

Application: A.24-12-XXX
Exhibit No.: _____
Witness: Nasim Ahmed & Michael W. Foster

**PREPARED DIRECT TESTIMONY OF
NASIM AHMED AND MICHAEL W. FOSTER
ON BEHALF OF
SOUTHERN CALIFORNIA GAS COMPANY**

**(CHAPTER 7 - REGULATORY ACCOUNTING, COST RECOVERY,
REVENUE REQUIREMENT, AND RATES)**

**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA**

December 20, 2024

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1 **PREPARED DIRECT TESTIMONY OF**
2 **NASIM AHMED AND MICHAEL W. FOSTER**
3 **(REGULATORY ACCOUNTING, COST RECOVERY,**
4 **REVENUE REQUIREMENT, AND RATES)**

5 **I. INTRODUCTION**

6 Nasim Ahmed is the Principal Accountant – Supervisor in the Regulatory Accounts
7 group within Southern California Gas Company’s (SoCalGas) Accounting and Finance
8 Department and Michael W. Foster is the Rates and Analysis Manager within SoCalGas’s
9 Regulatory Affairs Department. Our testimony supports the Application for Authorization to
10 Implement Revenue Requirement for Costs to Enable Commencement of Phase 2 Activities for
11 Angeles Link (Application). The purpose of our joint testimony is to present SoCalGas’s cost
12 recovery proposal related to the: 1) establishment of the Angeles Link Balancing Account
13 (ALBA) to record authorized and actual costs as of the date of this Application, accounting
14 treatment, and recovery of Phase 2 costs; 2) forecasted revenue requirement associated with the
15 cost forecasts described in the testimonies of Brian Walker and Amy Kitson; 3) proposed cost
16 allocation methodology; and 4) natural gas rate and customer bill impacts.

17 **II. REGULATORY ACCOUNTING AND COST RECOVERY**

18 In this Application, SoCalGas proposes to establish the ALBA, an interest-bearing, two-
19 way balancing account that would appear on SoCalGas’s financial statements to record costs
20 associated with Angeles Link Phase 2 activities. As described in the Testimony of Brian Walker,
21 SoCalGas expects to conduct certain contracting activities while this proceeding is pending that
22 will allow SoCalGas to commence Phase 2 activities promptly upon issuance of a decision in this
23 proceeding. As discussed in the Testimony of Maryam Brown, to be best positioned to meet
24 ARCHES’ timeline for operation of the California Hydrogen Hub, and to save ratepayers money,
25 it is important that SoCalGas begin Phase 2 activities as soon as the Commission grants the

1 Application. Accordingly, SoCalGas requests that the ALBA be authorized effective as of the
2 date of the Application. A detailed analysis of forecasted costs for Phase 2 activities is described
3 by Mr. Walker and Ms. Kitson, with a proposed revenue requirement for inclusion in rates
4 presented herein. The purpose of the ALBA is to record the authorized funding approved in this
5 proceeding and the actual operating and maintenance (O&M) costs, including applicable
6 overhead costs associated with Phase 2 activities, which will be recovered in rates. SoCalGas
7 proposes that, if the ALBA has an over-collected balance (i.e., recorded costs below authorized
8 funding) upon completion of the Phase 2 activities, the balance will be amortized in reduced
9 transportation rates based on the cost allocation method described below and included in
10 SoCalGas's annual Regulatory Accounts Balance Update filing. If the ALBA has an under-
11 collected balance (i.e., recorded costs above authorized funding), SoCalGas proposes to present
12 the costs in excess of the authorized funding for the Phase 2 activities for a reasonableness
13 review in a separate application, the company's next General Rate Case (GRC), or other
14 applicable proceeding and, upon review and approval of those costs, if any, to amortize those
15 additional costs in future transportation rates.

16 **III. FORECASTED REVENUE REQUIREMENT**

17 Forecasted costs for Phase 2 activities are presented by Mr. Walker and Ms. Kitson. The
18 forecasted revenue requirement based on these costs is \$5.9 million in 2025, \$83.6 million in
19 2026, \$118.3 million in 2027, and \$65.5 million in 2028. The costs associated with Phase 2
20 activities are incremental (e.g., not included in SoCalGas's most recent GRC)¹ and, therefore, are
21 additive to any currently authorized revenue requirement.

¹ See, e.g., Application (A.) 22-05-015.

Table 1 below shows the forecasted total direct costs associated with Phase 2 activities that are discussed by Brian Walker and Amy Kitson. A summary of the fully loaded and escalated costs of SoCalGas’s proposal is shown in Table 2, and the illustrative revenue requirement resulting from these fully loaded costs is shown in Table 3.

