas and SDG&E might have reduced cost recovery risk by "juggl[ing]"[137] base activity and PSEP work, it would have been inconsistent with the directives from the Commission to confirm and enhance

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[131] Ex. SCG-05 (Phillips) at 8-9.
[132] Ex. SCG-05 (Phillips) at 6.
[133] Ex. SCG-05 (Phillips) at 6 and 8.
[134] Tr. at 28-29 (SoCalGas/SDG&E/Phillips).
[135] Ex. SCG-05 (Phillips) at 6.
[136] Ex. SCG-05 (Phillips) at 6.
[137] Tr. at 285 (SCGC/TURN/Yap) ("I believe that the company could have managed to juggle things for months certainly while they brought in new hires, while they waited to get new hires.")

the safety of SoCalGas and SDG&E's system as soon as practicable. With that in mind, it was reasonable for SoCalGas and SDG&E to augment internal resources with external contractors. These efforts enabled SoCalGas and SDG&E to ramp up the PSEP Organization as quickly as practicable, engage contractors with specialized skills, and provide SoCalGas and SDG&E greater flexibility in managing their workforce.[138]

SoCalGas and SDG&E were reasonable in using external contractor personnel to proceed with PSEP work.

3. Performance Partnership Program

As part of SoCalGas and SDG&E's efforts to augment PSEP resources, SoCalGas and SDG&E also engaged construction contractor personnel across their services territories. To accomplish this, SoCalGas and SDG&E developed the Performance Partnership Program, which is designed to assist in identifying quality and capable construction contractors, mitigate costs for customers, create efficiencies, and balance operational and customer impacts and constraints across the SoCalGas and SDG&E service territories.[139, 140]

TURN and SCGC argue that SoCalGas and SDG&E should be required to competitively solicit fixed-priced bids for construction work instead of using the Performance Partnership Program.[141] SoCalGas and SDG&E agree that competitive solicitations help promote reasonable

[138] *See* Ex. SCGC-TURN-02-C at Attachment C (SoCalGas and SDG&E Response to SCGC Data Request 4, Question 4.4.1). As previously acknowledged by the Commission: "No utility manager can have perfect foresight but a prudent manager would seek flexibility to deal with unexpected conditions." D.87-06-021, mimeo., at 23.
[139] *See* Ex. SCG-04 (Phillips) at 13-20.
[140] The PSEP organization retains the discretion to conduct competitive solicitations to acquire contractors for any PSEP projects where it is determined that it may beneficial to conduct a traditional competitive solicitation. Additionally, if there is a justification to do so, the PSEP organization also may engage construction contractors through a single source process.
[141] Ex. SCGC-TURN-01 (Yap) at 2.

costs. However, SoCalGas and SDG&E should not be limited in their ability to use alternative forms of contracting that could help achieve efficiencies and potentially capture cost savings.

Further, TURN and SCGC's position is especially inapplicable here. The Performance Partnership Program competitively solicits construction work in particular areas, rather than for a particular project.[142] Specifically, Performance Partners submit bids based on cost factors for projects in specific areas.[143] This method of solicitation remains competitive, but also limits administrative costs by reducing the number of solicitation events.

Additionally, because construction contractors bid on an opportunity to execute multiple projects, SoCalGas and SDG&E are able to negotiate for additional cost controls, such as caps on overheads and profits, for the benefit of customers.[144]

To validate the benefits of this competitive solicitation process, SoCalGas and SDG&E retained KPMG to perform an evaluation of the program and compare "profit paid to a pipeline contractor using lump sum (LS) contracts and cost based PSEP Performance Partnership Construction Services Agreement (Performance Partner) contracts."[145] The results validate the benefits to customers of the Performance Partnership Program and indicate that it "appears that lump sum projects result in greater construction contractor profits, on average, than PSEP cost based Performance Partner contracts."[146]

As such, the Performance Partnership Program is a reasonable means to engage construction contractors through a competitive solicitation process, with added cost controls, and validated cost savings.

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[142] Ex. SCG-05 (Phillips) at 20.
[143] Ex. SCG-05 (Phillips) at 20.
[144] Ex. SCG-05 (Phillips) at 19-20.
[145] Ex. SCG-05 (Phillips) at Attachment B, page 2.
[146] Ex. SCG-05 (Phillips) at Attachment B, Page 6.

B. PSEP Standards and Practices

In order to implement SoCalGas and SDG&E's PSEP, SoCalGas and SDG&E developed PSEP-specific standards and practices. Many of these standards and practices are built on the foundation of best practices learned from SoCalGas and SDG&E's existing programs, processes, and procedures, but include additional capabilities to effectively and efficiently manage and implement the PSEP. Others are unique to PSEP and intended to respond to PSEP-specific concerns; such as the size of the PSEP undertaking. The PSEP standards and practices govern both PSEP projects and embody the foundational aspects of SoCalGas and SDG&E's efforts to expeditiously and cost effectively implement the Commission-mandated PSEP.

1. <u>PSEP Decision Tree</u>

D.14-06-007 adopted the concepts embodied in SoCalGas and SDG&E's PSEP Decision Tree[147] and SoCalGas and SDG&E's approach to testing or replacing natural gas pipelines in their natural gas transmission system.[148]

The Decision Tree uses a step-by-step analysis of pipeline segments to allocate pipeline segments into the following categories: (1) pipeline segments that are 1,000 feet or less in length; (2) pipeline segments greater than 1,000 feet in length that can be removed from service for pressure testing; and (3) pipeline segments greater than 1,000 feet in length that cannot be removed from service for pressure testing without significantly impacting customers. These pipeline categories are then further analyzed to determine other factors that may impact whether to pressure test or replace the segment.[149]

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[147] D.14-06-007, mimeo., at 16.
[148] D.14-06-007, mimeo., at 24.
[149] Ex. SCG-07 (Mejia) at 3.

The additional analysis is based on certain principles used to guide the test versus replace decision: (1) SoCalGas and SDG&E will not interrupt service to core customers in order to pressure test a pipeline; (2) SoCalGas and SDG&E will work with noncore customers to determine if an extended outage is possible; (3) SoCalGas and SDG&E will, where necessary, temporarily interrupt noncore customers as provided for in their tariffs; (4) SoCalGas and SDG&E will work with noncore customers to plan, where possible, service interruptions during scheduled maintenance, down time or off-peak seasons; and (5) SoCalGas and SDG&E will consider cost and engineering factors, along with the improvement of the pipeline asset.[150] As such, when evaluating whether to test or replace a pipeline section, the factors considered are cost, customer impacts, system impacts and pipeline condition. The final decision to test or replace a pipeline segment considers these variables and SoCalGas and SDG&E's operational experience and engineering judgment.[151]

In this Application, SoCalGas and SDG&E do not propose changes to the approved Decision Tree[152] and request that the Commission confirm that SoCalGas and SDG&E properly applied the Decision Tree in evaluating whether to test or replace the pipeline segments presented in this Application.

