Company: Southern California Gas Company (U 904 G)
Proceeding: 2019 General Rate Case
Application: A.17-10-___
Exhibit: SCG-42

SOCALGAS

DIRECT TESTIMONY OF RAE MARIE Q. YU

(REGULATORY ACCOUNTS)

October 6, 2017

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

317162

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SOCALGAS DIRECT TESTIMONY OF RAE MARIE Q. YU
(REGULATORY ACCOUNTS)

I. INTRODUCTION

My testimony presents the TY 2019 GRC proposals of the Regulatory Accounts area for Southern California Gas Company (SoCalGas). Regulatory Accounts is responsible for SoCalGas' authorized regulatory balancing, tracking, and memorandum accounts, which include implementing regulatory accounting procedures for compliance with California Public Utilities Commission (CPUC or Commission) directives, quantifying and recording the monthly entries and adjustments to the Commission-authorized regulatory account mechanisms, and managing the general administration of SoCalGas' authorized regulatory accounts. As the regulatory accounts witness, the scope of my testimony is restricted to explaining the ratemaking treatment of the costs associated with a regulatory account. Appendix A is a reference chart of the regulatory accounts that are addressed in this GRC, and each witness responsible for addressing the costs and proposals related to those accounts. In addition, the cost allocation methodology to be used for the disposition of regulatory accounts not previously amortized is discussed in the Present and Proposed Gas Transportation Revenues and Rates testimony of Sharim Chaudhury (Exhibit SCG-46).

II. REGULATORY ACCOUNTS

A. Disposition of Regulatory Account Balances

There are eight existing regulatory accounts for which remaining balances at year-end 2018 will be subject to disposition through the implementation of this GRC. Table RQY-1 shows the balances of these eight regulatory accounts as of June 30, 2017.

TABLE RQY-1
Southern California Gas Company
Balances as of June 30, 2017
(over-) / undercollection

	(in Thousands $)
RDDEA	$(2,130)
Post-2011 DIMPBA	$(3,726)
EDRMA	$1,108
OFCMA	$(756)
FHPMA	$2,382
AMOPBA	$(153)
ACMA[1]	**
ACTTA[1]	**
Total Balance (excluding FF&U[2])	$(3,275)

SoCalGas proposes that the actual regulatory account balances as of December 31, 2018, be incorporated into the development of the adopted TY 2019 GRC rates if a TY 2019 GRC decision is issued on or after January 1, 2019. In the event that a decision is issued before January 1, 2019, SoCalGas will incorporate a forecast of the ending balances of the accounts as of December 31, 2018, for inclusion in TY 2019 GRC rates.[3]

1. Research, Development, and Demonstration Expense Account (RDDEA)

The RDDEA is an interest-bearing balancing account recorded on SoCalGas' financial statements. The purpose of the RDDEA is to record the difference between actual and authorized costs associated with non-public research, development, and demonstration (RD&D) programs pursuant to Decision (D.) 16-06-054. The balance as of June 30, 2017 for the 2016-2018 program cycle is $2.1 million overcollected. SoCalGas proposes to amortize the RDDEA balance as of December 31, 2018 in customers' gas transportation rates. SoCalGas also proposes

[1] ACMA and ACTTA currently have a $0 balance since the Aliso Canyon Turbine Replacement (ACTR) project is not yet in service as of the date of this GRC filing. A balance is expected by December 31, 2018.
[2] Franchise Fees & Uncollectibles expense, *id.*
[3] Amortization of forecasted balances will be subject to true up to actual ending balances in the following year in connection with the annual regulatory account update filing.

to transfer any residual balance for the 2016-2018 program cycle at the end of the amortization period to the Core Fixed Cost Account (CFCA) and Non-Core Fixed Cost Account (NFCA). This proposed transfer would close-out this program cycle for any minimal, residual balance that may occur due to the forecasted amortization of the RDDEA balance incorporated in rates. In addition, SoCalGas proposes to continue current ratemaking treatment of RD&D program costs sponsored by the Customer Services – Technologies, Policies, & Solutions testimony of Lisa Alexander (Exhibit SCG-21).

2. Post-2011 Distribution Integrity Management Program Balancing Account (DIMPBA)

The Post-2011 DIMPBA is an interest-bearing balancing account recorded on SoCalGas' financial statements. The purpose of the Post-2011 DIMPBA is to record the difference between operations and maintenance (O&M) and capital-related (*e.g.*, depreciation, return, and taxes) costs and authorized costs associated with SoCalGas' Distribution Integrity Management Program (DIMP). The balance as of June 30, 2017 for the 2012-2015 program cycle is $3.7 million overcollected. SoCalGas proposes to amortize the 2012-2015 Post-2011 DIMPBA balance as of December 31, 2018 in customers' gas transportation rates. SoCalGas also requests to transfer any residual balance at the end of the amortization period to the CFCA and NFCA and close the 2012-2015 program cycle. The Post-2011 DIMPBA is also discussed in Section II.D.4 of my testimony.

3. Energy Data Request Memorandum Account (EDRMA)

The EDRMA is an interest-bearing memorandum account recorded on SoCalGas' financial statements. The purpose of this account is to record the incremental costs associated with providing access to energy usage and usage-related data to local government entities, researchers, and state and federal agencies pursuant to D.14-05-016. The balance as of June 30, 2017 is $1.1 million undercollected. Detail of the costs recorded to this account is described in the Customer Services – Office Operations testimony of Michael Baldwin (Exhibit SCG-19). SoCalGas proposes to amortize the balance as of December 31, 2018 in customers' gas transportation rates. Ongoing costs related to providing access to energy usage and usage-related data are included in the TY 2019 GRC, as discussed by Mr. Baldwin (Ex. SCG-19). Thus, SoCalGas also requests to transfer any residual balance in the EDRMA at the end of the amortization period to the CFCA and NFCA and eliminate the account.

4. Operational Flow Cost Memorandum Account (OFCMA)

The OFCMA is an interest-bearing memorandum account recorded on SoCalGas' financial statements. The purpose of this account is to record costs related to the information system modifications to SoCalGas' Envoy and billing systems to implement the new Low Operation Flow Order and Emergency Flow Order requirements to comply with D.15-06-004. The balance as of June 30, 2017 is $0.8 million overcollected. These capital expenses that support the capital-related costs recorded to the OFCMA are described in more detail by the Gas Control and System Operations/Planning testimony of Devin Zornizer (Exhibit SCG-13). SoCalGas proposes to amortize the balance as of December 31, 2018 in customers' gas transportation rates, and at the end of the amortization period, transfer any residual balances to the CFCA and NFCA and eliminate the account.

