Application: A.23-11-003
Witness: Leslie F. Hayles
Chapter: 3

REBUTTAL TESTIMONY OF
LESLIE F. HAYLES
ON BEHALF OF SOUTHERN CALIFORNIA GAS COMPANY
(CEMA ACCOUNTING)

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

May 13, 2024

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REBUTTAL TESTIMONY OF LESLIE F. HAYLES
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I. PURPOSE

This rebuttal testimony addresses the direct intervenor testimony of The Utility Reform Network (TURN) which was served on April 2, 2024. TURN addressed SoCalGas's Catastrophic Event Memorandum Account (CEMA) and is proposing a credit of $53.465 million against the incremental costs incurred due to the COVID-19 pandemic and sought by SoCalGas for recovery in its Application (A.) 23-11-003 (Application).

II. GENERAL REBUTTAL

TURN's approach to calculating SoCalGas's cost avoidance due to COVID-19 is overly simplistic, limited, and leads to incorrect conclusions. As discussed further below, TURN incorrectly assumes that any variances between 2019 actual costs and actual costs incurred during 2020-2022 in the four Customer Services areas it singled out are avoided costs. TURN fails to acknowledge that if SoCalGas spends less for a certain activity in various years within a General Rate Case (GRC) cycle, that does not necessarily mean that the difference is "earnings for shareholders."[1] Specifically, the reprioritization of funds between activities within a GRC cycle as a result of changes to regulations, risks, or the environment is typical and a reflection of prudent and conscientious efforts to manage operations in a safe and reliable manner. In addition, TURN incorrectly uses constant 2021 dollars for its calculation of avoided costs, which significantly overstates the alleged variances.

As demonstrated in SoCalGas's testimony for this Application, SoCalGas took the appropriate and responsible steps to protect the health and safety of its customers and employees and has shown that the incremental costs recorded to the CEMA meet the regulatory requirements to do so.[2] SoCalGas also offset the CEMA request with costs avoided due to COVID-19 of $8.349 million. SoCalGas's CEMA incremental costs incurred due to the COVID-19 pandemic, including the offsetting of the avoided costs, are reasonable and reflect a more comprehensive and reasoned approach than the one applied by TURN.

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1 TURN Testimony, p. 4.

2 Costs are 1) incremental, 2) related to events for which State of Emergency Proclamations were made, and 3) reasonable.

A. Reprioritization of GRC Funds Is Expected and Necessary

In accordance with the GRC rate case plan, SoCalGas puts forth its best efforts to forecast costs, several years in advance, using historical data and numerous economic indicators and other factors reflecting the best information available at the time. It is recognized that circumstances evolve throughout the years following the GRC filing due to changing operational and regulatory environments. The California Public Utilities Commission (Commission) has explicitly recognized that "new programs or projects may come up, others may be cancelled, and there may be reprioritization. *This process is expected and is necessary* for the utility to manage its operations in a safe and reliable manner."[3] It is for these reasons that "utilit[ies] [are] allowed the flexibility to reprioritize the authorized funds in order to ensure safe and reliable operations."[4] SoCalGas provides examples in the testimony below evidencing how funds were reprioritized during the years impacted by COVID-19 (*e.g.*, 2020, 2021 and 2022).

This is not the first time SoCalGas has addressed the concepts of reprioritization and the fundamental principles of cost-of-service ratemaking in response to TURN. SoCalGas just recently addressed these issues in its 2024 GRC proceeding (A.22-15-005), which is awaiting a proposed decision, including TURN's argument that SoCalGas "pocketed the reduced O&M costs as earnings for shareholders."[5]

B. Reprioritization is Critical to SoCalGas's Ability to Operate in a Safe and Reliable Manner

TURN's testimony in this proceeding selectively picks four sections of SoCalGas's Customer Services 2024 GRC testimony (Customer Services-Operations, CCC-Operations, Branch Offices, and Credit and Collections) that reflect reduced actual costs incurred for 2020 – 2022 compared to 2019 and characterizes the variance as avoided costs. However, the

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[3] D.11-05-018, p. 27 (emphasis added).

[4] Energy Division, Safety-Related Spending Accountability Report for Southern California Edison (May 2017) (Safety Report), p. 10, available at: http://www.cpuc.ca.gov/uploadedFiles/CPUC_Public_Website/Content/Safety/SCESafety-RelatedSpending.pdf; *see also* Resolution E-4464 (May 10, 2012), p. 7 ("Under GRC ratemaking, the utilities are given an authorized revenue requirement to manage various parts of their utility business. Recognizing that the utilities may need to re-prioritize spending and spend more or less in a particular area of their business, the Commission affords them substantial flexibility to decide how much to spend in any particular area.").