2. <u>PSEP Design and Construction Standards and Practice</u>

PSEP is subject to robust guidelines and oversight to comply with SoCalGas and SDG&E's internal standards and applicable laws, regulations, and Commission orders.[153]

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[150] Ex. SCG-07 (Mejia) at 4.
[151] *See* Ex. SCGC-TURN-08 (SoCalGas and SDG&E Response to TURN-SCGC Data Request 15, Question 8).
[152] As indicated in testimony, SoCalGas and SDG&E are not proposing using direct examination instead of replacing or abandoning and are no longer proposing in-line inspections using transverse field inspection. Ex. SCG-07 (Mejia) at 2, Footnotes 1 and 2.
[153] Ex. SCG-08 (Mejia) at 1.

Applicable rules, regulations, laws, and standards govern the design, construction, testing, maintenance, and operation of the SoCalGas and SDG&E transmission systems.[154]

The projects presented for review and recovery in this Application are subject to guidelines and oversight to comply with internal standards and applicable laws and regulations.[155] SoCalGas and SDG&E are not aware of evidence that has been presented to call into question whether PSEP work was performed in accordance with applicable rules, regulations, laws, and standards.[156]

3. PSEP Oversight and Controls

SoCalGas and SDG&E's PSEP Organization implemented processes and practices to retain and enable reasonable oversight of PSEP activities and retain records at various stages of project initiation, execution, and completion.[157] Initially, each project was managed in compliance with SoCalGas and SDG&E's existing policies and standards and overseen by PSEP Organization leadership and the SoCalGas or SDG&E organization responsible for implementation and execution. Later projects were overseen by the PSEP PMO and Safety and Enforcement Division (SED).

The PSEP PMO collaborates, coordinates, and provides functional guidance on various aspects of project design and construction in order to meet or exceed compliance requirements and industry best practices. The PMO and associated governance and management structure are designed to promote safety and efficiency by providing structure, guidance, and oversight. In

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[154] *See* Ex. SCG-08 (Mejia) at 1-2.
[155] Ex. SCG-08 (Mejia) at 2.
[156] *See* D.87-12-067, mimeo., at 297-298 (Finding of Fact 4) ("In a ratesetting proceeding, where other parties allege that the utility has violated a statute, rule, general order, or tariff, the ultimate burden of proof regarding existence of the violation and the appropriate penalty to be imposed rests with the party alleging the violation and seeking the penalty.")
[157] Ex. SCG-01 (Phillips) at 16-18; *see also* Ex. SCG-09 (Mejia) at 5-8.

addition, the PMO oversees implementation, provides checks and balances during the project life cycle, and allows SoCalGas and SDG&E to assess whether projects are on schedule, and meet cost, quality, customer impact, and compliance goals. PMO leadership reviews projects and schedules, and meets twice each month to review overall schedule progress, changes, and other topics, as well as progress toward safety goals.[158]

In addition to SoCalGas and SDG&E's efforts to manage PSEP, the Commission delegated oversight authority to the Commission SED:

> Specific to SDG&E and SoCalGas's Safety Enhancement we delegate to Safety Div. the specific authority to directly observe and inspect the testing, maintenance and construction, and all other technical aspects of Safety Enhancement to ensure public safety both during the immediate maintenance or construction activity. and to ensure that the pipeline system and related equipment will be able to operate safely and efficiently for their service lives.[159]

Consistent with this delegation of authority, SED has been inspecting PSEP activity, policies, and documentation.[160] As SED identifies potential documentation and recordkeeping enhancements or other project controls, that feedback is incorporated.[161]

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

4. <u>Cost Tracking and Accuracy</u>

SoCalGas and SDG&E track costs by Work Order Authorization (WOA). The general function of a WOA is to track costs associated with planning and execution of a specific project. To properly track costs to the appropriate category and project, projects and cost categories are

[158] Ex. SCG-09 (Mejia) at 7.
[159] D.14-06-007, mimeo., at 29.
[160] Ex. SCG-09 (Mejia) at 8.
[161] Ex. SCG-09 (Mejia) at 8.

assigned a unique internal order number that is used to track costs associated with that project or activity to a WOA.[162]

Additionally, SoCalGas and SDG&E implemented procedures to verify the accuracy of costs.[163] This includes verifying that billing rates are correct, reviewing time sheets for hours worked, and reviewing other supporting documentation for accuracy.[164] Once the information on invoices is verified, the invoice reviewer forwards the invoices to the project managers to re-validate and confirm that the correct labor hours were worked on the project, and the billed labor rates, and any additional expenses are within the terms of the contract.[165] As mentioned, ORA performed an audit of costs and supporting documentation and found no inconsistencies.[166]

SoCalGas and SDG&E implemented a reasonable process to track and verify the accuracy of PSEP costs.

5. <u>Cost Management Efforts</u>

A key goal of SoCalGas and SDG&E's PSEP is to maximize the cost-effectiveness of safety investment.[167] As such, cost management is a foundational aspect of every PSEP project. There are, however, certain examples of SoCalGas and SDG&E's efforts that help illustrate how SoCalGas and SDG&E strive to maximize cost effectiveness and reduce inefficiencies.

First, as previously mentioned, in order to promote reasonable costs for services and materials, SoCalGas and SDG&E, where practicable, competitively solicit bids for materials and services, using competitive market forces to promote reasonable costs.[168]

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[162] Ex. SCG-08 (Mejia) at 10.
[163] Ex. SCG-09 (Mejia) at 9-10.
[164] Ex. SCG-09 (Mejia) at 9-11.
[165] Ex. SCG-09 (Mejia) at 10.
[166] Ex. ORA-01 (Stannik) at 7.
[167] Ex. SCG-01 (Phillips) at 6.
[168] Ex. SCG-04 (Phillips) at 7-20.

Second, SoCalGas and SDG&E look to realize efficiencies and reduce costs in material procurement by aggregating material needs or transferring materials between projects.[169]

Third, PSEP implemented a Performance Partnership program to more cost effectively solicit construction services.

SoCalGas and SDG&E implemented reasonable efforts to manage PSEP costs and cost effectively enhance the safety of their natural gas transmission system.

VI. THE COSTS BOOKED IN THE PSRMAS AND RELATED ACTIVITIES ARE JUST AND REASONABLE

In this Application, SoCalGas and SDG&E present the costs associated with the development and creation of the PSEP Organization, SoCalGas and SDG&E's initial efforts to comply with the Commission's safety enhancement directives, and costs associated with three completed projects and nine descoped projects.[170,171] The costs associated with these efforts and presented for review and recovery in this Application fall into three categories: project costs, PMO costs, and miscellaneous other costs.[172]

Project costs are costs related to a pressure test or replacement project.[173] PMO costs are costs related to the PMO and its oversight of the PSEP organization, programs, and processes.[174] Miscellaneous other costs are costs related to the increased frequency of leak survey and pipeline patrols of pipelines, the installation of pressure protection equipment to reduce the operating pressure of specific pipeline segments, other remediation efforts, and facility build out costs to

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[169] Ex. SCG-04 (Phillips) at 12.
[170] *See* Ex. SCG-02 (Phillips).
[171] For early projects, the PSEP organization and associated processes had not been formally established. However, the personnel who would eventually form the management of the PSEP organization were engaged in overseeing early projects and early projects were subject to a similar, albeit less formal, process. *See* Ex. SCG-08 (Mejia) at 12, Footnote 11.
[172] Ex. SCG-02 (Phillips) at 3-4.
[173] Ex. SCG-02 (Phillips) at 4.
[174] Ex. SCG-02 (Phillips) at 4.

house the PSEP Organization.[175] These cost categories include costs directly charged to projects and activities and indirect costs.