5. Fire Hazard Prevention Memorandum Account (FHPMA)

The FHPMA is an interest-bearing memorandum account recorded on SoCalGas' financial statements. The purpose of this account was to record all costs associated with fire hazard prevention incurred from 2009-2011 to comply with D.09-08-029. Fire hazard prevention costs are currently included as part of the scope of SoCalGas' GRC beginning with the TY 2012 GRC and are no longer recorded in the FHPMA as of January 1, 2012. However, the balance recorded in the FHPMA had not been previously requested for recovery.[4] Details of the costs are described in the Underground Storage testimony of Neil Navin (Exhibit SCG-10). The balance as of June 30, 2017 is $2.4 million undercollected. This balance is composed of $1.8 million of O&M expenses, $0.5 million of capital-related costs, and $0.1 million of interest. As part of the TY 2019 GRC, SoCalGas proposes to amortize the balance as of December 31, 2018 in customers' gas transportation rates, and at the end of the amortization period, transfer any residual balances to the CFCA and NFCA and eliminate the account.

6. Advanced Meter Opt-Out Program Balancing Account (AMOPBA)

The AMOPBA is an interest-bearing balancing account recorded on SoCalGas' financial statements. The purpose of the AMOPBA is to record incremental costs to implement the Advanced Meter Opt-Out Program and associated revenues in accordance with D.14-02-019 and

[4] D.12-01-032 (Ordering Paragraph (OP) 14) at 180-81, orders investor-owned utilities to request recovery of their FHPMAs through an application.

D.14-12-078. Pursuant to Resolution E-4723, the AMOPBA consists of two subaccounts: 1) Authorized Program Cost (APC) Subaccount to record incremental costs up to a maximum of $4.5 million and the opt-out fee revenues and 2) Excess Program Cost (EPC) Subaccount to record incremental costs in excess of the $4.5 million threshold. The balance as of June 30, 2017 is $0.2 million overcollected, which comprises $2 million overcollection in the APC Subaccount offset by $1.9 million undercollection in the EPC Subaccount. Detail of the costs incurred and recorded to the AMOPBA to implement the Advanced Meter Opt-Out Program are discussed in the Advanced Metering Infrastructure Policy testimony of Rene Garcia (Exhibit SCG-17).

SoCalGas proposes to amortize the balance as of December 31, 2018 in customers' gas transportation rates. Beginning with the TY 2019 GRC, SoCalGas has included opt-out costs and revenues in its GRC. Therefore, SoCalGas proposes to transfer any residual balance in the AMOPBA to the CFCA at the end of the amortization period and eliminate the account.

7. Aliso Canyon Memorandum Account (ACMA)

The ACMA is an interest-bearing memorandum account recorded on SoCalGas' financial statements. The purpose of the ACMA is to record incremental costs associated with the Aliso Canyon Turbine Replacement (ACTR) Project that are in excess of the $200.9 million cost cap approved in D.13-11-023. Detail of the overall project costs incurred, including the excess costs above the cost cap where the corresponding capital-related revenue requirements that will be recorded to the ACMA are discussed in the ACTR testimony of David Buczkowski (Exhibit SCG-11). Currently, $0 has been recorded to the account as the project is not yet in service. However, the ACTR Project is expected to be in service by the end of 2017 and capital-related costs exceeding the $200.9 million cost cap will be recorded to the ACMA at that time. SoCalGas requests to amortize the balance as of December 31, 2018 in customers' gas transportation rates.

The ACTR Project costs have been included in rate base as part of this TY 2019 GRC filing. Thus, SoCalGas will discontinue recording in the ACMA the capital-related costs associated with these assets upon implementation of the TY 2019 GRC decision to avoid double recovery of these costs. SoCalGas requests to eliminate the ACMA after the remaining balance has been amortized in rates.

8. Aliso Canyon True-up Tracking Account (ACTTA)

The ACTTA is an interest-bearing tracking account recorded on SoCalGas' financial statements. Pursuant to D.13-11-023, the purpose of the ACTTA is to record 1) the benefits associated with the sale of the Regional Clean Air Incentives Market Trading Credits (RTCs) generated by the ACTR Project in the RTC Subaccount and 2) the difference between estimated O&M and capital benefits included in the ACTR Project revenue requirement versus the actual benefits realized in the O&M/Capital Benefits Subaccount. Details of the O&M and capital benefits are discussed by Mr. Buczkowski (Ex. SCG-11). Currently, $0 has been recorded to the account as the project is not yet in service. However, the ACTR Project is expected to be in service by the end of 2017 and any benefits realized once the project is in service will be recorded to the ACTTA. SoCalGas requests to amortize the balance as of December 31, 2018 in customers' gas transportation rates.

O&M and capital benefits forecasted to be generated by the ACTR Project have been included in SoCalGas' TY 2019 GRC. Thus, SoCalGas will discontinue recording benefits to the ACTTA upon implementation of the TY 2019 GRC decision to avoid double refunding of these benefits. SoCalGas requests to eliminate the ACTTA after the remaining balance has been amortized in rates.

B. Closure of Regulatory Accounts

1. Federal Energy Regulatory Commission (FERC) Settlement Proceeds Memorandum Account (FSPMA)

The FSPMA is an interest-bearing memorandum account that is recorded on SoCalGas' financial statements. Pursuant to D.03-10-087, the FSPMA was created to track El Paso Settlement proceeds allocable to core aggregation transportation (CAT) customers. D.10-01-024 expanded the scope of the FSPMA to also include FERC settlement proceeds allocable to CAT customers as a result of the 2000-2001 energy crisis. SoCalGas has received all expected settlement proceeds allocable to CAT customers as a result of the energy crisis and has no further need to keep the FSPMA open. Although no settlement proceeds have been received or recorded to the FSPMA since 2014, a residual balance due to variances in sales throughput continues to be amortized annually in CAT customers' gas transportation rates in connection with SoCalGas' annual regulatory account update filing. SoCalGas proposes to transfer any remaining residual balance in the FSPMA as of December 31, 2018 to the CFCA and eliminate the account.

2. Deductible Tax Repairs Benefits Memorandum Account (DTRBMA)

Pursuant to the Administrative Law Judge's (ALJ) Ruling on The Utility Reform Networks Motion to Establish Memorandum Accounts, issued on January 15, 2015 in Application (A.)14-11-003/004 (consolidated), SoCalGas filed Advice Letter (AL) No. 4771-G to establish the DTRBMA.[5] The DTRBMA is a memorandum account that is not recorded on SoCalGas' financial statements. The purpose of the DTRBMA is to track the revenue requirement difference associated with the effect on SoCalGas' income tax expense of using the authorized revenue requirement based on the percentage repair allowance deduction when compared with using an alternative accounting method allowed by the Internal Revenue Service (IRS) for computing the repairs deduction for 2015.

