

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

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 IX
DIRECT TESTIMONY OF
JOHNNY M. HULEIS
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, 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 related costs of completing a project consists of both direct costs,
8 as charged to that activity, and indirect or overhead costs. The sum of direct and indirect costs
9 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.

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 (Tran).

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 On a monthly basis, the Affiliate Billing and Costing teams at SoCalGas and SDG&E
2 review overhead activity and set overhead rates that take into account the particular overhead's
3 loading base, pool activity, and historical and budgeted data. Once reviewed and approved,
4 overhead rates are inputted into the SAP accounting system. Through the accounting system,
5 overhead rates are applied to Capital and O&M cost inputs monthly, according to classification
6 such as company labor, contract labor, purchased services and materials.

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

- 11 • Payroll Tax;
- 12 • Vacation and Sick time;
- 13 • Benefits (non-balanced only);³
- 14 • Workers' Compensation;
- 15 • Public Liability / Property Damage;
- 16 • Incentive Compensation Plan;
- 17 • Purchasing;
- 18 • Administrative and General; and
- 19 • 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

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

3 The incremental overheads discussed above and provided in the workpapers are the only
4 overheads being sought for recovery in this application. The Utilities are not seeking recovery of
5 non-incremental overheads that are currently recovered in base rates. Examples of non-
6 incremental overheads that the utilities are not seeking recovery of include: Warehouse,
7 Fleet, Shop, Small Tools, Exempt MPM, Supervision/ Engineering and Department Overhead –
8 Replacement.

9 **III. CONCLUSION**

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

14 This concludes my prepared direct testimony.

of PSEP insurance overhead is based on estimated project completion. PSEP-specific insurance is discussed in Chapter II (Phillips) and Chapter X (Carbon).

⁵ See workpapers attached to my testimony for additional detail.

1 **IV. WITNESS QUALIFICATIONS**

2 My name is Johnny M. Huleis. My business address is 555 W. Fifth Street, Los Angeles,
3 CA 90013. I am employed by SoCalGas as a Principal Business Analyst – Supervisor in the
4 Affiliate Billing and Costing department. I hold a Bachelor of Arts degree in Economics from
5 the University of California at Los Angeles and a Master of Business Administration degree
6 from Pepperdine University. I have been in the Affiliate Billing and Costing department since
7 June 2014. I have previously testified before the Commission.