

Application No: A.16-09-XXX
Exhibit No.: _____
Witness: J. Cho

Application of Southern California Gas Company (U 904 G) and San Diego Gas & Electric Company (U 902 G) to Recover Costs Recorded in the Pipeline Safety and Reliability Memorandum Accounts, the Safety Enhancement Expense Balancing Accounts, and the Safety Enhancement Capital Cost Balancing Accounts

Application 16-09-XXX

CHAPTER I
DIRECT TESTIMONY OF
JIMMIE CHO
ON BEHALF OF
SOUTHERN CALIFORNIA GAS COMPANY
AND
SAN DIEGO GAS & ELECTRIC COMPANY

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

September 2, 2016

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1 **I. PURPOSE AND OVERVIEW OF TESTIMONY**

2 The purpose of my direct testimony on behalf of Southern California Gas Company
3 (SoCalGas) and San Diego Gas & Electric Company (SDG&E) (collectively “Utilities”) is to
4 reaffirm our commitment to enhancing the safety of our system through the Pipeline Safety and
5 Enhancement Plan (PSEP) and provide an overview of our prudent and reasonable
6 implementation of this Commission and state-mandated safety enhancement work.

7 Safety is of primary importance to SoCalGas and SDG&E, and how the PSEP program
8 has been executed is evidence of the Utilities’ commitment to safety. The Commission
9 determined in 2011 that pipeline safety work had to be completed “as soon as practicable.”¹
10 Instead of waiting for a Commission decision on SoCalGas and SDG&E’s PSEP plan – a
11 decision that would not come for three years – the companies began taking action. In May 2012,
12 consistent with how the company acts as prudent operators, the utilities began PSEP work. To
13 address higher priority areas first (work identified as Phase 1A), the Utilities determined that
14 they would begin their PSEP program in the more populated areas of their system. And before
15 the Commission had issued a decision on the Utilities’ proposed PSEP, the Utilities had already
16 initiated over half of the Phase 1A pipeline and valve projects.

17 The Utilities took steps to act reasonably and cost effectively before receiving the
18 Commission’s decision on their PSEP. The steps that the Utilities took - from competitively
19 bidding the majority of construction work to creating a project management office to securing
20 separate PSEP insurance - were all done because the Utilities, in their judgment, thought it was
21 the prudent action to take at the time, given the Commission’s instructions to begin work

¹ D.11-06-017, mimeo., at 19.

1 expeditiously “due to significant public safety concerns.”² What was reasonable at the time is the
2 standard that the Utilities are held to for cost recovery – not what would be considered
3 reasonable four years later.

4 The Utilities acted reasonably, prudently, and expeditiously given the situation at the time
5 and given the directives to prioritize this safety enhancement work from both the Commission
6 and the Legislature.³ This expeditious action comes at a price. The Utilities have literally
7 “walked the talk” with their commitment to safety: expending over \$1 billion dollars to date for
8 the benefit of our customers without cost recovery. This commitment, and the Utilities’
9 reasonable and prudent execution of PSEP, should be acknowledged by the Commission and the
10 Commission should grant full cost recovery for the PSEP work presented in this application.⁴

11 **II. SOCALGAS AND SDG&E CONTINUE TO FULLY SUPPORT THE**
12 **COMMISSION’S PIPELINE SAFETY ENHANCEMENT EFFORTS**

13 PSEP is a safety enhancement effort of extreme magnitude. It is also a safety
14 enhancement effort that we support and enhances the safety of California’s natural gas
15 infrastructure in the near term and for decades to come. At SoCalGas and SDG&E, safety has
16 been and is paramount. As the Commission has noted, however, safety is difficult to
17 accomplish, expensive, and often thankless:

18 In the context of an unending obligation to ensure safety, we must also realize that
19 in practical terms safety is exacting, detailed, and repetitive. It is also expensive,
20 so ensuring that high value safety improvements are prioritized and obtaining
21 efficiencies wherever possible is also essential. And, in the end, if the goal of safe
22 operations is met, the reward is that absolutely nothing bad happens. In short,
23 safety is difficult, expensive and seemingly without reward.⁵

24 Despite this, SoCalGas and SDG&E have worked tirelessly to enhance system safety.

² D.11-06-017, mimeo., at 20.

³ For example, D.11-06-017 and California Public Utilities Code Section 958.

⁴ The Utilities acknowledge in Chapter III (Phillips) certain disallowances.

⁵ D.12-12-030, mimeo., at 43; see also D.14-06-007, mimeo., at 11, Footnote 10.