In compliance with D.16-06-054, SoCalGas updated its rates effective August 1, 2016 to amortize the DTRBMA balance over a 17-month period (August 2016 through December 2017). SoCalGas is forecasting a zero balance in the DTRBMA as of December 31, 2017; however, if there is any remaining residual balance as of December 31, 2017, the residual balance will be transferred to the CFCA and NFCA. As discussed in Section II.F.1 below, pursuant to D.16-06-054, SoCalGas established the Tax Memorandum Account (TMA), effective January 1, 2016. Activity related to tax repair deductions for the period of January 1, 2016 through December 31, 2018 will be recorded to the TMA, rather than the DTRBMA. Accordingly, the DTRBMA is no longer required and, thus, SoCalGas proposes to eliminate the DTRBMA.

C. Continuation of Existing Regulatory Accounts

1. Pension Balancing Account (PBA) and Post-Retirement Benefits Other Than Pension Balancing Account (PBOPBA)

The purpose of the PBA is to balance the difference between the forecasted and actual contributions to SoCalGas' pension fund. The purpose of the PBOPBA is to balance the annual PBOP costs embedded in authorized rates with the lesser of the PBOP costs calculated in accordance with Accounting Standards Codification 715 or based on actual tax-deductible contributions to the PBOP trust. Forecasted pension and PBOP costs are discussed in the

[5] AL 4771-G was approved August 5, 2015, and became effective January 15, 2015, per Resolution G-3508.

Corporate Center – Pension & PBOP testimony of Debbie Robinson (Exhibit SCG-31/SDG&E-29).

These accounts consist of both O&M and capital components. The O&M component reflects pension/PBOP costs adjusted for costs capitalized to utility rate base and intercompany pension/PBOP costs billed by or charged to SoCalGas' affiliate companies. The capital component reflects pension/PBOP costs recovered through depreciation, including the return associated with the unamortized balance of pension/PBOP costs capitalized to utility rate base.

In 2008, SoCalGas and San Diego Gas & Electric Company (SDG&E) filed a Petition for Modification of their TY 2008 GRC decision (D.08-07-046) to accelerate recovery of increased contributions to their pension and PBOP Trusts that were required due to declines in pension fund values and the rising costs of other benefits. In D.09-09-011, the Commission approved this request giving SoCalGas and SDG&E the authorization to annually amortize their PBA and PBOPBA balances as part of the annual regulatory account update advice letter filing. Detailed workpapers, which include recorded information and forecast information based on the latest actuarial studies, are included in connection with the annual regulatory account update filing. SoCalGas proposes to continue the ratemaking treatment and annual recovery process for both the PBA and PBOPBA.

2. Research Royalties Memorandum Account (RRMA)

The RRMA is an interest-bearing memorandum account recorded on SoCalGas' financial statements. The purpose of the RRMA is to record the ratepayers' share of revenues from ratepayer-funded research programs. Pursuant to D.97-07-054, ratepayers are allocated 100% of revenues from projects underway or completed prior to January 1, 1998 and 50% for projects commencing between January 1, 1998 through December 31, 2007. D.08-07-046 adopted a revenue sharing mechanism that allocated 60% of revenues to ratepayers from projects commencing on or after January 1, 2008. D.13-05-010 adopted a revenue sharing mechanism that allocated 75% of revenues to ratepayers from projects commencing on or after January 1, 2012. D.16-06-054 approved the continuation of the sharing mechanism adopted in D.13-05-010 for projects commencing on or after January 1, 2016. SoCalGas proposes to continue the sharing mechanism previously approved in D.16-06-054, 75% to ratepayers and the remaining 25% to shareholders.

3. New Environmental Regulation Balancing Account (NERBA)

The NERBA is an interest-bearing balancing account recorded on SoCalGas' financial statements. The purpose of the account is to balance the difference between actual and authorized incremental costs associated with certain new and proposed federal and state environmental regulations. Pursuant to D.16-06-054 and D.17-06-015, the NERBA consists of five subaccounts: 1) Assembly Bill 32 Administration Fees Subaccount, 2) Subpart W Subaccount, 3) Municipal Separate Storm Sewer System (MS4) Subaccount, 4) Leak Detection and Repair (LDAR) Subaccount, and 5) Natural Gas Leak Abatement Program (NGLAP) Subaccount.[6] Details of the costs recorded to these subaccounts are discussed by the Environmental Services testimony of Darrell Johnson (Exhibit SCG-25). SoCalGas will continue the ratemaking treatment for these five subaccounts for the TY 2019 GRC cycle where: (1) the disposition of the Assembly Bill 32 Administration Fees Subaccount, Subpart W Subaccount, MS4 Subaccount, and LDAR Subaccount balances are incorporated into customers' rates in connection with SoCalGas' annual regulatory accounts update advice letter filing and (2) the revenue requirement and disposition for the NGLAP Subaccount are to be determined in a separate Tier 3 advice letter process in compliance with D.17-06-015.

D. Modification of Regulatory Accounts

1. CFCA

The CFCA is an interest bearing balancing account recorded on SoCalGas' financial statements. The purpose of this account is to balance the difference between authorized margin and other non-gas costs allocated to core customers and the revenues intended to recover these costs. In D.16-06-046, the Commission approved the closure of four branch offices and ordered SoCalGas to record any net savings as a result of the closures to the CFCA until those net savings are incorporated in SoCalGas' next GRC. Beginning with TY 2019 GRC, net savings from the closure of the four branch offices are now included in the GRC; therefore, SoCalGas proposes to modify the CFCA to discontinue recording net savings to the CFCA effective with the TY 2019 GRC decision. Details of the branch office savings included in this GRC are discussed by Mr. Baldwin (Ex. SCG-19).

[6] AL 5166 approved the creation of the NGLAP Subaccount on September 6, 2017.

As discussed in Mr. Garcia's testimony (Ex. SCG-17) on SoCalGas' Advanced Meter Infrastructure (AMI) Project, SoCalGas has estimated AMI module failures that will require SoCalGas to incur costs to replace them and manually read meters associated with the module failures until replacements have been installed. SoCalGas proposes to record any credits received from the vendor to the CFCA in order to refund these dollars back to core customers.