Costs directly charged to projects and activities include costs incurred in direct support of the project or activity, such as project-specific engineering, design, environmental, permit acquisition, community notification, construction, inspection, and project documentation.[176] For the completed projects, this also includes PSEP General Management and Administrative (GMA) costs.[177]

PSEP GMA costs are project support costs directly related to PSEP that are not attributable to a specific project, but incurred in direct support of PSEP projects.[178] PSEP GMA includes communications, construction, engineering, environmental, gas control, supply management, and training costs that support PSEP projects.[179] These are costs incurred to support PSEP projects. PSEP GMA costs are made up of both internal support costs (labor and expense) and external support contractors.[180] Further, consistent with SoCalGas and SDG&E's efforts to manage costs, support vendor contracts in excess of $75,000 are generally competitively bid.[181] An example of a PSEP GMA cost is the salary of an employee working on an assignment that applies to all of PSEP; such as writing PSEP policies and procedures or training materials.[182] These support efforts are leveraged and used on specific projects and

[175] Ex. SCG-02 (Phillips) at 4.
[176] Ex. SCG-02 (Phillips) at 4.
[177] TURN and SCGC did challenge costs associated with a particular PSEP GMA vendor: Power Advocates. *See* Ex. SCGC-TURN-01 (Yap) at 26. As explained above, PSEP GMA is reasonable necessary to implement PSEP, and should be included for cost recovery.
[178] Ex. SCG-02 (Phillips) at 4-5.
[179] Ex. SCG-02 (Phillips) at 5.
[180] *See* Ex. SCG-09 (Mejia) at 33, Footnote 45.
[181] *See* Section V.A.1.
[182] Ex. ORA-11 (ORA Cross Examination Exhibit SoCalGas/SDG&E Response to ORA Data Request 20) at 13.

enable SoCalGas and SDG&E to successfully execute PSEP projects. As such, the PSEP GMA is charged to specific projects based on the total cost of the project and dollars allocated to the PSEP GMA accounts.[183] These costs are reasonable and necessary for the implementation of PSEP.

Indirect costs include incremental overheads, AFUDC, and Property Taxes. Incremental overhead costs are costs that indirectly support the business operations of SoCalGas and SDG&E and are included for cost recovery. Specifically, SoCalGas and SDG&E include overheads associated with incremental labor and additional procurement activities because they proportionately increase as a result of PSEP activities.[184] For PSEP, nine loaders were determined to be incremental: Payroll Tax; Vacation and Sick time; Benefits (non-balanced only);[185] Workers' Compensation; Public Liability / Property Damage; Incentive Compensation Plan; Purchased Services and Materials; Administrative and General; and Insurance.[186] Recovery of these indirect costs is reasonable.

A. Project Costs are Reasonable

In this Application, SoCalGas and SDG&E present the costs of completing the earliest PSEP projects: Line 2000-A, Lines 42-66-1 and 42-66-2, and Phases 1 and 2 of the Playa del Rey storage field. No evidence was presented in this Application to indicate that these projects were not completed successfully or that the work was not performed consistent with applicable

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[183] Ex. SCG-02 (Phillips) at 5-6.
[184] Ex. SCG-11 (Austria) at 3.
[185] Non-balanced benefits exclude Pension and Post-Retirement Benefits Other Than Pensions (PBOPs) subject to separate balancing account treatment. Non-balanced benefits include employee benefits such as medical and dental. Ex. SCG-11 (Austria) at 4, Footnote 11.
[186] Additional PSEP insurance was obtained for PSEP work performed by third party contractors and allocated to PSEP capital and O&M projects through a separate insurance overhead loader. Although PSEP insurance costs for contractors were not previously identified as an overhead cost in A.11-11-002, they are deemed incremental for the same reasons. Ex. SCG-11 (Austria) at 4, Footnote 12.

laws, regulations, and standards. Nevertheless, intervenors argue that SoCalGas and SDG&E should not be authorized to fully recover the costs they incurred to complete these State-mandated projects. ORA takes issue with how the project costs were presented, while , as discussed in Section V.A.2, TURN and SCGC contest costs associated with SoCalGas and SDG&E's use of contractor personnel. As explained below, each of the three projects presented for review in this Application were reasonably initiated, executed, and completed.

The evidence establishes that Line 2000-A, Lines 42-66-1 and 42-66-2, and Playa Del Rey Phases 1 and 2 were subject to reasonable oversight. These projects were managed by both the PSEP PMO and project managers from the SoCalGas region or department executing the work and decisions related to the scope of these projects were subject to review and approval by PSEP leadership.[187] The evidence further shows that SoCalGas and SDG&E endeavored to use market forces to control costs and utilize contractors and suppliers that provided best value.[188] The evidence in this proceeding establishes that SoCalGas and SDG&E's records related to costs requested in this Application were accurate and correct.[189] Finally, the evidence in this proceeding establishes that each of the three PSEP projects were completed successfully.[190] Intervenors presented no compelling evidence that SoCalGas and SDG&E's actions were not within the bounds of reasonableness. SoCalGas and SDG&E request that the Commission determine the costs incurred to complete these projects to be reasonable and authorize SoCalGas and SDG&E to recover their safety enhancement costs in rates.

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[187] Ex. ORA-08 (SCG/SDG&E Response to ORA Data Request 13) at 11.
[188] *See* Ex. SCG-04 (Phillips) at 7-20.
[189] Ex. ORA-02 (Lee) at 3 ("Based solely on the audit, ORA recommends no adjustment to the SCG and SDG&E request of $9.7 million Capital costs and $48.4 million O&M costs recorded in the PSRMA memorandum account during the period from February 24, 2011 to June 12, 2014.")
[190] *See* Ex. SCG-08 (Mejia) at 18, 30, and 34.

