

Application No: A.16-09-~~XXX~~005
Exhibit No.: _____
Witness: J. Huleis R. Gonzales

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~~005

CHAPTER IX

DIRECT TESTIMONY OF

JOHNNY M. HULEIS

RAMON GONZALES

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

Amended: December 20, 2016

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*Inclusion of this section was primary basis for amending testimony.

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, the “Utilities”) is
4 to explain the allocation of company overheads to the Pipeline Safety Enhancement Program
5 (PSEP) projects.

6 **II. OVERHEADS**

7 The Capital and ~~O&M~~Operating and Maintenance (O&M) related costs of completing a
8 project consists of both direct costs, as charged to that activity, and indirect or overhead costs.
9 The sum of direct and indirect costs makes up fully-loaded costs.

10 Direct costs are those activities and services that support a specific project, such as
11 salaries of staff employees (labor costs) and materials required for a specific project (non-labor
12 costs).¹ These costs are charged directly to the project since they are readily identifiable and can
13 be directly traced. Indirect costs are those activities and services that are associated with direct
14 costs—such as payroll taxes and pension and benefits,² which benefit a project but which are not
15 direct-charged. Indirect costs are incorporated into the costs presented for review in this
16 application.

17 On a monthly basis, the Affiliate Billing and Costing teams at SoCalGas and SDG&E
18 review overhead activity and set overhead rates that take into account the particular overhead’s

¹ For PSEP, direct costs also include PSEP programmatic costs or PSEP General Management and Administration (GMA) Costs. These PSEP GMAs are support costs that are not attributable to specific projects, but are incurred to build out the foundational elements of PSEP and support the PSEP program, including the organization, departments, processes and procedures, which support project-specific activities. GMAs are discussed in greater detail in Chapter VII (Mejia) and Chapter VIII (~~FranPech~~).

² Total indirect costs applied to capital projects consist of: Overheads, Allowance for Funds Used During Construction (AFUDC) and Property Tax. AFUDC is the net cost for borrowed funds used for construction purposes plus a reasonable rate on other funds, such as equity. The calculation of AFUDC follows FERC Code of Federal Regulations found under item 17 of the Gas Plant Instruction of Part 201. Additionally, Resolution G-2739 grants SoCalGas a modification to the FERC AFUDC formula. Capitalization of property tax for both SDG&E and SoCalGas was granted by the CPUC in Decision 13-05-010.

1 loading base, pool activity, and historical and budgeted data. Once reviewed and approved,
2 overhead rates are inputted into the SAP accounting system. Through the accounting system,
3 overhead rates are applied to Capital and O&M cost inputs monthly, according to classification
4 such as company labor, contract labor, purchased services and materials.

5 Because PSEP is an incremental project, only incremental overhead loaders are included
6 for recovery. For example, overheads associated with incremental labor are included since they
7 will proportionately increase as a result of the Utilities' PSEP activities. The following
8 overheads are allocated to PSEP projects and included for recovery:

- 9 • Payroll Tax;
- 10 • Vacation and Sick time;
- 11 • Benefits (non-balanced only);³
- 12 • Workers' Compensation;
- 13 • Public Liability / Property Damage;
- 14 • Incentive Compensation Plan;
- 15 • Purchasing;
- 16 • Administrative and General; and
- 17 • Insurance.⁴

³ Non-balanced benefits exclude Pension and Post-Retirement Benefits Other Than Pensions (PBOPs) subject to separate balancing account treatment. Non-balanced benefits include employee benefits such as medical and dental.

⁴ Additional PSEP insurance was obtained for PSEP work performed by third party contractors and allocated to PSEP capital and O&M projects through a separate insurance overhead loader; the calculation of PSEP insurance overhead is based on estimated project completion. PSEP-specific insurance is discussed in Chapter II (Phillips) and Chapter X (~~Carbon~~Cayabyab).

1 **III. PSEP INSURANCE COSTS**

2 The PSEP insurance policies provide coverage specifically related to contractors working
3 on various aspects of PSEP related activities. As PSEP insurance costs are directly attributable
4 to PSEP activities, accounting processes were developed to facilitate the appropriate accounting
5 for the policy premium payments and subsequent allocation to specific PSEP projects. The
6 following summarizes the accounting and allocation processes related to the PSEP-specific
7 Insurance coverage.

8 As part of the PSEP Insurance allocation process, a specific overhead was created to load
9 PSEP Insurance cost based on the contractor costs incurred on each project. Accounting
10 procedures were implemented to record contractor costs to a specific cost element on existing
11 and future PSEP internal orders. The contractor costs incurred on each project provide the basis
12 for allocation of PSEP Insurance premiums (i.e., contractor costs incurred establish the “loading
13 base”). The PSEP Insurance overhead cost pool (allocable costs) includes the applicable
14 premium costs that are applied to PSEP project internal orders. The process outlined below
15 summarizes the steps related to the overhead pool allocation.