2. Advanced Meter Infrastructure Balancing Account (AMIBA)

SoCalGas' AMI project was approved with a seven-year deployment period of April 2010 through April 2017. Pursuant to D.10-04-027, the AMIBA was created with the purpose of recording the costs and revenue requirements associated with AMI. Implementation of AL No. 4110-G (which was approved by the Commission on August 4, 2010) also included authority to continue to update AMI revenue requirements through an advice letter process until the costs and benefits were included in SoCalGas' next GRC. Due to the timing of the completion of SoCalGas' AMI deployment in 2017, which went beyond the TY 2016 GRC, SoCalGas excluded AMI costs and O&M benefits from its TY 2016 GRC and continues to balance costs and benefits in the AMIBA. Pursuant to D.16-06-054, SoCalGas filed AL No. 5134-G on May 5, 2017 to request for the 2018 revenue requirement associated with the estimated deployment and post-deployment costs for incorporation in 2018 gas transportation rates and extend the AMIBA through 2018.[7] Modifications to the AMIBA include the creation of three subaccounts: 1) Deployment Phase Cost Subaccount to record any deployment costs incurred through 2018, 2) Post-Deployment Phase Cost Subaccount to record any post-deployment maintenance costs, and 3) Escalated Jurisdictions Cost Subaccount to record costs associated with the manual reading of meters in counties where AMI was not deployed due to permitting issues.

The Commission also approved a cost sharing mechanism between ratepayers and shareholders in D.10-04-027 where any cost overruns or savings of the approved $1.05 billion funding for the AMI deployment phase would be shared. For cost overruns, costs are shared 50% by ratepayers and 50% by shareholders up to $100 million of excess costs. Any savings up to $100 million would be subject to sharing 90% by ratepayers and 10% by shareholders. Since SoCalGas has extended the AMIBA through 2018 to complete the deployment phase and continue post-deployment activities, SoCalGas will record the cost sharing adjustment in the

[7] Approval of AL 5134 was received on June 5, 2017.

Deployment Phase Cost Subaccount of the AMIBA once all deployment costs have been recorded and analyzed. SoCalGas will then request amortization of both the Deployment Phase Cost and the Post-Deployment Phase Cost Subaccounts balances in customers' gas transportation rates in connection with SoCalGas' annual regulatory account balance update filing. Any residual balance after the amortization period will be transferred to the CFCA and the Deployment Phase Cost and Post-Deployment Phase Cost Subaccounts will be closed. The balance in the Escalated Jurisdictions Subaccount is not addressed in this GRC, but rather in SoCalGas' next GRC proceeding.

Beginning with TY 2019, AMI costs and related benefits are included in the GRC as discussed by the Customer Services – Field & Meter Reading testimony of Gwen Marelli (Exhibit SCG-18). Therefore, SoCalGas proposes to discontinue recording AMI costs in the Deployment Phase Cost and Post-Deployment Phase Cost Subaccounts of the AMIBA effective with a Commission decision on its TY 2019 GRC.

3. Discontinuation of Service Establishment Charges (SEC)

SoCalGas proposes the discontinuation of the Service Establishment Charge (SEC) previously recoverable as miscellaneous revenues in past GRCs and instead recover service establishment costs through base rates, which is discussed in more detail in the Miscellaneous Revenues testimony of Annette Steffen (Exhibit SCG-41). If this proposal is approved by the Commission, SoCalGas expects to have a 9-12 month implementation period to make the necessary modifications in SoCalGas' billing system, as discussed by the Information Technology testimony of Christopher Olmstead (Exhibit SCG-26). During this interim period, SoCalGas will continue to bill customers for the SEC even though these costs will have been included in the corresponding TY 2019 base margin and incorporated in customers' gas transportation rates. To avoid double recovery from core and non-core customers, SoCalGas proposes to record these SEC billed revenues as a credit to the CFCA and NFCA, respectively.

SoCalGas also proposes to discontinue recording the California Alternate Rates for Energy (CARE) discount on SEC fees charged to CARE customers in the CARE Account (CAREA). If the proposal to refund billed SEC fees in the interim through the CFCA and NFCA is adopted, there will be no need to track any shortfall in revenues in the CAREA, as the shortfall associated with service establishment costs will have been embedded in the 20% discount on gas transportation revenues and recorded to the CAREA. Any differences that may result from actual discount costs incurred and the authorized CARE revenue requirement embedded in the Public Purpose Program (PPP) surcharge rates will be trued-up in connection with SoCalGas' annual PPP surcharge rate update filing.

4. Transmission Integrity Management Program Balancing Account (TIMPBA), Post-2011 DIMPBA, and Storage Integrity Management Program Balancing Account (SIMPBA)

The TIMPBA, Post-2011 DIMPBA, and SIMPBA are interest-bearing balancing accounts recorded on SoCalGas' financial statements. The purpose of these accounts is to balance the difference between actual and authorized TIMP, DIMP, and SIMP costs, respectively. These accounts consist of both O&M and capital components. The capital component reflects TIMP/DIMP/SIMP costs recovered through depreciation, return, and taxes associated with capitalized TIMP/DIMP/SIMP costs. Detail of the TIMP and DIMP costs are discussed in the Pipeline Integrity for Transmission and Distribution testimony of Maria Martinez (Exhibit SCG-14) and detail of the SIMP costs are discussed by Mr. Navin (Ex. SCG-10).

Generally, balancing the costs of capital for these programs results in compounding effects over the GRC cycle that do not exist when compared to the balancing of annual O&M expenses. The balancing of O&M is an annual comparison of O&M expenses incurred during a year to an authorized amount for that same period. Balancing capital, on the other hand, accounts for the actual capital-related costs, or capital revenue requirement, on a cumulative basis since these costs are incurred for the underlying assets, not just during a single year, but rather over the life of the asset and compared to an authorized capital revenue requirement over the GRC cycle. In a GRC, the capital revenue requirement is balanced cumulatively throughout the GRC cycle (*e.g.*, 2016 through 2018), until the remaining book value of assets installed during the GRC cycle is rolled-in to authorized rate base in connection with SoCalGas' next GRC. This becomes problematic from an accounting perspective as the actual capital revenue requirement recorded in the balancing account begins to compound in the post-test years (PTYs), resulting in a growing undercollection, even if the program maintains capital expenses within authorized levels.

The GRC capital revenue requirement for the test year is developed through the Results of Operation model, discussed in the Summary of Earnings testimony of Khai Nguyen (Exhibit SCG-43), using authorized capital expenditures and forecasted in-service dates for the test year.