1. Line 2000-A

Line 2000 was listed as one of SoCalGas and SDG&E's top priority pipelines in the workpapers supporting their 2011 PSEP filing. As such, efforts were put in place to begin work on this pipeline expeditiously. During the scoping phase, because Line 2000 traverses disparate geographic locations, Line 2000 was divided into four separate projects: Line 2000-A, Line 2000-B, Line 2000-C, and Line 2000-West. Additionally, during the initiation and scoping stage, SoCalGas and SDG&E successfully reduced the scope of the Line 2000 project by over 55 miles.[191]

Line 2000-A was the first PSEP project to be initiated.[192] Line 2000-A involved the hydrostatic testing of 15.2 miles of 30 inch pipe installed primarily in 1947.[193] The 15.2 miles were tested in a total of ten separate sections between the cities of Banning and Corona.[194] The segments range in length from approximately 800 feet to four miles, with the average test segment being approximately 1.5 miles, and traverse a mixture of commercial, residential, municipal, and agricultural uses.[195]

In October 2012, Line 2000-A was initiated by SoCalGas' Pipeline Construction Management department (PCM).[196] Although the project was initiated by PCM, PSEP leadership remained closely involved with the project from its inception.[197]

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[191] Ex. SCG-08 (Mejia) at 19.
[192] Ex. SCG-02 (Phillips) at 8.
[193] Also included in the project was the replacement of 16 short sections of pipe. As part of the normal pressure testing process, a section of the existing pipeline is removed to accommodate temporary test heads which are used to conduct the hydrostatic testing. After the line is tested and the temporary test heads removed, a new section of pipe is installed in place to "tie-in" the just tested segment to the pipeline on either side of the segment. Ex. SCG-02 (Phillips) at 9.
[194] Ex. SCG-02 (Phillips) at 8.
[195] Ex. SCG-02 (Phillips) at 8.
[196] Ex. SCG-09 (Mejia) at 19.
[197] Ex. SCG-08 (Mejia) at 18.

In order to begin addressing the project, an initial WOA budget was issued in September 2012 that included segments of Line 2000; including Line 2000-A and portions of what is now Line 2000-B and 2000-C. This WOA budget totaled $25,428,180 in direct and indirect costs.[198] This budget, however, included additional, less-populated and less-developed mileage that ultimately was not addressed as part of the Line 2000-A project. A separate budget was not developed and the September 2012 budget remained the operative budget until it was reauthorized close to project completion. Less formal and less detailed estimates were created to update management on Line 2000-A's progress.[199]

Line 2000-A construction began in July 2013.[200] During construction, on August 1, 2013, as the PSEP Organization became more fully staffed, Line 2000-A was transferred from PCM to PSEP. From this point onward, the PSEP Organization managed and executed the Line 2000-A pressure test, but in order to maintain an effective transition, PSEP and PCM continued to work together.[201]

Additionally, during construction, there were some significant changes to the scope of the project that resulted in increased costs. First, SoCalGas and SDG&E originally planned to pressure test Line 2000-A in nine sections. Due to a land use issue with an impacted resident, however, SoCalGas and SDG&E were required to divide one section into two separate pressure tests and ultimately pressure tested Line 2000-A in 10 sections. This scope modification caused a significant change to the cost of the fixed-price contract that was agreed upon between SoCalGas and SDG&E and the construction contractor prior to construction.[202]

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[198] Ex. SCG-08 (Mejia) at 24.
[199] *See* Ex. SCG-08 (Mejia) pages 24-27.
[200] Ex. SCG-02 (Phillips) at 8.
[201] Ex. SCG-08 (Mejia) at 21.
[202] Ex. SCG-08 (Mejia) at 21-22.

Second, in order to maintain service to three commercial/industrial customers during the pressure test, arrangements were made to serve one customer through Compressed Natural Gas (CNG) supply directly and to provide temporary supply to two other customers until a bypass line was tied in.[203] Other potential options considered were the installation of a valve to create a new test break and bridle around the valve to serve a customer from either side while the other is tested, and the utilization of Liquefied Natural Gas. Those alternative options were not selected, because both were deemed more complicated and more expensive, as compared to using CNG to serve customers temporarily.[204]

Ultimately, all ten sections were pressure tested successfully with no test failures.[205] The Line 2000-A initial segment was tested in July 2013 and the last segment was tested in November 2013.[206] Tie-ins occurred from July to December 2013, and the final section of the project was placed back into service in December 2013.[207]

In December 2013, the September 2012 budget was reauthorized at $28,008,484 in direct and indirect costs. This reauthorization revised the scope to solely include Line 2000-A and updated the budget to incorporate the above cost increases and additional increases resulting from additional pressure control fittings to supply a district tap during pressure testing, water management activity, engineering activity, project management activity, and PSEP GMA costs.[208] The actual project costs presented in this application total $26,374,878 in direct and indirect costs.[209]

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[203] Ex. SCG-02 (Phillips) at 9.
[204] Ex. SCG-08 (Mejia) at 23.
[205] Ex. SCG-02 (Phillips) at 9.
[206] Ex. SCG-02 (Phillips) at 8.
[207] Ex. SCG-08 (Mejia) at 27.
[208] Ex. SCG-08 (Mejia) at 21.
[209] Ex. SCG-08 (Mejia) at 27.

ORA argues for a $13.1 million disallowance on the basis that SoCalGas and SDG&E have not met their burden to demonstrate the reasonableness of the costs incurred.[210] Rather than consider how the costs were incurred and the reasonableness of the actions taken by SoCalGas and SDG&E in completing this high-priority project, ORA recommends using the preliminary 2012 project estimate to develop a per-mile cost and then multiplying the per-mile cost by the total Line 2000-A mileage. This leads to a total cost of $13.29 million.[211] Recovery of $13.29 million for Line 2000-A equates to a $13.1 million dollar disallowance. ORA's proposed disallowance of nearly 50% of the actual costs incurred to pressure test Line 2000-A is not reasonable and is not supported by the evidence.

First, a comparison of estimates to actuals is not required to demonstrate reasonableness. For Line 2000-A especially, the changed scope and lack of a detailed revised post-engineering estimate prior to construction make a comparison of estimates to actuals inappropriate. Rather, the Commission should apply its reasonableness review standard and look at SoCalGas and SDG&E's actions and decision-making in incurring costs, and the steps taken to manage costs, to determine reasonableness.

SoCalGas and SDG&E should not be held to an estimate of a different scope that was based on preliminary pre-engineering design information for a complex project.[212] SoCalGas and SDG&E do not dispute that their early estimate was inaccurate, but an inaccurate preliminary pre-engineering design estimate of a complex project is not indicative that the

[210] Ex. ORA-01 (Stannik) at 3-4 and 22.
[211] Ex. ORA-01 (Stannik) at 22.
[212] At the time of the September 2012 estimate only a preliminary survey had been completed and profile information for elevation data and general base maps had been developed to identify pipe segment locations. Ex. ORA-03 (ORA Supporting Attachments Volume 1) at 64.

project was executed unreasonably. Indeed, even with these complexities and complications, the project was pressure tested successfully and on schedule.[213]

SoCalGas and SDG&E's decisions were guided by efforts to pressure test this high-priority safety work expeditiously. Indeed, in 2012 and 2013 when this work occurred, SoCalGas and SDG&E were unaware of the cost recovery process that was yet to be imposed by D.14-06-007. SoCalGas and SDG&E were aware that the Commission had directed this safety enhancement work to proceed as soon "as soon as practicable." As such, it was not unreasonable for SoCalGas and SDG&E to solicit a fixed-priced bid for the Line 2000-A construction work and initiate that work as soon as practicable.

Instead of focusing on a preliminary estimate of a different scope, as recommended by ORA, the Commission should apply its reasonable manager standard and consider three things.