Table 1: Forecasted Direct O&M Costs (in millions)

	2025	2026	2027	2028	Total
Direct O&M Costs – Chapters 3 & 4	\$3.9	\$71.6	\$101.8	\$56.3	\$233.6

The methodology used to determine the forecasted revenue requirement for Phase 2 activities involves several steps and considerations. First, the incremental O&M costs are adjusted to include applicable overheads, which are applied to each direct cost input, consistent with its classification as company labor, contract labor, or purchased services. SoCalGas used the overhead rates proposed in its most recent Test Year (TY) 2024 GRC² for illustrative purposes; however, the overheads approved in the TY 2024 GRC decision will be applied in the determination of the actual overhead loader costs. Next, the overhead-loaded, constant dollar values for incremental O&M costs are escalated for inflation. Consistent with the GRC, escalation is applied to O&M costs using the indices published in S&P Global Market Intelligence,³ to appropriately account for inflation.

Table 2: Total O&M Costs Loaded and Escalated (in millions)

	2025	2026	2027	2028	Total
Fully Loaded & Escalated O&M Costs	\$5.7	\$81.2	\$115.0	\$63.6	\$265.5

² Overhead rates to calculate overhead costs are based on those in A.22-05-015/A.22-05-016 and supported within SoCalGas/SDG&E Revised Prepared Direct Testimony of Angel N. Le and Paul D. Malin (Shared Services & Shared Assets Billing, Segmentation & Capital Reassignments), Ex. SCG-30-WP/SDG&E-34-WP-R (August 2022).

³ S&P Global Market Intelligence; Pricing & Purchasing; Copyright © S&P Global Limited, Q2 2024. All rights reserved.

1 In addition to all incremental O&M expenditures, every revenue requirement component
2 is further adjusted to account for other costs required to support these expenditures, such as
3 working cash and franchise fees & uncollectibles (FF&U). Working cash is “the funding
4 supplied by investors to meet day-to-day utility operational requirements, and to cover the time
5 that expenditures are made for services until the time revenues are collected for those services.”⁴
6 FF&U covers payments made to counties and incorporated cities pursuant to local ordinances
7 granting right-of-way access, as well as uncollectible expenses incurred by SoCalGas.⁵

8 **Table 3: Forecasted Revenue Requirement (in millions)**

	2025 ⁶	2026	2027	2028	Total
Revenue Requirement	\$5.9	\$83.6	\$118.3	\$65.5	\$273.3

9
10 SoCalGas proposes to incorporate the revenue requirements for 2025 and 2026 into rates
11 after a decision in this proceeding, starting January 1, 2026. Additionally, the revenue
12 requirement for 2027 will be included in rates beginning January 1, 2027, and the revenue
13 requirement for 2028 will be included in rates starting January 1, 2028.

14 Approving cost recovery of the proposed revenue requirement in Table 3 above will save
15 customers an estimated \$31.0 million in interest.⁷ Table 4 provides an estimate of interest that
16 will accumulate each year on a cumulative under-collected balance if SoCalGas is not authorized

⁴ D.19-09-051 at 649.

⁵ FF&U multipliers are based on those in A.22-05-015 and supported within SoCalGas Revised Prepared Direct Testimony of Sara P. Mijares (Administrative General) and Revised Prepared Direct Testimony of Bernardita M. Sides (Customer Services - Office Operations).

⁶ Revenue requirement for 2025 will be incorporated into rates effective January 1, 2026.

⁷ With Phase 2 expected to be completed by June 2028, the interest calculation is based on the alternative of SoCalGas filing a reasonableness review of Phase 2 total actual costs in 2028 with the expectation of receiving a Commission decision by June 2030 for recovery of the total costs starting in July 2030. Accrued interest is based on the 90-day commercial paper rate.

1 cost recovery until after Phase 2 activities are completed, including additional time through 2030
 2 to allow for Commission review for reasonableness and issuance of a final decision. Please refer
 3 to the Testimony of Maryam Brown, who explains that authorizing a revenue requirement based
 4 on the proposed forecast promotes affordability by reducing overall costs, is fair to the utility and
 5 ratepayers, and reduces the risk of financial volatility for both ratepayers (by smoothing rate
 6 recovery) and the utilities.