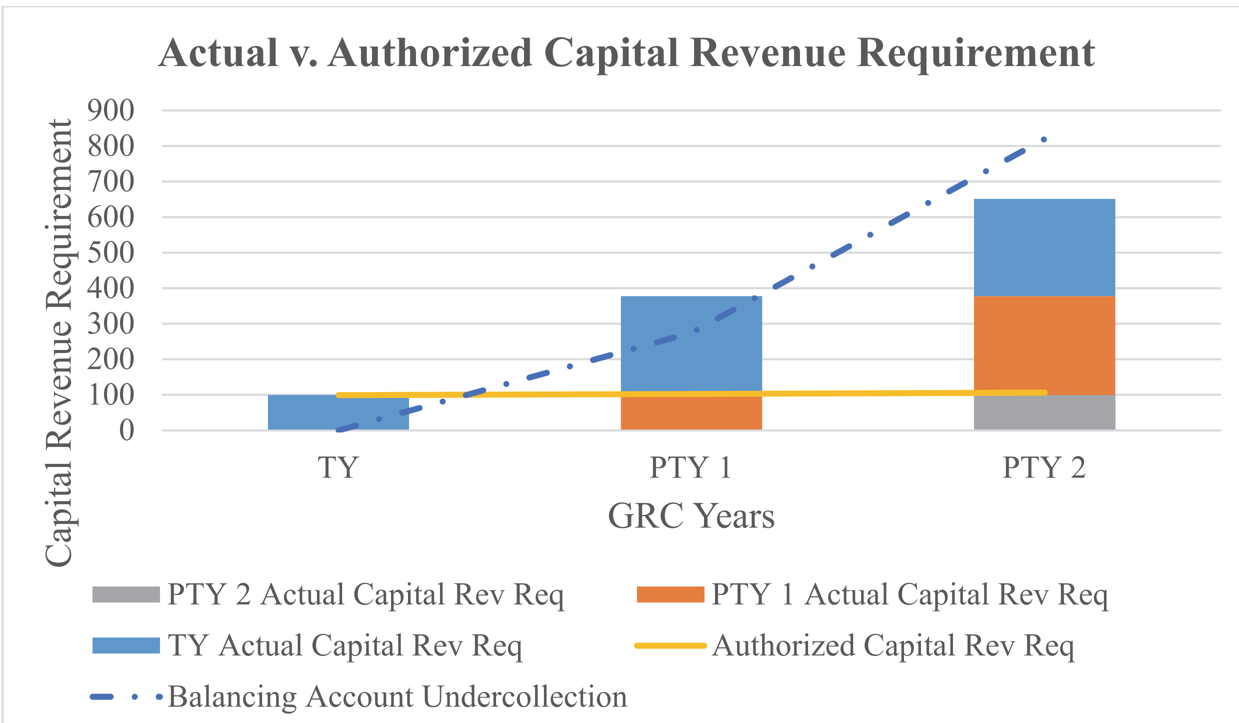
Thus, the amount and timing of plant additions in the test year are the main drivers of the resulting authorized capital revenue requirement for the GRC cycle. If the capital expenses for the test year are forecasted to be in service later in the year, authorized rate base will be lower, resulting in a lower capital revenue requirement. This effectively means partial recovery of the actual capital-related costs incurred in the test year if the asset is placed in service earlier than forecasted. In addition, the authorized capital revenue requirement in the PTYs is calculated by multiplying the prior year's authorized revenue requirement by the PTY mechanism (typically an authorized attrition rate or percentage). Using a simple percentage attrition mechanism, the authorized PTY revenue requirement provides partial recovery of the corresponding year's plant additions. However, SoCalGas will continue to incur capital-related costs related to plant additions in the test year on top of the additional costs for the plant additions in the PTYs. At the end of the GRC cycle, the cumulative rate base balance may triple on an actual basis along with the corresponding impact to the actual capital revenue requirement. Moreover, when compared to authorized (which remains relatively flat), the undercollection in the balancing account will exponentially increase solely due to this compounding issue, which is largely beyond SoCalGas' control.

Table RQY-2 below is an example illustrating the compounding issue that results from balancing capital revenue requirement. Below are the key assumptions for the figures shown in Table RQY-2:

- The program spends at authorized levels ($2,500/year).
- The timing and amount of plant additions are the same each year of the GRC cycle.
- Actual and authorized capital revenue requirement is based on an authorized rate of return of 8% and depreciation rate of 4%.
- Ignoring property taxes, the authorized capital revenue requirement in the PTYs is calculated using a fixed attrition rate of 3.5%.

Table RQY-2
Southern California Gas Company
Illustrative Capital Compounding Example

Period	Plant Additions	Plant Balance	Actual Capital Rev Req				Authorized Capital Rev Req	Difference	
			TY	PTY 1	PTY 2	Total Cycle		$	M
TY	2,500	2,500	99	0	0	99	99	0	0%
PTY 1	2,500	5,000	278	99	0	377	103	275	268%
PTY 2	2,500	7,500	273	278	99	651	106	545	514%
Total GRC Cycle	**7,500**	**7,500**	**651**	**377**	**99**	**1,127**	**308**	**820**	**266%**



The table and chart above illustrate the total capital revenue requirement incurred each year in a GRC cycle and further breaks down each year's capital revenue requirement to correspond with the year the underlying assets went in service. This example shows that an undercollection of $820 (266% of the total authorized GRC capital revenue requirement) would result even though capital spending is within authorized levels and the timing/amount of plant additions are identical each year.

In D.16-06-054, the Commission approved recovery of costs up to 35% of the TIMP, DIMP, and SIMP programs' respective TY 2016 GRC cycle authorized revenue requirement through a Tier 3 advice letter. Recovery of any amount equal to or above the 35% threshold is subject to a separate application. The capital compounding effect described above complicates the determination of when the 35% threshold is reached that would trigger a different procedural mechanism for recovery. As seen in the above chart, toward the end of a GRC cycle, most of the accumulated capital-related costs for the TIMP, DIMP, and SIMP programs may not be attributable to new plant or an overspend of authorized program expenses, but rather could be due to the compounding capital revenue requirement for prior years' installed plant. When computing a dollar amount threshold to determine whether SoCalGas should file a Tier 3 advice letter or application to seek recovery of an undercollection in the TIMPBA, Post-2011 DIMPBA, and/or SIMPBA, SoCalGas proposes to not use a percentage of its total GRC cycle revenue requirement due to the significant difference between actual capital revenue requirements and the authorized, escalated capital revenue requirements resulting from this compounding phenomenon. Instead, SoCalGas proposes to change the current calculation to compute the dollar amount threshold by multiplying 35% by the total authorized O&M and capital expenditures. As a result of this change in calculation methodology, SoCalGas would file a Tier 3 advice letter to seek recovery of the undercollection in the TIMP/DIMP/SIMP balancing accounts when the corresponding program is overspent by up to 35% of the total authorized O&M and capital expenditures. For overspending greater than or equal to 35%, SoCalGas will file a separate application to request recovery. If SoCalGas has not overspent in excess of its total authorized O&M and capital expenditures for the GRC cycle, but an undercollection exists in the balancing account due to compounding of the actual capital revenue requirements recorded to the balancing account, SoCalGas will incorporate the undercollected balance in its annual regulatory account update filing advice letter for recovery in the following year's gas transportation rates. If a net overcollection exists at the end of the GRC cycle, SoCalGas requests to refund the balance in customers' gas transportation rates in connection with its annual regulatory account update filing. Appendix B summarizes the proposed cost recovery method by scenario.