First, Line 2000-A was pressure tested successfully, which indicates the right level of planning, permitting, engineering was performed and executed.

Second, ORA audited booked costs and supporting documentation and recommended no adjustments.[214] Meaning, the evidence indicates that Line 2000-A was pressure tested successfully and the costs of doing so were accurately booked.

Third, SoCalGas and SDG&E implemented cost management and control efforts to manage and reduce costs. As explained above, SoCalGas and SDG&E endeavored to competitively solicit bids for work whenever possible to allow the market to indicate the reasonableness of costs. To illustrate, SoCalGas and SDG&E presented for review and approval

[213] Ex. SCG-09 (Mejia) at 21.
[214] Ex. ORA-02 (Lee) at 3 ("Based solely on the audit, ORA recommends no adjustment to the SCG and SDG&E request of $9.7 million Capital costs and $48.4 million O&M costs recorded in the PSRMA memorandum account during the period from February 24, 2011 to June 12, 2014.")

$26.375 million associated with pressure testing Line 2000-A.[215] Of that $26.375 million, $18.988 million was for services provided by suppliers or contractors. Of that amount, approximately $13.855 million (or 73%) was competitively bid for either the specific PSEP work or undertaken through an agreement that was previously competitively bid.[216] The remaining suppliers or contractors contracts were either for work that was single-sourced for a specific reason (*e.g.*, being the only approved supplier of a specialized fitting)[217] or because the contracts were of a small enough dollar value that the administrative burden associated with bidding the work or material outweighed the benefits of bidding.[218]

The remaining costs are for Company labor and expense, PSEP GMA, and indirect costs. Company labor and expense totaled $1.17 million and should be found reasonable because Line 2000-A was a high-priority project, was the first major PSEP project initiated, and, because of the involvement of both PSEP and PCM, involved additional Company labor to transition the project to the newly-created PSEP Organization.[219]

Line 2000-A was also allocated PSEP GMA programmatic costs of $2.286 million, which were necessary for the development and operation of the PSEP Organization and assigned to Line 2000-A on a pro rata based on the project cost.[220]

Line 2000-A also included indirect costs that totaled $3.926 million. These indirect costs included incremental overheads, AFUDC, and Property Tax and were allocated based on project cost.

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[215] Ex. SCG-02 (Phillips) at 7-9.
[216] Ex. SCG-10-C (Mejia) at 23-33.
[217] Ex. SCG-10-C (Mejia) at 25.
[218] Ex. SCG-09 (Mejia) at 17.
[219] Ex. SCG-09 (Mejia) at 24-25.
[220] See Ex. SCG-05 (Phillips) at 19.

As such, the evidence demonstrates that SoCalGas and SDG&E reasonably initiated, managed, and executed the Line 2000-A pressure test and the actual costs of $26.375 million to pressure test Line 2000-A are reasonable and should be recovered in rates.

2. Lines 42-66-1 and 42-66-2

The Lines 42-66-1 and 42-66-2 project involved the replacement of Line 42-66-1 and abandonment of Line 42-66-2—two lines which served a District Regulation Station located off of Transmission Line 2000.[221]

Lines 42-66-1 and 42-66-2 were initiated in November 2012. Because the PSEP Organization was not yet fully up in running at that time, the project was planned and executed by the SoCalGas Distribution Organization, with involvement and management provided by the PSEP organization.[222]

In designing this project, SoCalGas prudently identified opportunities to reduce costs for customers, enhance safety and achieve operational benefits. For example, the hydraulic analysis completed by the SoCalGas and SDG&E Gas Engineering group for the replacement of these two supply lines indicated that a single new connecting line between Line 2000 and the Regulator Station could meet operational needs. This design, eliminated the need to replace one cased-crossing under the railroad tracks (Line 42-66-2), reducing the overall project costs.[223]

Construction on the project took place from early October to December 2013, with the line returned to service in December 2013.[224] The region planned to do a cold tie-in.[225]

[221] Ex. SCG-02 (Phillips) at 7.
[222] Ex. SCG-08 (Mejia) at 28; Ex. SCG-09 (Mejia) at 39.
[223] Ex. SCG-09 (Mejia) at 40.
[224] Ex. SCG-08 (Mejia) at 30.
[225] A cold tie involves making a connection to existing piping with no gas flowing through the pipe. In this case the pipe cannot continue to be in operation while maintenance or modifications are being done. *See* Ex. SCG-08 (Mejia) at 30.

However, due to the configuration of the tap valves coming off the transmission line, consistent with SoCalGas and SDG&E practice, and to provide safe working conditions, the scope was changed to include a hot tie.[226, 227]

The total cost for this project was approximately $813,327 in direct and indirect costs. The main drivers for the increase from the filing was the cost of construction, project management, and construction inspection costs being higher than originally estimated in the filing. The change to the type of tie-in that occurred contributed to the cost increase.

ORA did not argue for a disallowance for the project, but rather stated it was unable to determine the reasonableness of costs for Lines 42-66-1 and 42-66-2,[228] and "ORA does not have a particular recommendation for the $0.81 million 42-66-1/2 project."[229]

To further support the reasonableness of the costs incurred for Lines 42-66-1 and 42-66-2, because of the similarly-scoped and in time preconstruction estimate, it may be useful to compare the pre-construction estimate to actual costs and consider SoCalGas and SDG&E efforts to manage costs. Further, it should again be noted that ORA audited booked costs and supporting documentation and recommended no adjustments.[230]

The Lines 42-66-1 and 42-66-2 preconstruction estimate was $555,960 and the total cost was $813,327.[231] SoCalGas' labor increased by $73,059 because of the need to perform a hot tie-in of the pipe segment.[232] Contract labor increased by $124,590 because of delay necessitated

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226 A hot tie involves making a connection to existing piping without the interruption of emptying that section of pipe of gas. This means that a pipe is isolated while still having gas in it. *See* Ex. SCG-08 (Mejia) at 30-31.
227 Ex. SCG-08 (Mejia) at 30-31.
228 Ex. ORA-01 (Stannik) at 23.
229 Ex. SCG-21 (ORA Response to SCG-SDG&E Data Request 2) at 4.
230 Ex. ORA-02 (Lee) at 3.
231 Ex. SCG-09 (Mejia) at 36.
232 Ex. SCG-09 (Mejia) at 37.

by the hot tie-in and additional engineering, construction management and inspection efforts, plus the contractor field crews to support hot tie-in activities such as a Fire Watch.[233] Material costs increased by $18,156 because the original estimate was based on preliminary design information that was updated as the detailed engineering design and planning work was completed.[234] Again, contractors and suppliers were largely competitively bid. SoCalGas and SDG&E incurred $0.500 million in contract or supplier costs and $0.405 million (81%) was competitively bid. Finally, as discussed above, PSEP GMA and indirect costs are calculated and applied based on the total project cost.