[5] A.22-15-005 SoCalGas's Reply Brief, pp. 338-339 (footnotes omitted); TURN Testimony, p. 4 "SoCalGas pocketed those cost savings as earnings for shareholders."

calculation of cost avoidance according to TURN's approach is too narrowly focused. Simply applying a year-over-year formula without considering the reprioritization of funds and the bigger economic picture ignores the complexities of cost analysis within a GRC cycle. As activity levels were changing and developing in Customer Services, other functional areas throughout SoCalGas were experiencing the opposite effect of supply chain issues and increased costs. SoCalGas prioritized maintaining safe and reliable operations during a period of significant uncertainty, while taking measures to protect and balance the interests of its customers and employees. Specifically, it not only enacted the numerous COVID-19 protections that were required by the Commission and the State during the pandemic, but also actively assessed and responded to activities needing more attention and funding (*e.g.*, cybersecurity, securing materials and supplies during supply chain disruptions, etc.). Furthermore, SoCalGas made a conscientious decision not to lay off high-skilled workers, and instead redeployed them to other areas to accelerate work that was not impacted by COVID-19. Significant investment has been made in our front-line workers; laying them off due to a period of uncertainty and later replacing them when normal operations resumed might have yielded limited short-term benefits but would later impose additional costs for hiring, training, etc., not to mention the loss of skilled workers that support safe and reliable operations.

III. REBUTTAL TO TURN'S BASIS OF CALCULATING AVOIDED COSTS

Regarding the avoided costs calculation, TURN indicates in its testimony that it used "SoCalGas's methodology [of calculating cost avoidance] and compared cost incurred from 2020 to 2022 with 2019 costs."[6] The Errata Testimony of Leslie F. Hayles (Chapter 3a) notes that "2019 was generally used as a proxy year for comparison to costs incurred…during 2020 and 2021, and when applicable in 2022 and 2023, except for facilities cost avoidance which was analyzed against 2020 expected cost."[7] This reflects that calculating avoided costs is not always as straightforward as simply comparing two years, but rather the facts and circumstances of the activity and broader organization need to be considered.

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6 TURN Testimony, p. 5.
7 Ex. SoCalGas-03a (Errata Testimony of Leslie F. Hayles), p. LH-11.

A. TURN's Estimated Costs Savings is Inaccurate

1. TURN's Use of Constant 2021 Dollars is Incorrect

Costs recorded to the CEMA are reflected in nominal dollars, representing actual dollars at the time they were incurred. However, TURN's avoided costs calculation uses GRC figures which are presented in constant 2021 dollars, which is inconsistent with the basis for recording costs and cost savings to the CEMA. Presenting dollars inflated to a constant base year is a GRC requirement used in the development of the test year revenues and revenue requirements. While TURN's overall premise is incorrect, even its own calculation is grossly overstated. By using the nominal cost basis, as recorded in CEMA and also available in the GRC workpapers, instead of TURN's 2021 constant dollars, TURN's calculated variance of $53.465 million,[8] which SoCalGas disputes in its entirety throughout this rebuttal testimony, is reduced by $18.369 million to $35.096 million.

2. Examples of Reprioritization of Resources

As described above, SoCalGas exercised prudent judgment to reprioritize resources and funding across necessary activities during the COVID-19 pandemic. Specifically, SoCalGas was prohibited by the Commission to do field collections from 2020-2022.[9] Therefore, in order to carefully manage resources, SoCalGas actively reassigned employees and funds to other critical work (*e.g.*, meter set assembly (MSA) inspections, etc.). The reassignment of employees and funds to other critical work is consistent with the Commission's allowing utilities "the flexibility to reprioritize the authorized funds in order to ensure safe and reliable operations."[10]

SoCalGas replicated TURN's year-over-year presentation of costs at the GRC workpaper level and presents the table and discussion below as an example to demonstrate several O&M

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8 TURN Testimony, p. 3 ($26.755+$15.842+$7.599+$3.269=$53.465).

9 D.21-11-014; *See* also SoCalGas Advice 5604-B available at: https://tariff.socalgas.com/regulatory/tariffs/tm2/pdf/submittals/GAS_5604-B.pdf.