E. Creation of New Regulatory Accounts

1. Pipeline Safety Enhancement Plan Balancing Account (PSEPBA)

Pursuant to D.16-08-003, the Commission adopted an annual 50% cost recovery mechanism for PSEP costs recorded to the Safety Enhancement Expense Balancing Account (SEEBA) and Safety Enhancement Capital Costs Balancing Account (SECCBA). D.16-08-003 also ordered SoCalGas to file two reasonableness review applications and one forecast filing for SoCalGas to seek recovery of the remaining costs for PSEP projects completed through June 30, 2017. SoCalGas will continue to record O&M and capital-related costs for projects completed after June 30, 2017 in the SEEBA and SECCBA, respectively, and comply with the annual 50% cost recovery mechanism. SoCalGas plans to seek recovery of these remaining costs in the SEEBA and SECCBA in a future GRC proceeding once these projects have been completed.

Beginning with the TY 2019 GRC, SoCalGas has included in its TY 2019 GRC the net book value of PSEP projects recorded in the Pipeline Safety and Reliability Memorandum Account (PSRMA) and approved for recovery in D.16-12-063. As such, SoCalGas will discontinue recording capital-related costs associated with these completed projects in the PSRMA. However, the PSRMA will remain open until all costs recorded to the account have been reviewed and addressed for cost recovery by the Commission.

SoCalGas has also included in its TY 2019 GRC, PSEP projects and associated costs planned for the TY 2019 GRC cycle and not included in a prior PSEP-related application as discussed in more detail in the PSEP testimony of Rick Phillips (Exhibit SCG-15).[8] SoCalGas proposes creation of a new interest-bearing two-way balancing account, PSEPBA, to record, on an aggregate project basis, the O&M and capital-related costs associated with the PSEP projects planned as part of the TY 2019 GRC cycle and corresponding authorized revenue requirement. Due to the nature and timing of these PSEP projects, the majority of projects forecasted as part of SoCalGas' TY 2019 GRC Application are not expected to be completed until the post-test years. Due to the difference between the calculation of GRC revenue requirement in post-test years and actual revenue requirement incurred related to capital expenditures, SoCalGas is proposing a post-test year cost recovery mechanism related to PSEP projects, which is further described in the Post-Test Year Ratemaking testimony of Jawaad Malik (Exhibit SCG-44).

In addition, SoCalGas requests to annually carry over any over- or undercollections in the PSEPBA that may result due to timing differences within the GRC cycle. If a net overcollection exists at the end of the GRC cycle, SoCalGas requests to refund the balance in customers' gas transportation rates in connection with its annual regulatory account update filing. If spending

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[8] SoCalGas will seek amortization of planning and engineering costs associated with Phase 2A projects included in this Application and recorded in the Pipeline Safety and Enhancement Plan – Phase 2 Memorandum Account (PSEP-2MA) in a future proceeding, as authorized by D.16-08-003 (OP 1) at 14-15.

for these PSEP projects are less than authorized O&M and capital expenses as adopted by the final TY 2019 GRC Decision and an undercollection exists due to the capital compounding issue previously described above in Section II.D.4, SoCalGas requests to amortize the balance in PSEPBA in customers' gas transportation rates in connection with its annual regulatory account update filing. If a net undercollection exists due to project spending exceeding authorized O&M and/or capital expenses as adopted by the TY 2019 GRC Decision, SoCalGas proposes to seek recovery of the undercollection through an annual Tier 3 advice letter process, as needed. A Tier 3 advice letter process is an appropriate cost recovery mechanism as it would allow the Commission to review the reasonableness of costs incurred and requires a Commission-approved resolution prior to recovery of an undercollection. Appendix B summarizes the proposed cost recovery method by scenario.

2. Morongo Rights-of-Way Memorandum Account (MROWMA)

As discussed in the Gas Engineering testimony of Deanna Haines (Exhibit SCG-09) SoCalGas proposes a memorandum account to record pre-construction costs associated with the evaluation of potential relocation of transmission pipelines that run underneath land held by the United States Government in trust for the Morongo Band of Mission Indians. Ms. Haines states that SoCalGas is seeking this same type of memorandum account in a separate application currently pending before the Commission in A.16-12-011. The request in this TY 2019 GRC Application for the same relief is contingent upon the outcome of A.16-12-011. If the creation of the MROWMA is approved in a final decision for A.16-12-011, the request for the MROWMA in this TY 2019 GRC Application will be withdrawn. The MROWMA being proposed in this GRC would function and be structured in the same manner as what is being proposed in that application, with the exception of the effective date. If adopted as part of the TY 2019 GRC, and not as part of A.16-12-011, the effective date of the MROWMA would be January 1, 2019, the beginning of the test year.

As described in, and consistent with, the regulatory accounting testimony served in A.16-12-011, the MROWMA will record incremental pre-construction costs, including applicable incremental overheads, for developing alternatives, including the possible complete relocation of gas transmission pipelines and connection to the distribution system. The disposition of the MROWMA balance would be addressed in a future proceeding before the Commission.

3. Morongo Rights-of-Way Balancing Account (MROWBA)

Also discussed by Ms. Haines (Ex. SCG-09), is a proposal for an interest-bearing two-way balancing account to record and recover costs associated with the renewal of expiring rights-of-way within the Morongo reservation. The purpose of this account is to record and recover the incremental O&M and capital-related costs, including applicable incremental overheads, associated with seeking and acquiring renewal of the expiring rights-of-way for SoCalGas' transmission and distribution lines, which are located within the Morongo reservation, or costs incurred to maintain operation of the transmission and distribution system until a long-term solution is reached. As discussed in Ms. Haines' testimony, these costs include:

1. <u>Cost for the renewal of the rights-of-way (*i.e.*, renewal payment)</u>. If a renewal of the three expiring rights-of-way is achieved, it will involve a payment or payments for the long-term property right.
2. <u>Potential gas infrastructure modification, additions and/or partial relocation costs (*i.e.*, infrastructure and associated pre-construction costs)</u>. To the extent SoCalGas must perform some infrastructure modifications or enhancements to segments of transmission and/or distribution lines to attain and maintain the long-term rights-of-way or relocate, either within and/or outside of the Morongo reservation, these costs, and the relevant pre-construction costs, would be recorded in the MROWBA. The pre-construction costs to be recorded in the balancing account would be distinct from those that would be recorded in the memorandum account (MROWMA) as these pre-construction costs would be incurred in conjunction with a long-term renewal of the rights-of-way, and not in furtherance of a complete relocation.
3. <u>Costs incurred during renewal discussions with Morongo (*i.e.*, renewal effort costs)</u>. SoCalGas may incur costs associated with its renewal effort as of the beginning of the test year. These costs may include, but are not limited to, internal labor, consulting and legal fees, professional services, and Tribal member education and communications in support of renewal.
4. <u>Additional costs incurred for interim operational period</u>. Should the rights-of-way expire before a renewal is granted, SoCalGas may incur additional costs to access, maintain, and operate the pipelines until a longer-term resolution can be reached.