SoCalGas and SDG&E reasonably planned and designed the Line 42-66-1/42-66-2 project and executed it in a reasonable manner. Additionally, ORA audited booked costs and supporting documentation representing 41% of the total costs in the PSRMAs.[235] Based on that review, ORA recommended no adjustments.[236] This determination of accuracy further supports the reasonableness of SoCalGas and SDG&E's PSEP efforts as the majority of costs were subject to competitive bidding and negotiations. As explained above, the increased costs, relative to the estimates, were reasonable and largely driven by unforeseen pipeline conditions. The evidence demonstrates that the costs incurred to replace Line 42-66-1 and abandon 42-66-2 are reasonable.

3. <u>Playa Del Rey Phases 1 and 2</u>

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

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[233] Ex. SCG-09 (Mejia) at 38.
[234] *See* Ex. ORA-11 (ORA Cross Examination Exhibit SoCalGas/SDG&E Response to ORA Data Request 20) at 14.
[235] *See* Ex. ORA-02 (Lee).
[236] Ex. ORA-02 (Lee) at 3.

the PSEP Playa del Rey pressure test, an over-pressurization event occurred at the storage field.[237] To leverage economies of scale and efficiencies, SoCalGas and SDG&E accelerated the PSEP-related work to be included within the scope of this larger infrastructure project. Only the costs associated with the PSEP scope of work are included for recovery in this Application.[238]

Due to the complexity of the pipeline system at the storage field and multiple design pressures, the project was divided up into six separate pressure test phases.[239] Playa Del Rey Phases 1 and 2 was planned and executed by the Storage Organization (Storage).[240]

The project was in construction for approximately three and a half months from January 2013 to April 2013. The Playa del Rey (Phases 1 & 2) pressure test project consisted of 880 feet of pipe. This includes 540 feet of pre-1961 pipe, 141 feet of incidental pipe, and 199 feet of Post-1961 pipe that does not have sufficient record of a pressure test. The incidental pipe was included in order to enable Phases 1 and 2 of the Playa Del Rey pressure test to be executed as two pressure tests, one for each phase. Had the project been designed to avoid inclusion of the incidental footage, requiring isolation of segments to test around the incidental pipe, the pressure test would have had to proceed in five sections.[241] Accordingly, the project team determined it would be appropriate to include the incidental pipe and proceed with two pressure tests.[242]

SoCalGas and SDG&E present for review and approval $683,036 million associated with pressure testing at the Playa Del Rey storage fields (Phases 1 and 2).[243] This does not include

[237] Ex. SCG-08 (Mejia) at 32.
[238] Ex. SCG-02 (Phillips) at 9-10.
[239] Ex. SCG-08 (Mejia) at 32.
[240] Ex. SCG-08 (Mejia) at 32.
[241] Ex. SCG-08 (Mejia) at 33.
[242] Ex. SCG-08 (Mejia) at 33-34
[243] Ex. SCG-02 (Phillips) at 9-10.

approximately $200,000 for testing of pipe footage installed post-July 1961 without sufficient record of a pressure test.[244]

The largest cost for the work performed at Playa del Rey was for the construction contractor. Here, in contrast to the Line 2000-A and Line 42-66-1/42-66-2 projects, the PSEP work at Playa del Rey was single-sourced to a construction contractor. Although the PSEP work was not separately bid, the construction contractor performed the work through a previously-negotiated and competitively-solicited master services agreement.[245] Meaning, the terms of the master services agreement were subject to a competitive bidding and negotiation process, but the PSEP work was not separately competitively bid.[246] This was because the selected contractor had extensive (12 years) experience performing repair and maintenance work at Playa del Rey, was already authorized and certified to perform this type of work at Playa del Rey, and was already scheduled to be onsite to perform similar pressure test work on other pipes. SoCalGas and SDG&E decided that the use of one experienced construction contractor would allow SoCalGas and SDG&E to combine the work; reduce projects costs for customers; and eliminate recurring mobilization fees, scheduling problems, and work location conflicts.[247]

In testimony, ORA did not object to cost recovery for Playa Del Rey Phases 1 and 2.[248] Although ORA alleged "cost recordkeeping deficiencies," ORA found the actions taken to be "prudent," and opined that "costs should be allowed."[249]

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[244] Ex. SCG-08 (Mejia) at 34. To calculate this amount, SoCalGas and SDG&E calculated the percentage of post-July 1961 costs without sufficient record of a pressure test and applied that to the total project costs. *See* Ex. SCGC-TURN-09 (SoCalGas and SDG&E Response to TURN-SCGC Data Request 17, Question 2).
[245] Tr. at 210-11 (SoCalGas/SDG&E/Mejia).
[246] Tr. at 210-11 (SoCalGas/SDG&E/Mejia).
[247] Ex. SCG-08 (Mejia) at 33.
[248] Ex. ORA-01 (Stannik) at 4 and 24.
[249] Ex. ORA-01 (Stannik) at 4.

SoCalGas and SDG&E took reasonable steps to address the PSEP work at Playa del Rey in a cost effective manner. SoCalGas and SDG&E reasonably accelerated the PSEP work at the storage field in response to an unexpected event and utilized an existing contractor to more expeditiously complete the pressure test. The evidence demonstrates that the costs to pressure test Phase 1 and 2 Playa del Rey presented for review and recovery are reasonable.

4. In-Progress Projects with an O&M Component

SoCalGas and SDG&E presented costs associated with 12 in-progress pressure test projects.[250] The costs recorded in the PSRMAs and associated with these 12 projects was $21.518 million.[251, 252] On June 30, 2015, SoCalGas, SDG&E, ORA, TURN, and SCGC filed a Joint Motion for Adoption of Settlement Agreement that proposed removal of the 12 in-progress pressure test projects and the associated costs from A.14-12-016, without prejudice, for review and resolution in one or more future after-the-fact reasonableness review proceedings.[253] On July 31, 2015, the assigned Commissioner and Administrative Law Judge issued an Amended Scoping Memo and Ruling that modified the scope of the proceeding to remove the 12 in-progress projects and their related costs from A.14-12-016, defer the review of those costs to a future after-the-fact reasonableness review application, and advised parties to "proceed on the assumption that the settlement agreement will be approved."[254]

[250] Ex. SCG-02 (Phillips) at 10.
[251] Ex. SCG-02 (Phillips) at 11.
[252] These costs represent in-progress costs and do not reflect the total amount that will be associated with these projects once completed.
[253] A.14-12-016, June 30, 2015 Settlement Agreement at Section D.
[254] A.14-12-016, July 31, 2015 Assigned Commissioner and Administrative Law Judge's Amended Scoping Memo and Ruling at 3.

5. Descoped Projects

During the course of Phase 1A, planning began on a number of projects that were later descoped because of ongoing record review efforts[255] or lowering of the line's MAOP.[256] In this Application, SoCalGas and SDG&E present for review and approval $0.348 million associated with nine projects that were initiated, but later descoped.[257]

In testimony, ORA found reasonable $0.022 million associated with projects descoped because of MAOP lowering, but argues for a $0.326 million disallowance unless SoCalGas and SDG&E can demonstrate that the remaining costs are related to record review or project initiation costs associated with pipelines installed prior to July 1961.[258]

SoCalGas and SDG&E provided ORA additional information on the descoped projects and acknowledged a reduction of $1,927 attributable to pipeline segments installed after 1961.[259]

Subsequently, ORA stated: "In this instance, ORA does not oppose recovery of $345,797 for the remaining pre-1961 descoped projects in this proceeding."[260]

The Commission should approve recovery of $367,559 for the descoped projects presented in this Application. This includes $345,797 for projects descoped because of ongoing record review efforts and $21,762 for projects descoped because of the lowering of MAOP.