10 Energy Division, Safety-Related Spending Accountability Report for Southern California Edison (May 2017) (Safety Report), p. 10, available at: http://www.cpuc.ca.gov/uploadedFiles/CPUC_Public_Website/Content/Safety/SCESafety-RelatedSpending.pdf; *see also* Resolution E-4464 (May 10, 2012), p. 7 ("Under GRC ratemaking, the utilities are given an authorized revenue requirement to manage various parts of their utility business. Recognizing that the utilities may need to re-prioritize spending and spend more or less in a particular area of their business, the Commission affords them substantial flexibility to decide how much to spend in any particular area.").

activities where reprioritizing resources and funding occurred. The table below is intended to illustrate that even in just examining these four indicative areas from 2020 – 2022, SoCalGas expended $37.317 million more than 2019 actuals, which exceeds TURN's alleged avoided cost total, in nominal dollars, of $35.096 million and refutes its overly simplistic and limited analytical approach.

Table AP-024
Select 2024 GRC Workpapers
Adjusted Recorded O&M Costs in Nominal $
2019 -2022
$ in Thousands

GRC Witness Area	WP Description	2019	2020	2021	2022	Variance to 2019 Total
Customer Service Field		$ 18,505	$ 23,780	$ 25,319	$ 23,767	
2FC005.000	MSA Inspection Program		$ 5,275	$ 6,814	$ 5,262	$ 17,351
Gas Distribution		$ 22,147	$ 24,491	$ 25,638	$ 24,766	
2GD006.000	Leakage		$ 2,344	$ 3,491	$ 2,619	$ 8,454
Gas Distribution		$ 9,981	$ 10,487	$ 15,362	$ 9,678	
2GD003.000	Main Maintenance		$ 506	$ 5,381	$ (303)	$ 5,584
Cybersecurity		$ 830	$ 1,166	$ 3,850	$ 3,402	
2200-0430	Cybersecurity		$ 336	$ 3,020	$ 2,572	$ 5,928
	Total					$ 37,317

a. MSA Inspection Program[11]

SoCalGas incurred $17.351 million more in O&M costs over 2020 – 2022 when compared to 2019 for the MSA Inspection (MSAI) Program. The primary cost driver for this program is labor costs driven by the volume of inspections and associated remediation work to meet Department of Transportation (DOT) requirements and the work required to address meter access issues. SoCalGas reassigned field collections employee resources during the COVID-19

[11] *See* A.22-05-015 Revised Prepared Direct Testimony of Daniel J. Rendler, pp. DJR-029-030; *available at:* https://www.socalgas.com/sites/default/files/SCG-14-R_Revised_Direct_Testimony_of_Daniel_Rendler-Customer%20Services-Field_and_AMO_1334.pdf. *See also* A.22-05-015 Revised Workpapers to Prepared Direct Testimony of Daniel J. Rendler, p. 119; *available at*: https://www.socalgas.com/sites/default/files/SCG-14-WP-R-E_Daniel_J_Rendler_CSFC.pdf.

collections moratorium to the expanding MSAI Program. The table below reflects the change in the program's unit counts over the 2019 – 2022 timeframe per SoCalGas's 2023 Risk Spending Accountability Reporting (RSAR). The program's unit counts for 2020 – 2022 were consistently above its 2019 levels and had achieved actual counts above its imputed authorized levels by 1.1 million for the period from 2019 – 2022.

Table AP-025
MSA Inspection Program
Unit Counts

	Remediation Orders	MSA Inspections	Total
2019	72,206	2,365,887	2,438,093
2020	124,981	2,850,126	2,975,107
2021	157,599	2,705,546	2,863,145
2022	72,372	2,596,353	2,668,725
Total Actual Units	427,158	10,517,912	10,945,070
Imputed Authorized Units	666,036	9,168,528	9,834,564
Over/(Under) Imputed Authorized	(238,878)	1,349,384	1,110,506

b. Gas Distribution Leakage[12]

SoCalGas incurred $8.454 million more in O&M costs over 2020 – 2022 when compared to 2019 for Gas Distribution Leakage. Over the last several years, SoCalGas has been detecting and repairing an increasing number of leaks per year. The main drivers of the leak repair costs are intertwined with safety-related work and build upon previous GRC commitments to reduce the active leaks across the Distribution system.

c. Main Maintenance[13]

SoCalGas incurred $5.584 million more in O&M costs over 2020 – 2022 when compared to 2019 for Main Maintenance work. The primary driver for costs within the Main Maintenance

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[12] *See* A.22-05-015 Revised Prepared Direct Testimony of Mario A. Aguirre (Errata), p. MAA-47; available at: *https://www.socalgas.com/sites/default/files/SCG-04-R-E_Errata_Revised_Direct_Testimony_of_Mario_Aguirre_Gas_Distribution.pdf*. *See* also A.22-05-015 Revised Workpapers to Prepared Direct Testimony of Mario A. Aguirre (Second Errata), p. 65; available at: *https://www.socalgas.com/sites/default/files/SCG-04-WP-R-2E_Mario_Aguirre_Gas_Distribution.pdf*.