1 SoCalGas and SDG&E initially filed their PSEP in August of 2011.⁶ Our PSEP
2 Application was ultimately ruled on in June of 2014 in D.14-06-007. In D.14-06-007, the
3 Commission approved the concepts provided for in PSEP, but created a cost recovery process
4 that has SoCalGas and SDG&E perform safety work and expend funds up front. The costs
5 associated with that safety work are recorded in regulatory accounts for later review and
6 recovery in an “after-the-fact” reasonableness review process.⁷

7 During the 34 months between the filing of our PSEP and the Commission issuing D.14-
8 06-007, SoCalGas and SDG&E began its planned safety enhancement work. As described in
9 Chapter II, an entirely new organization was formed to execute PSEP. To do this, SoCalGas and
10 SDG&E created the organization, began hiring and transferring company personnel to support
11 PSEP, and engaged in efforts to contract with industry experts – leveraging existing SoCalGas
12 and SDG&E contracts and engaging in efforts to competitively bid (where practicable) for
13 additional resources. Through these efforts, SoCalGas and SDG&E prudently developed and
14 grew what is currently an approximately 500-plus person organization that was capable of
15 executing a program the size of PSEP. The first PSEP project completed construction in April
16 2013, well before the issuance of D.14-06-007. Indeed, by October 2013, nine months before the
17 issuance of D.14-06-007, approximately 50% of the Phase 1A pipe and valve projects had been
18 initiated.

⁶ An Amended PSEP was filed in December of 2011.

⁷ Notably, this after-the-fact review process is not the typical ratemaking approach where applicants present a forecasted project and scope, and obtain approval of that work before it is conducted. Although in SDG&E’s Energy Resource Recovery Account (ERRA) compliance applications, the Commission reviews the balancing account, contract administration, expenses, and energy dispatch of the prior calendar year, review of ERRA activity is quite different in complexity and magnitude to that of PSEP. Hundreds of decisions are made each day for these safety-related construction projects that vary in scope and complexity. Further, in ERRA, SDG&E is allowed recovery of forecasted costs made each year subject to refund pending the compliance review.

1 SoCalGas and SDG&E have worked to reasonably and expeditiously enhance system
2 safety, consistent with Commission directives. For example, as explained in Chapters II and III
3 (Phillips) and Chapter V (Mejia), PSEP projects have been executed successfully: meeting
4 applicable regulatory, environmental, and safety requirements. Pressure test projects have been
5 completed without pipeline failures. Replacement projects were completed and served to
6 enhance system safety through the installation of modern pipe, manufactured and installed
7 consistent with modern standards for safety.⁸ Valve projects were executed and successfully put
8 into service. Projects were completed while maintaining service to core customers and proactive
9 communications with potentially impacted commercial and industrial customers resulted in
10 minimal planned outages.

11 SoCalGas and SDG&E are particularly proud of the outstanding safety record associated
12 with PSEP projects, with an Occupational and Safety Health Administration (OSHA) incident
13 rate of 0.47, well below the industry average of 1.2. A thorough safety training program
14 administered to employees and contractors has effectively promoted consistency in safety
15 procedures, and most importantly, that employees and contractors return home safely at the end
16 of each work day.

17 **III. PSEP HAS BEEN IMPLEMENTED WITH A FOCUS ON MAXIMIZING**
18 **CUSTOMER BENEFITS**

19 The primary objective of PSEP is, and continues to be, to enhance the safety of the
20 SoCalGas and SDG&E pipeline system. In reaching that objective, SoCalGas and SDG&E have

⁸ Current pressure test standards were developed and implemented in Part 192, 49 CFR Subpart J – recognized as the modern standard for pressure testing. D.11-06-017 requires in-service natural gas transmission pipeline in California to have been pressure tested in accordance with modern standards for safety (D.11-06-017, mimeo., at 18). The Commission’s new requirements will require SoCalGas and SDG&E to locate records of pressure testing in accordance with Subpart J standards or conduct such pressure tests or replace the pipeline.

1 been mindful of maximizing customer benefits. This means, we have looked to enhance safety,
2 maintain reliability, and maximize the value of customer investment in safety enhancement.
3 While these after-the-fact reasonableness reviews focus primarily on costs, the Commission
4 should not lose sight of the safety value provided by PSEP and the magnitude of the
5 Commission-ordered undertaking. SoCalGas and SDG&E were ordered to end historical (over
6 40-year old) exemptions and comply with new safety standards.⁹ In other words, the
7 Commission ended federal exemptions that have lawfully been relied upon, and SoCalGas and
8 SDG&E were ordered to expeditiously bring an approximately 3,800-mile transmission pipeline
9 system – a system that has operated safely for a century – into compliance with the
10 Commission’s new safety standards.

