

Application No: A.17-03-XXX  
Exhibit No.: \_\_\_\_\_  
Witness: Karen C. Chan

Application of Southern California Gas Company (U 904 G) and San Diego Gas & Electric Company (U 902 G) for (A) Approval of the Forecasted Revenue Requirement Associated with Certain Pipeline Safety Enhancement Plan Projects and Associated Rate Recovery, and (B) Authority to Modify and Create Certain Balancing Accounts

Application 17-03-\_\_\_\_  
(Filed on March 30, 2017)

**CHAPTER IV**  
**DIRECT TESTIMONY OF**  
**KAREN C. CHAN**  
**ON BEHALF OF**  
**SOUTHERN CALIFORNIA GAS COMPANY**  
**AND**  
**SAN DIEGO GAS & ELECTRIC COMPANY**

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

March 30, 2017

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1 **I. PURPOSE**

2 The purpose of my direct testimony on behalf of Southern California Gas Company  
3 (SoCalGas) and San Diego Gas & Electric Company (SDG&E) is to present the revenue  
4 requirements resulting from the capital and operations and maintenance (O&M) forecasts of the  
5 in-scope Pipeline Safety Enhancement Plan (PSEP) Phase 1B and Phase 2 projects. SoCalGas is  
6 seeking approval to recover in rates the forecasted revenue requirement of \$531.0 million for the  
7 period 2017 to 2090.

8 **II. REVENUE REQUIREMENT**

9 The revenue requirement associated with the PSEP projects is based on the forecasted  
10 incremental capital and O&M costs described in the Prepared Direct Testimony of Ronn  
11 Gonzalez (Chapter II). The capital and O&M costs presented in this application include  
12 overhead<sup>1</sup>, escalation, and other necessary costs to support the investment during construction  
13 and over its useful life. A summary of the fully loaded and escalated costs of the in-scope PSEP  
14 projects is shown in Table 1, and the illustrative revenue requirement resulting from these fully  
15 loaded costs are shown in Table 2 below.

16 The methodology to determine the forecasted revenue requirement involves several steps  
17 and considerations. First, the incremental capital and O&M costs are adjusted to include  
18 applicable overheads, which are applied to each direct cost input consistent with its classification  
19 as company labor, contract labor or purchased services and materials. SoCalGas used December  
20 2016 Internal Planning rates for illustrative purposes in this application, however actual  
21 overheads will be applied in the determination of the actual revenue requirement for true-up  
22 purposes. Next, the overhead-loaded, constant-dollar values for incremental capital and O&M

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<sup>1</sup> Also referred to as “indirect costs.” Overhead costs are costs that indirectly support the business operations of SoCalGas and SDG&E and are included for cost recovery.

costs are escalated for inflation. SoCalGas applied the indices published in IHS Global Insight's 3<sup>rd</sup> Quarter 2016 Utility Cost Forecast for this application. The revenue requirement calculation assumes all capital costs, including direct costs, overhead, escalation, and Allowance for Funds Used during Construction (AFUDC), are recovered through depreciation over the current authorized book-life of the assets. Consistent with the current ratemaking treatment adopted by the Commission, the forecasted capital costs do not include costs of removal associated with the existing infrastructure; these costs are accounted for in already authorized depreciation rates. In addition to all incremental capital and O&M expenditures, the revenue requirement includes other costs required to support the investment, such as the authorized return on investment, taxes, and franchise fees and uncollectibles. The revenue requirement calculation uses the current authorized rate of return of 8.02%.<sup>2</sup>

Table 1<sup>3</sup> below summarizes the fully loaded and escalated costs, including capitalized property tax and AFUDC.