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[255] SoCalGas and SDG&E continued to review records in parallel with PSEP engineering and design activity. This parallel effort resulted in reducing the amount of pipe in Phase 1A from 385 miles to approximately 150 miles; reducing the overall cost of PSEP by hundreds of millions of dollars. Ex. SCG-02 (Phillips) at 11, Footnote 19.
[256] Ex. SCG-02 (Phillips) at 11.
[257] Ex. SCG-02 (Phillips) at 11.
[258] Ex. ORA-01 (Stannik) at 4 and 24-25.
[259] Ex. SCG-09 (Mejia) at 41-44.
[260] Ex. SCG-21 (ORA Response to SCG-SDG&E Data Response 2) at 3.

B. Program Management Office Costs

The PMO oversees PSEP implementation and provides governance for the execution of PSEP projects and activities. The PMO is responsible for a range of activities including overall plan integration, schedule, budget, cost management, and reporting.[261] The PMO establishes processes and procedures for managing the day-to-day operations of the PSEP, the myriad of PSEP departments, contractors, and vendors, as well as the PSEP staff dedicated to accomplishing the objectives of SoCalGas and SDG&E's PSEP.[262] The PMO also assists other departments in procurement and contract administration, performance monitoring and reporting, quality assurance and quality control, communications and governance, customer communications and outreach, information technology, financial controls, and corporate and regulatory compliance.[263] The PMO is a necessary department given the size and complexity of the PSEP undertaking. In fact, the Commission's Safety and Enforcement Division (formerly known as the Consumer Protection and Safety Division (CPSD)) in its January 2012 Technical Report on the SoCalGas and SDG&E PSEP, stated: "CPSD believes that the Companies are approaching the need to manage the PSEP in a reasonable manner and that the PMO will be critical to the proper execution of the PSEP."[264] In this Application, SoCalGas and SDG&E request approval of $2.116 million for PMO costs.[265]

The $2.116 million in PMOS costs requested in this Application are reasonable and should be approved.

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[261] Ex. SCG-01 (Phillips) at 9.
[262] Ex. SCG-01 (Phillips) at 9.
[263] Ex. SCG-01 (Phillips) at 11-12.
[264] R.11-02-019, Technical Report of the Consumer Protection and Safety Division Regarding the Southern California Gas Company and San Diego Gas and Electric Company Pipeline Safety Enhancement Plan dated January 17, 2012, Page 22.
[265] Ex. SCG-02 (Phillips) at 12.

C. Miscellaneous Other Costs

1. Interim Safety Measures

As expressly required by D.11-06-017,[266] SoCalGas and SDG&E implemented bi-monthly leak surveys and pipeline patrols for PSEP pipelines and incurred incremental costs associated with the increased frequency of leak surveys and pipeline patrols of approximately $1.62 million, which are presented for review and recovery in this Application.[267] The evidence indicates that these charges were incurred to comply with the Commission's directives and no party offered evidence contesting these charges. As such, the evidence indicates that the $1.62 million in interim safety measure costs are reasonable and should be approved.

2. Pressure Protection Equipment

SoCalGas and SDG&E present for review and recovery pressure protection equipment costs of approximately $0.317 million. These costs were incurred to validate existing over-pressure protection set points, and install equipment to facilitate pressure reductions, including temporary facility equipment installations, as required.[268] This equipment was procured to cost effectively enhance the safety of the SoCalGas and SDG&E transmission system. No party offered evidence contesting these charges. The evidence demonstrates that these pressure protection equipment costs of $0.317 million is reasonable and should be approved.

3. Other Remediation Costs

SoCalGas and SDG&E present for review and recovery other remediation costs of approximately $0.484 incurred to: (1) develop SoCalGas and SDG&E's PSEP; (2) develop replacement, pressure test, and valve cost estimates; (3) engage in bell hole inspections to assess

[266] D.11-07-016, mimeo., at 21.
[267] Ex. SCG-02 (Phillips) at 13.
[268] Ex. SCG-02 (Phillips) at 13.

pipeline properties; and (4) develop the Valve Enhancement Plan.[269] These were costs needed to begin addressing the Commission's safety directives and prepare SoCalGas and SDG&E's PSEP.[270] No party offered evidence contesting these charges. As such, the evidence demonstrates that the $0.484 million in safety enhancement costs was reasonably incurred and should be recovered.

4. Facilities Build-Out Costs

SoCalGas and SDG&E present for review and recovery $2.883 million for facilities build-out costs for one-time capital costs for furniture and other capitalized office equipment to house the newly created PSEP organization.[271] These costs were incurred because there was not sufficient existing office space to house the newly-created PSEP Organization.[272]

When SoCalGas and SDG&E began implementing PSEP, there was insufficient space available for PSEP-dedicated personnel.[273] Prior to the expansion, SoCalGas and SDG&E had a lease that covered 13 floors. One floor, however, the second floor, houses the cafeteria, large conference rooms, and mail room.[274] Meaning, at the Gas Company Tower there are 12 floors dedicated to office space. No floors have been closed since the signing of the current lease and there was not sufficient space available at the Gas Company Tower for PSEP-dedicated personnel without procuring additional floor space.[275] As such, SoCalGas and SDG&E needed to take steps to procure space for the newly-created PSEP Organization.

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[269] Ex. SCG-02 (Phillips) at 13-14.
[270] Ex. SCG-03 (Phillips) at WP-III-103.
[271] Ex. SCG-02 (Phillips) at 14.
[272] Ex. SCG-02 (Phillips) at 14.
[273] Ex. SCG-05 (Phillips) at 11.
[274] Ex. SCG-05 (Phillips) at 11.
[275] Ex. SCG-05 (Phillips) at 11; *see also* Ex. SCGC-TURN-02-C at Attachment C (SoCalGas and SDG&E Response to SCGC Data Request 4, Question 4.4.3) (Gas Company Tower Occupancy Rates).