11 SoCalGas and SDG&E have worked to complete this massive program as soon as
12 practicable, while doing so in a cost effective manner. The proactive measures employed to
13 avoid costs and enhance customer value are described throughout this application and
14 demonstrate our commitment to enhancing safety, promoting reliable service to customers, and
15 maximizing the value of customer investments. Significant cost avoidances have been realized.
16 For example, as explained in Chapter II (Phillips), the overall Phase 1A scope has been reduced
17 by approximately 260 Category 4 miles. Further, efforts to control costs do not stop once
18 projects progress beyond the initial scoping validation. For example, as explained in Chapter II
19 (Phillips), through efforts such as the Performance Partner Program and overall material and
20 services competitive sourcing strategy, SoCalGas and SDG&E promote market-based and
21 competitive prices. Through these efforts and others, SoCalGas and SDG&E have effectively

⁹ D.11-06-017, mimeo., at 18 (“We conclude, therefore, that all natural gas transmission pipelines in service in California must be brought into compliance with modern standards for safety. Historic exemptions must come to an end with an orderly and cost-conscience implementation plan.”)

1 implemented, executed, and managed this unprecedented effort to modernize and enhance the
2 safety of California's natural gas infrastructure.

3 **IV. SOCALGAS AND SDG&E PRIORITIZED SAFETY AND HAVE ACTED AS A**
4 **REASONABLE MANAGER WOULD GIVEN WHAT WAS KNOWN AT THE**
5 **TIME.**

6 PSEP is a massive infrastructure program that spans our 24,000 square mile service
7 territory. Across this territory, there are 168 separate pipe and valve projects to be planned,
8 permitted, and constructed during Phase 1A alone. As such, SoCalGas and SDG&E are tasked
9 with simultaneously executing numerous unique and discreet projects as expeditiously as
10 practicable, while continuing to maintain safe and reliable natural gas service to customers. This
11 endeavor requires SoCalGas and SDG&E to separately design, plan, and construct multiple
12 projects in a coordinated and concerted manner. Each project is unique in terms of its scope and
13 complexity, so the costs of addressing and mitigating these conditions are equally varied and
14 unique. This undertaking requires significant coordination with many external and internal
15 entities before construction can begin. The very nature of PSEP Phase 1A requires work on
16 some of our oldest pipelines, and requires work to be performed in congested and populated
17 areas of our system. Adding to the complexity, this work needs to be completed as soon as
18 practicable and incremental to ongoing natural gas operations work.

19 Despite the above challenges, as of the date of this filing, SoCalGas and SDG&E have
20 pressure tested or replaced 105 miles of pipe.¹⁰ SoCalGas and SDG&E continue to engage in
21 pressure testing and replacement work and look for opportunities to enhance the piggability of
22 our system. SoCalGas and SDG&E have also completed 35 valve bundle projects to install new
23 valves or upgrade existing valves and install associated equipment to minimize the amount of

¹⁰ This includes the projects presented in this application, project previously presented in Application 14-12-016, and projects to be presented in future after-the-fact reasonableness reviews.

1 time required to stop the flow of gas in the event of a pipeline rupture.¹¹ SoCalGas and
2 SDG&E's system has and is operated safely. Now, through these additional investments in
3 response to Commission directives and California Public Utilities Code Section 958, SoCalGas
4 and SDG&E are further enhancing system safety – as directed – to achieve the Commission's
5 and our system safety enhancement and modernization goals.

6 However, as acknowledged by the Commission, enhancing the safety of our expansive
7 system is costly. As of the date of filing, SoCalGas and SDG&E have invested over \$1 billion
8 into PSEP work. SoCalGas and SDG&E incurred these expenditures to comply with
9 Commission directives, state law, and to enhance system safety. SoCalGas and SDG&E have
10 recovered none of the funds expended to validate and enhance the safety of our system. These
11 are not forecast amounts. These are *actual* dollars SoCalGas and SDG&E have incurred to
12 comply with Commission directives, state law, and to benefit our customers by performing work
13 to make the system even safer. These costs – minus acknowledged disallowances – should be
14 fully recoverable in rates.

15 As explained in greater detail in the chapters that follow, SoCalGas and SDG&E have:
16 (1) prudently managed and executed PSEP projects; (2) been diligent in avoiding costs and
17 promoting reasonable costs; and (3) designed the PSEP organization to provide oversight and
18 identify opportunities to enhance safety and efficiency within PSEP. As such, the Commission
19 should find that SoCalGas and SDG&E acted as reasonable managers, that the costs presented
20 for review in this application are reasonable, and authorize SoCalGas and SDG&E to fully
21 recover those costs in rates.

¹¹ This includes the projects presented in this application and projects to be presented in future after-the-fact reasonableness reviews.