7 **Table 4: Estimated Accrued Interest Impact (in millions)**

	2025	2026	2027	2028	2029	2030	Total
Forecasted Expenses	\$5.7	\$81.2	\$115.0	\$63.6	\$0	\$0	\$265.5
Estimated Interest Impact	\$0	\$1.6	\$5.3	\$8.7	\$10.2	\$5.2	\$31.0

8
 9 A two-way balancing account allows utilities to adjust rates based on actual costs and
 10 revenues, such that any over-collection or under-collection can be either returned to or, if
 11 deemed reasonable, recovered from ratepayers. As discussed by Ms. Brown, a two-way
 12 balancing account promotes fairness to both ratepayers and the utility because it reimburses the
 13 utility for its actual costs and ratepayers are not required to pay any more than those actual costs.
 14 And, if the utility exceeds its authorized forecast, the utility will have to demonstrate the
 15 reasonableness of overages to the Commission’s standard.

16 **IV. COST ALLOCATION METHODOLOGY**

17 SoCalGas typically utilizes cost allocation methods from two categories—those based on
 18 forecast usage or demand for each customer class (e.g., equal cents per therm or ECPT), and
 19 those based on cost of service to a customer class (equal percent of authorized margin or
 20 EPAM). As discussed in the Testimonies of Ms. Brown, Neil Navin, Josh Schellenberg, and Dr.
 21 Sonja Sax, the potential benefits of advancing Angeles Link through the Phase 2 activities

1 proposed in the Application are broad and accrue widely to all users of SoCalGas's system. Due
2 to these identified and shared benefits, the ECPT allocation methodology that spreads costs
3 equally on a cents per therm basis is the appropriate cost allocation method for Angeles Link
4 Phase 2 costs. This methodology allows for allocated costs to be socialized more in alignment
5 with the cost of gas consumed rather than the costs of gas service (i.e., where the allocation of
6 costs is tied to expenses incurred to serve each customer class). EPCT assigns less proportionate
7 cost to core customers, and particularly residential customers, relative to methodologies based on
8 cost of gas service, supporting affordability through relatively lower residential bill impacts.
9 D.20-07-032 adopted affordability metrics by which the Commission could assess the relative
10 affordability for essential utility service across industries and proceedings, including examination
11 of how different geographic areas of California are impacted. Those metrics are provided in the
12 Affordability Metrics testimony of Michael W. Foster.

13 The Commission has authorized the ECPT method for public good related programs. For
14 example, SoCalGas uses the ECPT method to allocate California Alternate Rates for Energy
15 (CARE) program costs across customer classes. The CARE program provides energy subsidies
16 to low-income customers and program costs are recovered in the Public Purpose Program
17 Surcharge (PPPS).⁸ Further, the ECPT method has been used for cost recovery in transportation
18 rates of the balance in the Residential Uncollectible Balancing Account (RUBA).⁹ The
19 Commission has also approved ECPT allocation of costs accrued to the System Reliability

⁸ See SoCalGas Advice Letter 6216-G for Public Purposes Program Surcharges, *available*
at: <https://tariffsprd.socalgas.com/view/filing/?utilId=SCG&bookId=GAS&flngKey=4636&flngId=6216-G&flngStatusCd=Approved>.

⁹ SoCalGas Preliminary Statement – Part V – Balancing Accounts Residential Uncollectible Balancing Account (RUBA).

1 Memo Account, which provides gas system reliability to a subset of SoCalGas customers while
2 spreading costs over all customers on a per therm basis.

3 For illustrative purposes, SoCalGas utilized the demand forecast from the most recently
4 implemented Triennial Cost Allocation Proceeding (TCAP) decision, D.20-02-045, to determine
5 the potential cost allocation. The actual allocations that will be applied will be determined by the
6 Cost Allocation Decision that is in effect when cost recovery occurs. The current cost allocation
7 is 38.7% to core customers, with 25.7% allocated to the residential class, and 61.3% to non-core
8 customers.

9 **V. RATE AND BILL IMPACTS**

10 Table 5 below illustrates current and proposed gas transportation rates by major customer
11 class for recovery of costs associated with Phase 2 of Angeles Link. These rates are derived
12 from the forecasted revenue requirement detailed in Table 3, which outlines the total incremental
13 revenue requirement to be included in rates for the years 2026-2028. Table 5 also illustrates the
14 bill impacts associated with Phase 2 of Angeles Link. Over the 36-month recovery period, the
15 average residential bill using 37 therms per month is projected to increase by \$0.35 per month
16 from \$71.10 to \$71.45. In 2026, 2027 and 2028, the average residential bill is expected to
17 increase by \$0.34, \$0.45, and \$0.25, respectively.