In response, SoCalGas and SDG&E took reasonable steps to acquire additional office space in order to co-locate PSEP-dedicated personnel. SoCalGas and SDG&E understood that PSEP was comprised of team members from different companies who have not previously worked together, and reasonably sought to maximize communication, facilitate the exchange of information, and enable better oversight and guidance by pursuing co-location opportunities.[276] By co-locating personnel that are required to meet regularly and coordinate their work, SoCalGas and SDG&E achieve greater efficiency and avoid the loss of time that would result from an approach that would require frequent travel to and from meetings by personnel scattered across various locations.[277] SoCalGas and SDG&E did not, however, pursue co-location without consideration of where co-location benefits could best be realized. For example, co-location is not a requirement for all contractor personnel. The number of non-construction personnel currently supporting PSEP is approximately 750, of which about 200 are Company personnel. While 293 Company and contractor personnel are co-located on the 22nd and 23rd floor of the Gas Company Tower, the remainder reside in various support firms' offices, other SoCalGas facilities or in the field to assist in the planning of projects prior to construction or to provide oversight and documentation support during construction.[278]

Finally, as previously discussed, SoCalGas and SDG&E's plan from the beginning was to co-locate a mix of Company personnel and contractor personnel to perform the work necessary to execute PSEP.[279] As appropriate, contractors were informed that employees supporting the functions listed above would be co-located in common work space secured and paid for by

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[276] Ex. SCG-06-C at Attachment C (SoCalGas and SDG&E Response to SCGC-TURN Data Request 12, Question 12.11).
[277] Ex. SCG-05 (Phillips) at 16.
[278] Ex. SCG-05 (Phillips) at 15-16.
[279] Ex. SCG-05 (Phillips) at 16.

SoCalGas and SDG&E.[280] As such, in order to provide competitive overhead rates, the overhead rates contractors proposed during negotiations would have taken into consideration the fact that SoCalGas and SDG&E would pay for co-located facilities. This required a reduction of the overhead rate to account for that factor.[281] The Commission has previously found, and should here affirm that a bid would take into account such variables.[282] Here, that would require consideration of the co-located facilities. Further, communications between SoCalGas and SDG&E and Jacobs indicate that Jacobs did indeed take the co-location of its employees into consideration when bidding and negotiating its agreement and rates with SoCalGas and SDG&E.[283]

SoCalGas and SDG&E engaged in reasonable efforts to expand their facilities to house the newly-created PSEP Organization. SoCalGas and SDG&E knew that an organization the size of PSEP would benefit from co-location; as such, SoCalGas and SDG&E endeavored to co-locate certain PSEP personnel. SoCalGas and SDG&E knew there was not sufficient available space at the Gas Company Tower to house an organization the size of PSEP and took steps to acquire space. Finally, SoCalGas and SDG&E knew that it would be housing PSEP contractors in this space and accordingly, took steps to negotiate lower contractor overhead rates.

As such, the record demonstrates that SoCalGas and SDG&E's Facilities Build-out Costs of $2.883 million were reasonably incurred and should be recovered in rates.

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[280] Ex. SCG-05 (Phillips) at 16.
[281] Ex. SCG-05 (Phillips) at 17.
[282] *See* D.14-01-009, mimeo., at 15 ("In this decision, we approve the proposed purchase price of $ 9.5 million. The market price was achieved as a result of a competitive bidding process. PG&E had full knowledge that there would likely be other competitors so it had an incentive to provide a reasonable bid that took into account all market variables.")
[283] *See* Ex.SCG-20-C (SoCalGas and SDG&E Response to SCGC-TURN Data Request 14, Question 14.8).

VII. A.14-12-016 REVENUE REQUIREMENT AND COST ALLOCATION

In this Application, after removing the In-Progress Projects for review in a future Commission proceeding,[284] SoCalGas and SDG&E present for review and recovery costs totaling $35.53 million at SoCalGas and $0.11 million at SDG&E.[285] These costs result in a total revenue requirement of $26.81 million at SoCalGas and $0.08 million at SDG&E.[286] If approved, these revenue requirements will be allocated to functional areas and amortized over a 12 month period.[287]

D.14-06-007 requires PSEP costs to be allocated consistent with the existing cost allocation and rate design for SoCalGas and SDG&E and include allocation to the backbone function.[288] As such, the annual revenue requirement is allocated based on the function that that line provides: backbone transmission, local transmission or high pressure distribution. In instances where amounts are not related to a specific line, costs are identified as Non-Functional.[289] In addition, in keeping with existing cost allocation practices, the Local Transmission costs are integrated between SoCalGas and SDG&E as part of integration of transmission system cost.[290]

SCGC agrees with this allocation for the backbone and local transmission categories, but proposes to allocate the costs of high pressure distribution replacement and pressure testing projects on a Long Run Marginal Cost basis.[291]

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[284] *See* Section VI.A.4.
[285] Ex. SCG-14 (Austria) at 1.
[286] Ex. SCG-14 (Austria) at 2.
[287] Ex. SCG-11 (Austria) at 1.
[288] *See* D.14-06-007, mimeo., at 49-50 and 61 (Ordering Paragraph 9).
[289] Ex. SCG-15 (Chaudhury) at 3.
[290] Ex. SCG-15 (Chaudhury) at 4.
[291] Ex. SCGC-TURN-01 (Yap) at 33.

SoCalGas and SDG&E are not opposed to implementation of the cost allocation proposed by SCGC if that interpretation more accurately reflects the CPUC's intended cost allocation method for PSEP costs. Therefore, SoCalGas and SDG&E request that the CPUC clarify which of the two interpretations discussed above is more consistent with D.14-06-007 with respect to the allocation of HPD Safety Enhancement-related costs.[292]

Once the Commission has clarified the appropriate cost allocation and authorized SoCalGas and SDG&E to collect PSRMA revenue requirements in rates, SoCalGas and SDG&E propose filing Tier 1 Advice Letters within 30 days of the effective date of the decision authorizing recovery. The advice letters will serve to update the revenue requirements authorized by the Commission, including memorandum interest, and incorporate the updated revenue requirements into rates on the first day of the next month following advice letter approval or in connection with other authorized rate changes implemented by SoCalGas and SDG&E.[293]

Additionally, the ongoing capital-related revenue requirements, associated with reasonably incurred capital expenditures approved in this proceeding will continue to be recorded in the Safety Enhancement Capital Cost Balancing Account (SECCBA). Because this revenue requirement will be associated with capital assets already found reasonable by the Commission, SoCalGas and SDG&E propose filing a Tier 2 Advice Letter to incorporate future year revenue requirements into rates until such costs are incorporated in base rates in connection with the utilities' next general rate case proceeding.[294]

[292] Ex. SCG-17 (Chaudhury) at 3.
[293] Ex. SCG-11 (Austria) at 1, Footnote 4.
[294] Ex. SCG-11 (Austria) at 2.

VIII. CONCLUSION

SoCalGas and SDG&E created their PSEP and began implementing their PSEP expeditiously because of Commission directives to begin work "as soon as practicable."[295] The initial work was initiated and executed without the benefit of a Commission decision on SoCalGas and SDG&E's proposed PSEP. Now, here, intervenors have recommended significant disallowances for these earlier incurred costs without identifying any unreasonable actions taken on the part of the utility. Intervenors have, in some instances, identified what they view to be more optimum alternatives, but intervenors have not identified areas where SoCalGas and SDG&E's efforts were not within the spectrum of possible actions a prudent and reasonable manager would take under the unique circumstances surrounding PSEP.

For the reasons set forth above and in our Application and supporting testimony, SoCalGas and SDG&E respectfully request that the Commission adopt each of the proposed recommendations set forth at the beginning of this brief.

Respectfully submitted,

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[295] D.11-06-017, mimeo., at 20.