1 **V. PSEP HAS BEEN EXECUTED REASONABLY AND PRUDENTLY AND COST**
2 **RECOVERY SHOULD BE GRANTED EXPEDITIOUSLY**

3 The safety benefits of the Commission-mandated PSEP are unquestionable. And while
4 the safety benefits are unquestionable, SoCalGas and SDG&E must demonstrate the
5 reasonableness of the costs incurred in furtherance of these enhancements. SoCalGas and
6 SDG&E have gone to great lengths to explain the reasonableness of the actions taken to comply
7 with the Commission’s safety enhancement directives and the associated processes implemented
8 to promote cost effectiveness and prudence. In this application, SoCalGas and SDG&E detail
9 the PSEP organization, goals and strategies, processes and procedures, and, for each project
10 workpapers are included to detail project development, costs incurred, and efforts undertaken to
11 promote safety, efficiency, and reliability for the benefit of our customers. The information
12 provided should allow for an expeditious review of our costs and approval of the requested
13 recovery.

14 Indeed, a quick decision on this application is critical for two reasons. First, the utilities
15 would like to understand whether the Commission agrees that the steps that they have been
16 taking to implement the PSEP program are reasonable. There have been no PSEP decisions to
17 date on costs presented for after-the-fact reasonableness review, and therefore no formal
18 guidance about how to change the program if necessary. Any changes will take time to
19 implement, and the PSEP program is moving along at a rapid pace. As of the filing date of this
20 application, SoCalGas and SDG&E are well underway to completing the higher priority PSEP
21 work – with all significant Phase 1A projects having been initiated – and have been working to
22 complete PSEP expeditiously to enhance safety. Second, rate recovery is necessary to avoid

1 regulatory account undercollections.¹² SoCalGas and SDG&E are confident that the additional
2 detail in this application will enable expedited review and approval of these reasonably incurred
3 costs.

4 **VI. CONCLUSION**

5 SoCalGas and SDG&E remain committed to PSEP and the enhancement of our
6 transmission pipeline system. The overarching objectives (e.g., complying with Commission
7 directives, enhancing public safety, minimizing customer impacts, and maximizing the cost
8 effectiveness of infrastructure investments for the benefit of our customers) articulated in our
9 original filing almost five years ago are still applicable today and will remain at the forefront as
10 SoCalGas and SDG&E continue with PSEP. SoCalGas and SDG&E will continue to incur
11 reasonable costs in engaging in these safety enhancement efforts. SoCalGas and SDG&E are
12 prudently executing this large safety enhancement effort and should be authorized to fully
13 recover in rates the entirety of costs associated with this Commission-mandated work. As the
14 Commission has recently stated: “It is a matter of fundamental utility ratemaking that utilities
15 recover all just and reasonable costs of providing utility service.”¹³ Accordingly, and based on
16 the supporting testimony provided in the chapters that follow, the Commission should find:

17 (1) SoCalGas and SDG&E have met their burden of demonstrating that they acted as a
18 reasonable manager would, based on the information that they knew at the time;¹⁴ (2) SoCalGas
19 and SDG&E have demonstrated the reasonableness of the costs incurred to execute the safety

¹² In A.15-06-013, the Commission began addressing these undercollections by granting PSEP partial interim rate recovery. *See* D.16-08-003.

¹³ D.16-05-024, mimeo., at 8.

¹⁴ D.90-09-088 (cited in D.11-10-002, mimeo., at 11, Footnote 2). As also noted in the A.14-12-016, April 1, 2015, Assigned Commissioner and Administrative Law Judge Scoping Ruling at 6, the: “reasonableness of a particular management action depends on what the utility knew or should have known at the time that the managerial decision was made, not how the decision holds up in light of future developments.”

1 enhancement work; and (3) SoCalGas and SDG&E should be authorized full rate recovery of the
2 revenue requirements submitted for recovery.

3 This concludes my prepared Direct Testimony.

1 **VII. WITNESS QUALIFICATIONS**

2 My name is Jimmie I. Cho. I am the Senior Vice President, Gas Operations & System
3 Integrity for SoCalGas and SDG&E. My business address is 555 West Fifth Street, Los Angeles,
4 California 90013-1011.

5 I received a bachelor’s degree in geology from Brown University and a master’s degree
6 in civil engineering from Stanford University.

7 I am responsible for gas operations. In my prior role, I served as Vice President of Gas
8 Operations for SoCalGas and SDG&E where I oversaw all aspects of field operations including
9 gas distribution, transmission, storage and system operations. I have also held prior roles as Vice
10 President of Human Resources, Diversity, and Inclusion for SoCalGas, Director of Customer
11 Communications, Research and Web Strategy, Director of Safety and Emergency Services, and
12 Director of Customer Service Field Operations. I have also held positions of increasing
13 responsibility in environmental engineering, corporate affairs, gas operations and customer
14 services.