18 Both the current and proposed transportation rates reflect the allocation of costs and sales
19 volumes forecast adopted in SoCalGas's TCAP decision implemented on February 28, 2020.¹⁰
20 For illustrative purposes, the PPPS reflected in these tables also reflects those in effect on

¹⁰ See D.20-02-045.

1 January 1, 2024.¹¹ The commodity charge reflected in the tables is based on the latest 2024 gas
2 commodity update in effect as of July 1, 2024.¹²

3 Table 5 illustrates the rate impacts by customer class for both SoCalGas and San Diego
4 Gas and Electric (SDG&E). Specifically, SDG&E rates for Natural Gas Vehicle (NGV), Electric
5 Generation (EG), and Transmission Level Service (TLS) are impacted. Each of these three
6 customer classes shares a single common rate developed for both utilities.¹³ Also, SDG&E is a
7 wholesale customer of SoCalGas, and the costs allocated to SDG&E are included in SDG&E's
8 rates.

¹¹ See SoCalGas Advice Letter 6216-G for Public Purposes Program Surcharges, *available at*:
<https://tariffsprd.socalgas.com/view/filing/?utilId=SCG&bookId=GAS&flngKey=4636&flngId=6216-G&flngStatusCd=Approved>.

¹² See SoCalGas Advice Letter 6325-G for Commodity update, *available at*:
<https://tariffsprd.socalgas.com/view/filing/?utilId=SCG&bookId=GAS&flngKey=4780&flngId=6325-G&flngStatusCd=Effective>.

¹³ SoCalGas and SDG&E system wide rates are slightly different due to different California Solar Initiative Thermal Memo Account (CSITMA), Greenhouse Gas (GHG) and California Air Resource Board (CARB) adders and FF&U.

Table 5 - Illustrative Transportation Rates - \$/Therm except as noted

	Current									
	Oct. 2024	2026	Change \$	Change %	2027	Change \$	Change %	2028	Change \$	Change %
SoCalGas Rates \$/th										
CORE										
Residential	\$1.205	\$1.214	\$0.009207	0.8%	\$1.217	\$0.012174	1.0%	\$1.212	\$0.006742	0.6%
Commercial & Industrial	\$0.692	\$0.702	\$0.009510	1.4%	\$0.705	\$0.012575	1.8%	\$0.699	\$0.006964	1.0%
Total Core¹⁴	\$1.016	\$1.025	\$0.009260	0.9%	\$1.028	\$0.012244	1.2%	\$1.022	\$0.006780	0.7%
Non-CORE										
C&I - Distribution	\$0.269	\$0.279	\$0.009717	3.6%	\$0.282	\$0.012848	4.8%	\$0.276	\$0.007115	2.6%
Electric Generation - Distribution	\$0.251	\$0.261	\$0.009768	3.9%	\$0.264	\$0.012917	5.1%	\$0.258	\$0.007153	2.8%
Electric Generation - Transmission Class Average	\$0.265	\$0.275	\$0.009805	3.7%	\$0.278	\$0.012965	4.9%	\$0.272	\$0.007180	2.7%
Total Non-core¹⁵	\$0.131	\$0.141	\$0.009785	7.4%	\$0.144	\$0.012938	9.8%	\$0.139	\$0.007165	5.5%
System	\$0.549	\$0.558	\$0.009581	1.7%	\$0.561	\$0.012670	2.3%	\$0.556	\$0.007016	1.3%
SoCalGas Non-CARE Residential Bill \$/month	\$71.10	\$71.44	\$0.34	0.5%	\$71.55	\$0.45	0.6%	\$71.35	\$0.25	0.4%
SoCalGas	2024	2026	2027	2028	Total Average Change \$/therm compared to 2024					
Average Non-Care Res Bill \$/Month	\$71.10	\$71.44	\$71.55	\$71.35	\$0.35					
Change \$/therm		\$0.34	\$0.45	\$0.25						

¹⁴ Rule No. 01, Definitions – Core Service: Service to end-use Priority 1 or Priority 2A as set forth in Rule No. 23, Continuity of Service and Interruption of Delivery. *See* SoCalGas, *Rule No. 01*, available at: <https://tariffsprd.socalgas.com/view/tariff/?utilId=SCG&bookId=GAS&tarfKey=99>; *see also*, SoCalGas, *Rule No. 23*, available at: <https://tariffsprd.socalgas.com/view/tariff/?utilId=SCG&bookId=GAS&tarfKey=122>.