16 The PSEP Insurance costs were incurred at Sempra Energy and subsequently billed to
17 SoCalGas and SDG&E, to calculate the billing an allocation percentage was provided to Sempra
18 Energy that was used to split the premium costs between SoCalGas and SDG&E. As the
19 payment of insurance premium costs are initially recorded as pre-paid insurance, the Financial
20 Accounting department established an amortization schedule for the pre-paid insurance account
21 based on the term of the policy. Based on the amortized cost, the Financial Accounting
22 department records an accounting entry for the monthly amortization of pre-paid insurance
23 premiums. These recurring journal entries, along with applicable service fees provide the
24 funding to the PSEP Insurance cost pool which is subsequently allocated to specific PSEP

1 projects as part of the monthly accounting close process. A summary of the PSEP Insurance
 2 allocations are included as Table 1 (SoCalGas O&M), Table 2 (SoCalGas Capital), and Table 3
 3 (SDG&E O&M and Capital).
 4

**TABLE 1
 (SoCalGas O&M)**

PSEP Insurance Overhead Costs (\$000's)

Project Name	O&M
Completed Projects:	
1015 (North & South)	59
2000 West Sec (1,2,3)	185
2001 West B Sec (10,11,14)	95
2003 Sec (1,3,4)	24
406 Sec (1,2,2A,4,5)	34
407 (North & South)	70
45-120X01	-
PDR Storage Phase 4 and 5	74
36-9-09 North Section 2B	40
36-9-09 North Section 6A	35
PSEP SoCalGas Lease	-
De-scoped Projects:	
35-20-A	-
38-523	-
41-6045	-
41-80	-
Post Completion Adjustments:	
Line 41-04-I	-
Line 2001 East	0
SL 38-528	0
Line 2000-A	0
Playa Del Rey Storage (Phases 1-3)	-
Total PSEP Insurance - O&M	617

TABLE 2
(SoCalGas Capital)

PSEP Insurance Overhead Costs (\$000's)

Project Name	Capital
Completed Projects:	
1005	71
1011	32
1013	26
1014	8
1015 (North & South)	10
2000 West Sec (1,2,3)	96
2001 West A Sec (15,16)	10
2001 West B Sec (10,11,14)	43
2003 Sec (1,3,4)	80
235 West	30
235 West Sawtooth Canyon	19
235-335 Palmdale	53
33-120 Section 2	91
35-20-N	2
36-1032 Sec (1,2,3)	122
36-37	13
38-539	192
406 Sec (1,2,2A,4,5)	84
407 (North & South)	6
41-30-A	4
44-654	15
45-120 Section 1	74
Arrow & Haven	7
Bain St	5
Brea	1
Chino Station	5
SGV Fern & Walnut	51
Haskell	5
Methane Pilot	-
Moreno - Large	3
Moreno - Small	4
Pixley	14
Prado	7
Puente	0
Santa Fe Springs	4

Victoria	15
Whitewater	4
Post Completion Adjustments:	
42-66-1/42-66-2	0
Facilities Build-Out Costs	-
Line 2000-A	(2)
Total PSEP Insurance - Capital	1,202

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2

**Table 3
(SDG&E O&M and Capital)**

PSEP Insurance Overhead Costs (\$000's)

Project Name	
Completed O&M Projects:	
PSEP SDG&E Lease	2
Total PSEP Insurance - O&M	2
Completed Capital Projects:	
49-14	85
49-22	69
49-32	87
Total PSEP Insurance -Capital	241

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4
5

6 Additional detail regarding the overhead costs allocated to SoCalGas and SDG&E's
7 Capital and O&M PSEP direct costs are available in the accompanying workpapers.⁵

8 The incremental overheads discussed above and provided in the workpapers are the only
9 overheads being sought for recovery in this application. The Utilities are not seeking recovery of
10 non-incremental overheads that are currently recovered in base rates. Examples of non-
11 incremental overheads that are the utilities are not seeking recovery of include: Warehouse,

⁵ See workpapers attached to my testimony for additional detail.

1 Fleet, Shop, Small Tools, Exempt MPM, Supervision/ Engineering and Department Overhead –
2 Replacement.

3 **III.IV. CONCLUSION**

4 The overheads applied to PSEP are calculated and allocated reasonably. SoCalGas and
5 SDG&E request that the Commission find that SoCalGas and SDG&E have appropriately
6 applied overhead costs to the PSEP projects presented in this application and approve those costs
7 for rate recovery.

8 This concludes my prepared direct testimony.

1 **~~IV.V.~~ WITNESS QUALIFICATIONS**

2 My name is ~~Johnny M. Huleis-Ramon~~ Gonzales. My ~~business~~Business address is 555
3 W. Fifth Street, Los Angeles, CA 90013. I am employed by ~~SoCalGas~~Southern California Gas
4 Company as ~~a Principal Business Analyst—Supervisor in~~the Manager of Accounting Systems
5 and Compliance. My Current position includes management responsibility for Financial
6 Systems, Business Controls, Records Management, Affiliate Compliance, and Affiliate Billing
7 and Costing~~department.~~. I have been in my current position since December 2010. Prior to my
8 current position, I was the Customer Services Business Planning Manager.

9 I have been employed by Southern California Gas Company since September 1994. My
10 past responsibilities include internal auditing, business planning and budgets, and financial
11 systems. I hold a ~~Bachelor~~Master of ~~Arts degree~~Science Degree in ~~Economics~~Accountancy
12 from ~~the California State~~ University of California at Los Angeles and a ~~Master of Business~~
13 ~~Administration degree from Pepperdine University.~~ I have been in the Affiliate Billing and
14 ~~Costing department since June 2014.~~ Northridge.

15 I have previously testified before the California Public Utilities Commission.
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