[13] *See* A.22-05-015 Revised Prepared Direct Testimony of Mario A. Aguirre (Errata), p. MAA-41; available at: *https://www.socalgas.com/sites/default/files/SCG-04-R-*

workgroup is paving, which has steadily risen over the last several years. Factors influencing the level of spending in paving work include, but are not limited to, the level of construction activities performed by SoCalGas that require paving and the costs for materials, permitting, and special municipality construction requirements.

d. Cybersecurity[14]

SoCalGas incurred $5.928 million more in O&M costs over 2020 – 2022 when compared to 2019 for Cybersecurity. The cost drivers include the continuous need to address increasing exposure to cybersecurity risk and the cybersecurity risk growth rate, along with new and current regulations requiring the implementation of specific cybersecurity practices has increased the cybersecurity program needs and the associated costs. One example of a new cybersecurity regulation is the 2021 Transportation Security Administration (TSA) Security Directive Pipeline-2021-02.

3. Branch Offices Avoided Costs Were Credited to the CEMA

TURN inappropriately claims that SoCalGas did not include a line item for avoided costs associated with the branch offices in this proceeding. TURN is incorrect. SoCalGas did include a line item for the branch offices avoided costs and credit to the CEMA. TURN's point was addressed most recently in SoCalGas's Response to Protests (SoCalGas's Reply) filed on December 18, 2023.[15] SoCalGas's Reply states that it "…recorded a credit of $2.109 million to its CEMA for cost savings at branch offices related to reduced working hours, delayed filling of vacant positions, and modified armored car transportation services"[16] and that savings is reflected in the "Customer Remittance Processing" line item on Table AP-006 of Chapter 3a testimony. SoCalGas explained in its original testimony that the service modification for the branch offices resulting from COVID-19 was from March 23, 2020, to July 6, 2021.[17] Also, as stated in the

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E_Errata_Revised_Direct_Testimony_of_Mario_Aguirre_Gas_Distribution.pdf. *See* also A.22-05-015 Revised Workpapers to Prepared Direct Testimony of Mario A. Aguirre (Second Errata), p. 40; available at: ***https://www.socalgas.com/sites/default/files/SCG-04-WP-R-2E_Mario_Aguirre_Gas_Distribution.pdf***.

14 *See* A.22-05-015 Revised Prepared Direct Testimony of Lance R. Mueller, p. LRM-17; *available at*: https://www.socalgas.com/sites/default/files/SCG-22-R_%20Revised_Direct_Testimony_of_Lance_Mueller_Cybersecurity_1447%20Final_1448.pdf.

15 SoCalGas's Response to Protests, p. 2.

16 *Id*.

17 Ex. SoCalGas-03a (Errata Testimony of Leslie F. Hayles), p. LH-32.

Prepared Testimony of Chris Bissonnette, Bonnie Burns, Ralf Balzer, Orlando Carrasquillo, and Ernie Cervantes (Chapter 2), "[a]lthough the customer branch offices were closed to the public, rent and utilities expenses related to the customer branch offices were incurred in line with those authorized in the GRC as the branches were still operating (*e.g.*, responding to customer calls, processing payments, etc.)."[18] Per SoCalGas's analysis, the temporary change in branch office operations during this timeframe resulted in avoided costs of $2.109 million[19] that were recorded as a credit to the COVID-19 CEMA as an offset to its incremental costs.

IV. CONCLUSION

SoCalGas does not agree with the claims put forth in TURN's testimony and has demonstrated that the CEMA costs requested are incremental and reasonable. Furthermore, SoCalGas believes that the cost avoidance of $8.349 million recorded as an offset to the CEMA is prudent and reasonable. In addition, SoCalGas did consider increases in other activities and costs during the COVID-19 pandemic and shifted resources between activities within its discretion to do so.

This concludes my rebuttal testimony.

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18 Prepared Testimony of Christopher Bissonnette, Bonnie Burns, Ralf Balzer, Orlando Carrasquillo, and Ernie Cervantes (Chapter 2), p. 28.

19 TURN's calculated avoided cost fails to consider SoCalGas's $2.109 million credit to the CEMA for savings at the branch offices during COVID-19.