¹⁵ Rule No. 01, Definitions – Noncore Service: Service to customers who are not assigned to end-use priority 1 or 2A as defined in Rule No. 23, Continuity of Service and Interruption of Delivery. Customers receiving noncore service must have Automated Meter Reading (AMR) equipment installed at customer's expense as a condition of noncore service. *Id.*

	Current									
	Oct. 2024	2026	Change \$	Change %	2027	Change \$	Change %	2028	Change \$	Change %
SDG&E Rates \$/th										
CORE										
Residential	\$1.6459	\$1.6559	\$0.010078	0.6%	\$1.6592	\$0.013326	0.8%	\$1.6532	\$0.007380	0.4%
Commercial & Industrial	\$0.7260	\$0.7361	\$0.010078	1.4%	\$0.7393	\$0.013326	1.8%	\$0.7334	\$0.007380	1.0%
Total Core	\$1.2537	\$1.2638	\$0.010065	0.8%	\$1.2670	\$0.013310	1.1%	\$1.2611	\$0.007370	0.6%
Non-CORE										
C&I - Distribution	\$0.4000	\$0.4101	\$0.010078	2.5%	\$0.4133	\$0.013326	3.3%	\$0.4074	\$0.007380	1.8%
Electric Generation - Distribution	\$0.2512	\$0.26010	\$0.009768	3.9%	\$0.2641	\$0.012917	5.1%	\$0.2583	\$0.007153	2.8%
Electric Generation - Transmission Class Average	\$0.2601	\$0.2700	\$0.009867	3.8%	\$0.2732	\$0.013048	5.0%	\$0.2674	\$0.007225	2.8%
Total Non-Core	\$0.1274	\$0.1372	\$0.009826	7.7%	\$0.1404	\$0.012994	10.2%	\$0.1346	\$0.007195	5.6%
System	\$0.6677	\$0.6776	\$0.009941	1.5%	\$0.6808	\$0.013145	2.0%	\$0.6750	\$0.007279	1.1%
SDG&E Non-CARE Residential Bill \$/month	\$57.91	\$58.16	\$0.25	0.4%	\$58.24	\$0.33	0.6%	\$58.09	\$0.18	0.3%

SDG&E	2024	2026	2027	2028	Total Average Change \$/therm compared to 2024
Average Non-Care Res Bill \$/Month	\$57.91	\$58.16	\$58.24	\$58.09	\$0.25
Change \$/therm		\$0.25	\$0.33	\$0.18	

1 | **VI. CONCLUSION**

2 | This concludes our joint prepared direct testimony.

1 **VII. QUALIFICATIONS**

2 My name is Nasim Ahmed. I am employed by SoCalGas. My business address is 555
3 West Fifth Street, Los Angeles, California, 90013-1011. I am the Principal Accountant –
4 Supervisor in the Regulatory Accounts group within the Accounting and Finance Department
5 which supports the regulatory activities for SoCalGas. My responsibilities for SoCalGas’s
6 regulatory balancing, tracking, and memorandum accounts include implementation of regulatory
7 accounting procedures for compliance with Commission decisions, quantifying and recording the
8 monthly entries and adjustments to the regulatory accounts, and preparing forecasted balances
9 for regulatory accounts for inclusion in SoCalGas’s annual compliance filings. I began my
10 employment at Pacific Lighting Corporation, then the parent company of SoCalGas, in 1987 in
11 the Internal Audit Department. I have held various positions of increasing responsibility in
12 Internal Audit, General Accounting, and Utility Regulatory Accounting before assuming my
13 current position. I received my Bachelor of science degree in Accounting from California State
14 University, Long Beach in 1987. I have previously testified before the Commission.

15 My name is Michael W. Foster. My business address is 555 West Fifth Street, Los
16 Angeles, California, 90013-1011. I am employed by SoCalGas as the Rate Design and Demand
17 Forecasting Manager within the CPUC/Federal Energy Regulatory Commission (FERC) Gas
18 Regulatory Affairs Department, which supports gas regulatory activities of both SoCalGas and
19 SDG&E. I have been employed with the Companies since December 2001. I have held my
20 current position managing the rates and demand forecasting groups since February 2023.
21 Previously, I held various positions of increasing responsibility, most recently as a Principal
22 Economic Advisor for the gas Rate Design function for both SoCalGas and SDG&E, from
23 December 2016 through February 2023. I received a Bachelor of Arts degree in Economics from
24 the University of California, Santa Barbara in 1995. I received a Master of Business

- 1 Administration degree from the Darden School of Business at the University of Virginia,
- 2 Charlottesville in 2000. I have previously testified before the Commission.