**Table 1**  
**Fully Loaded and Escalated Costs Summary**  
*(In Millions of Dollars, Nominal)*

	2015	2016	2017	2018	2019	2020	2021	2022	Total
Capital	0.9	6.2	11.7	7.0	75.7	60.9	27.9	7.1	197.5
O&M	-	-	6.5	0.8	35.2	14.5	-	-	57.0
<b>Total</b>	<b>0.9</b>	<b>6.2</b>	<b>18.3</b>	<b>7.8</b>	<b>110.9</b>	<b>75.4</b>	<b>27.9</b>	<b>7.1</b>	<b>254.5</b>

Table 2<sup>4</sup> summarizes the forecasted revenue requirement for SoCalGas to test or replace the in-scope PSEP projects. In addition to the fully loaded and escalated costs shown in Table 1, this revenue requirement captures other capital-related costs, such as income taxes and return needed to support the investment over its useful life.

<sup>2</sup> SoCalGas' rate of return was authorized in the company's 2013 Test Year Cost of Capital proceeding in Decision 12-12-034.

<sup>3</sup> Additional details may be found in WP-IV-3-1.

<sup>4</sup> Additional details may be found in WP-IV-4-1.

**Table 2**  
**Revenue Requirement Summary**  
*(In Millions of Dollars, Nominal)*

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027-2090	Total
Distribution	-	-	2.0	11.3	20.3	24.9	25.4	24.7	23.9	23.2	275.5	431.1
Backbone Transmission	6.1	0.7	32.8	15.0	1.6	1.6	1.6	1.5	1.5	1.4	21.7	85.6
Local Transmission	0.7	0.1	3.6	1.9	0.4	0.4	0.4	0.4	0.4	0.4	5.6	14.3
<b>Total</b>	<b>6.8</b>	<b>0.8</b>	<b>38.4</b>	<b>28.2</b>	<b>22.4</b>	<b>26.9</b>	<b>27.4</b>	<b>26.6</b>	<b>25.8</b>	<b>25.0</b>	<b>302.8</b>	<b>531.0</b>

As the projects are completed, SoCalGas will calculate and record the actual capital and O&M costs and associated revenue requirement in the approved regulatory accounts. To the extent that actual costs of these Phase 1B projects are incurred and any 50% interim recovery realized in rates prior to the Commission’s approval of this application, SoCalGas will reduce the total forecasted revenue requirement presented in this application by the amount recovered under the existing mechanism prior to implementing in customers’ rates. This approach is reasonable to avoid duplicate rate recovery. In addition, should there be differences between actual and authorized revenue requirements, these differences will be addressed, as needed, in SoCalGas’ Consolidated Advice Letter Rate Filing for rates effective January 1 of the following year. Further details of the proposed regulatory accounting treatment, including the accounting treatment of Phase 1 costs subject to 50% interim rate recovery under D.16-08-003, are discussed in the Prepared Direct Testimony of Reginald Austria (Chapter V).

The details of the illustrated rate impact based on the forecasted revenue requirement are discussed in the Prepared Direct Testimony of Sharim Chaudhury (Chapter VI).

1 **III. WITNESS QUALIFICATIONS**

2 My name is Karen C. Chan, and I am the Financial and Strategic Analysis Manager for  
3 SoCalGas. My business address is 555 West Fifth Street, Los Angeles, California 90013-1011.

4 I received a Bachelor of Science degree in Accounting from California State Polytechnic  
5 University, Pomona in 2008 where I graduated summa cum laude. I am a Certified Public  
6 Accountant and a Certified Internal Auditor.

7 In my career, my roles have included conducting financial statement and internal controls  
8 audits and reviews; conducting fraud interviews and walkthroughs of business cycles; risk  
9 assessing financial and operational processes in areas such as inventory management, cash  
10 controls, natural gas trading, and capital project management; and I have provided financial  
11 expertise for regulatory concepts including revenue requirement, return on rate base, and rate  
12 recovery to aid clients with decision making and business case development.

13 I have been employed by SoCalGas in the Financial and Strategic Analysis department  
14 since February 2013, and am responsible for overseeing the financial analysis and development  
15 of revenue requirements in support of new investment opportunities.

16 Prior to joining SoCalGas, I was employed with Sempra Energy where I held positions of  
17 increasing responsibility in Audit Services. Prior to Sempra Energy, I was employed by Deloitte  
18 & Touche, LLP as an auditor.

19 I have not previously testified before the Commission.

20 This concludes my direct testimony.