SoCalGas proposes to amortize the balance in the MROWBA in customers' gas transportation rates through the annual regulatory account update advice letter filing. SoCalGas would present the costs recorded in the MROWBA in its next GRC or other applicable proceeding for review.

The MROWBA is proposed as a two-way balancing account, because it is not feasible at this time to forecast the range of these costs with any certainty, as described in the testimony of Ms. Haines (Ex. SCG-09).

4. Liability Insurance Premium Balancing Account (LIPBA)

SoCalGas proposes to create the LIPBA as a two-way interest-bearing balancing account recorded on SoCalGas' financial statements. The purpose of the LIPBA is to record the difference between the authorized revenue requirement to be adopted in this TY 2019 GRC specific to liability insurance premiums charged to SoCalGas as set forth in the Corporate Center – Insurance testimony of Neil Cayabyab (Exhibit SCG-29) and the actual expenses incurred and charged to SoCalGas. SoCalGas proposes to amortize the balance in the LIPBA in customers' gas transportation rates in connection with the annual regulatory account update advice letter filing.

F. Informational Discussion of Other Regulatory Accounts

1. Tax Memorandum Account (TMA)

The TMA was created pursuant to D.16-06-054 as an interest-bearing memorandum account that is not recorded on SoCalGas' financial statements. The purpose of the TMA is to track revenue differences resulting from the income tax expense approved in SoCalGas' 2016 GRC and actual tax expense incurred during the TY 2016 GRC period of January 1, 2016 through December 31, 2018. Details and proposals related to the TMA are discussed in the Tax testimony of Ragan Reeves (Exhibit SCG-37).

2. Compression Services Balancing Account (CSBA), Biogas Conditioning-Upgrading Services Balancing Account (BCSBA), and Distributed Energy Resources Service Balancing Account (DERSBA)

Pursuant to D.12-12-037, D.13-12-040 and D.15-10-049, SoCalGas established three new tariffed services for compression services, biogas conditioning/upgrading services, and distributed energy resources (DER) services to be offered to participating customers. The Commission's approval of Advice Letter numbers 4459-G, 4583-G, and 4918-G authorized the creation of the CSBA, BCSBA, and DERSBA, respectively. The purpose of these balancing accounts is to record the costs embedded in the GRC used in providing each of these tariffed services.

To the extent embedded costs are used in providing compression, biogas conditioning/upgrading, and DER services and were included in the cost estimates covered by other SoCalGas witness areas that are eventually adopted in the TY 2019 GRC, those costs will be recorded to the CSBA, BCSBA, and DERSBA, respectively, for refund to ratepayers, as applicable. This treatment is necessary so that the costs are not double recovered from the participating compression, biogas, and DER customers and SoCalGas' non-participating ratepayers. The disposition of the CSBA, BCSBA, and DERSBA balances are incorporated into customers' rates in connection with SoCalGas' annual regulatory accounts balance update filing.

3. Master Meter Balancing Account (MMBA)

The MMBA is an interest-bearing balancing account recorded on SoCalGas' financial statements. The purpose of the MMBA is to record the incremental costs associated with the conversion of master-metered service at mobilehome parks to direct utility service as part of a three-year pilot program authorized by the Commission in D.14-03-021. Since all "to the meter" (TTM) assets placed into service through December 31, 2016 have been included in rate base as part of SoCalGas' TY 2019 GRC, SoCalGas will accordingly discontinue recording in the MMBA the capital-related costs associated with these assets upon implementation of the TY 2019 GRC Decision to avoid double recovery of these costs. Capital-related costs associated with TTM assets placed in service after 2016 will continue to be balanced in the MMBA.

III. CONCLUSION

The ratemaking treatment for the regulatory accounts discussed above is reasonable and should be adopted as proposed, subject to any necessary Commission determination of the underlying programs as sponsored by the various witnesses referenced throughout this testimony.

This concludes my prepared direct testimony.

IV. WITNESS QUALIFICATIONS

My name is Rae Marie Q. Yu. I am employed by SoCalGas. My business address is 555 West Fifth Street, Los Angeles, California, 90013-1011. I am currently the Fixed Assets Principal-Supervisor of the Asset Management group within the Accounting and Finance Department. Previous to this role, I was the Principal Regulatory Accounts Advisor of the Regulatory Accounts group within the Accounting and Finance Department. I was in Regulatory Accounts from January 7, 2012 through October 22, 2016. While in the Regulatory Accounts group, I was responsible for managing SoCalGas' authorized regulatory balancing, tracking, and memorandum accounts. My responsibilities included: implementation of regulatory accounting procedures for compliance with Commission directives; quantifying and recording the monthly entries and adjustments to the Commission-authorized regulatory account mechanisms; and managing the general administration of SoCalGas' authorized regulatory accounts.

I received my Bachelor of Science degree in Accounting from San Diego State University in 2007. I am also a Certified Public Accountant. I began my employment with SoCalGas in 2007 in the Accounting and Finance Department where I have held various positions of increasing responsibility in Accounts Payable, Plant Accounting, Business Controls, and Regulatory Accounts before assuming my current position.

I have not previously testified before the Commission.

LIST OF ACRONYMS

ACRONYM	DEFINITION
A.	Application
AB	Assembly Bill
ACMA	Aliso Canyon Memorandum Account
ACTR	Aliso Canyon Turbine Replacement
ACTTA	Aliso Canyon True-up Tracking Account
AL	Advice Letter
AMI	Advanced Metering Infrastructure
AMIBA	AMI Balancing Account
AMOPBA	Advanced Meter Opt-Out Program Balancing Account
APC	Authorized Program Cost
BCSBA	Biogas Conditioning-Upgrading Services Balancing Account
CARE	California Alternate Rates for Energy
CAREA	CARE Account
CAT	Core Aggregation Transportation
CFCA	Core Fixed Cost Account
CPUC	California Public Utilities Commission
CSBA	Compression Services Balancing Account
CSUBA	Compressor Station Upgrade Balancing Account
DER	Distributed Energy Resources
DERSBA	DER Services Balancing Account
DIMP	Distribution Integrity Management Program
DIMPBA	DIMP Balancing Account
DTRBMA	Deductible Tax Repairs Benefit Memorandum Account
EDRMA	Energy Data Request Memorandum Account
EJS	Escalated Jurisdictions Subaccount
EPC	Excess Program Cost
FERC	Federal Energy Regulatory Commission
FF&U	Franchise Fees & Uncollectibles expense
FHPMA	Fire Hazard Prevention Memorandum Account
FSPMA	FERC Settlement Proceeds Memorandum Account
GRC	General Rate Case
IRS	Internal Revenue Service
LDAR	Leak Detection and Repair
LIPBA	Liability Insurance Premiums Balancing Account
MMBA	Master Meter Balancing Account
MROWBA	Morongo Rights-of-Way Balancing Account
MROWMA	Morongo Rights-of-Way Memorandum Account
MS4	Municipal separate storm sewer system
NERBA	New Environmental Regulatory Balancing Account
NFCA	Noncore Fixed Cost Account

NGLAP	Natural Gas Leak Abatement Program
OFCMA	Operational Flow Cost Memorandum Account
O&M	Operations and maintenance
OP	Ordering Paragraph
PBA	Pension Balancing Account
PBOP	Post-Retirement Benefits Other than Pensions
PBOPBA	PBOP Balancing Account
PSEP	Pipeline Safety Enhancement Plan
PSEPBA	PSEP Balancing Account
PSRMA	Pipeline Safety & Reliability Memorandum Account
PTY	Post-test years
RD&D	Research, Development and Demonstration
RDDEA	Research Development and Demonstration Expense Account
RRMA	Research Royalties Memorandum Account
RTC	Regional Clean Air Incentives Market Trading Credits
SB	Senate Bill
SDG&E	San Diego Gas & Electric Company
SEC	Service Establishment Charge
SECCBA	Safety Enhancement Capital Cost Balancing Account
SEEBA	Safety Enhancement Expense Balancing Account
SIMP	Storage Integrity Management Program
SIMPBA	SIMP Balancing Account
SoCalGas	Southern California Gas Company
TIMP	Transmission Integrity Management Program
TIMPBA	TIMP Balancing Account
TMA	Tax Memorandum Account
TY	Test Year

APPENDIX A

Chart of Test Year 2019 Regulatory Account Proposals

Regulatory Account (SoCalGas)	Balancing/ Memo	1 or 2-way	Request	Sponsoring Witness
ACMA	Memo	2-way	Amortize/Eliminate	D. Buczkowski (Ex. SCG-11)
ACTTA	Memo	2-way	Amortize/Eliminate	D. Buczkowski (Ex. SCG-11)
AMIBA	Balancing	2-way	Continue/Modify	R. Garcia (Ex. SCG-17)
AMOPBA	Balancing	2-way	Amortize/Eliminate	R. Garcia (Ex. SCG-17)
CFCA	Balancing	2-way	Continue/Modify	M. Baldwin (Ex. SCG-19) R. Garcia (Ex. SCG-17) A. Steffen (Ex. SCG-41)
CSBA/BCSBA/ DERSBA	Balancing	2-way	Informational only	N/A
EDRMA	Memo	2-way	Amortize/Eliminate	M. Baldwin (Ex. SCG-19)
DTRBMA	Memo	2-way	Eliminate	N/A
FHPMA	Memo	2-way	Amortize/Eliminate	N. Navin (Ex. SCG-10)
FSPMA	Memo	2-way	Eliminate	N/A
LIPBA	Balancing	2-way	Create	N.Cayabyab (Ex. SCG-29)
MMBA	Balancing	2-way	Informational Only	N/A
MROWBA	Balancing	2-way	Create	D. Haines (Ex. SCG-9)
MROWMA	Memo	2-way	Create	D. Haines (Ex. SCG-9)
NERBA	Balancing	2-way	Continue	D. Johnson (Ex. SCG-25)
OFCMA	Memo	2-way	Amortize/Eliminate	D. Zornizer (Ex. SCG-13)
PBA	Balancing	2-way	Continue	D. Robinson (Ex. SCG-31)
PBOPBA	Balancing	2-way	Continue	D. Robinson (Ex. SCG-31)
Post-2011 DIMPBA	Balancing	2-way	Continue/Modify	M. Martinez (Ex. SCG-14)

PSEPBA	Balancing	2-way	Create	R. Phillips (Ex. SCG-15)
RDDEA	Memo	1-way	Amortize/Continue	L. Alexander (Ex. SCG-21)
RRMA	Memo	2-way	Continue	L. Alexander (Ex. SCG-21)
SIMPBA	Balancing	2-way	Continue/Modify	N. Navin (Ex. SCG-10)
TIMPBA	Balancing	2-way	Continue/Modify	M. Martinez (Ex. SCG-14)
TMA	Memo	2-way	Informational Only	R. Reeves (Ex. SCG-37)

APPENDIX B

TIMPBA, Post-2011 DIMPBA, SIMPBA Proposed Cost Recovery Methods

Actual Expense vs. Authorized Expense	Balancing Account Over- or Undercollection	Disposition
O&M + Capital underspent	Undercollection[1]	Regulatory Account Update Filing
O&M + Capital overspent (0-34% of authorized expenses)	Undercollection[2]	Tier 3 AL
O&M + Capital overspent (35%+ of authorized expenses)	Undercollection[2]	Application
Net overcollection at end of GRC cycle		Regulatory Account Update Filing

[1] Undercollection due to capital compounding.
[2] Undercollection due to actual spending greater than authorized O&M and capital expenses and capital compounding.

PSEPBA Proposed Cost Recovery Methods

Actual Expense vs. Authorized Expense	Balancing Account Over- or Undercollection	Disposition
O&M underspent Capital underspent	Undercollection[1]	Regulatory Account Update Filing
O&M overspent Capital overspent	Undercollection[2]	Tier 3 AL
O&M overspent Capital underspent	Undercollection[2]	Tier 3 AL
O&M underspent Capital overspent	Undercollection[2]	Tier 3 AL
Net overcollection at end of GRC cycle		Regulatory Account Update Filing

[1] Undercollection due to capital compounding.
[2] Undercollection due to actual spending greater than authorized O&M and/or capital expenses and capital compounding.