

**SAN DIEGO GAS AND ELECTRIC COMPANY
SOUTHERN CALIFORNIA GAS COMPANY
2013 TRIENNIAL COST ALLOCATION PROCEEDING (A.11-11-002)
(DATA REQUEST DRA-PZS-03)**

QUESTION PZS-03-01:

On page 3 of the exhibit reference, SoCalGas/SDG&E state: “The revenue requirement related to the HR Expansion project facility and well capital costs are tracked for inclusion into customers’ rates through establishment of a regulatory memorandum account; i.e., the Honor Rancho Memorandum Account (HRSMA). The revenue requirement for the purchased costs of the cushion gas needed to support the project was also allowed to be tracked through the account with no defined limit as to whether actual costs of the gas purchased were deemed to be reasonable and recoverable. Incremental O&M costs were also tracked into the account on an actual cost basis for recovery in customer rates.”

- a. Please explain whether there is only one memorandum account (referred to above as the HRSMA) which records and tracks all revenue requirements related to capital and operating and maintenance costs incurred for the HR Expansion Project, and all purchased costs of the cushion gas needed to support the project.
- b. Please explain whether there are any sub-accounts within the HRSMA where the different costs are recorded and tracked. If not, please explain how capital costs and operating and maintenance expenses can be distinguished or separately tracked.
- c. Please explain whether the amounts recorded into the HRSMA and any other memorandum account for the HR Expansion Project are for purposes of tracking only and are subject to determination for reasonableness and cost recovery in rates in this proceeding (i.e., A.11-11-002). If so, would that mean keeping this case open or is Sempra seeking a determination of reasonableness for cost recovery in Sempra’s next TCAP? Please explain your response.
- d. Please provide the total amount recorded into the HRSMA and any other memorandum account for the HR Expansion Project, with a breakdown between capital and expenses, if any.
- e. Please clarify whether the HR Expansion Project is now fully operational, or if still only partially operational, indicate the expected in-service date.
- f. Please clarify the timing of when the HR Expansion Project capital additions will become part of the SoCalGas rate base, and for how long this amount for the HR Expansion will be recovered in rate base in terms of number of years.
- g. Please explain how much of the HR Expansion capacity will be allocated to core customers and to non-core customers.
- h. Please explain how much of the HR Expansion cost will be allocated to core customers and to non-core customers. If there is a customer class who will not get any cost allocation of the HR Expansion cost, please explain.
- i. Please explain how much of the vintage HR cost (i.e. original HR without expansion) is allocated to core customers and to non-core customers.

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RESPONSE PZS-03-01:

- a. SoCalGas has two regulatory accounts related to the HR Expansion Project. The Honor Rancho Storage Memorandum Account (HRSMA) records the revenue requirement (i.e., capital-related costs) on incremental storage assets up to a maximum amount of \$37.4 million. In addition, the HRSMA records the revenue requirement on purchased costs for cushion gas and incremental operating & maintenance (O&M) costs and any incremental oil revenues. The Honor Rancho Cost Recovery Memorandum Account (HRCRMA) records the revenue requirement on incremental storage assets in excess of \$37.4 million.
- b. The HRSMA has two sub-accounts: (1) the Project Cost Recovery (PCR) sub-account records the revenue requirement on incremental storage assets and purchased costs for cushion gas; and (2) the Operating and Maintenance (O&M) Expense sub-account records incremental O&M costs and any incremental oil revenues.
- c. Decision 10-04-034 authorizes SoCalGas to amortize in rates costs recorded in the HRSMA. However, the HRSMA records capital-related costs on incremental storage assets up to a maximum amount of \$37.4 million. For recovery of capital-related costs on incremental storage assets in excess of \$37.4 million that are recorded to the HRCRMA, SoCalGas is required to justify the reasonableness of such costs in a general rate case or other proceeding. As such, SoCalGas is requesting in this TCAP application (i.e., A.11-11-002) confirmation from the Commission that additional capital costs incurred for the HR Expansion Project (i.e., in excess of the \$37.4 million) are appropriately incurred, prudent, and reasonable, and should be recovered in rates.
- d. From the HRSMA's inception in December 2010 through July 2012, the HRSMA has recorded \$7.8 million consisting of \$7.2 million in capital-related costs on incremental storage assets and cushion gas purchases and \$0.6 million in incremental O&M costs. From the HRCRMA's inception in May 2012 through July 2012, the HRCRMA has recorded \$0.6 million in capital-related costs. The \$7.2 million of capital related costs recorded in the HRSMA is the revenue requirement associated with the \$37.4 million plus cushion gas costs.
- e. The surface facilities and production and injections wells are fully operational. Fluid production is continuing and the expansion of inventory capacity is on schedule.
- f. Ordering paragraph 6 of D. 10-04-034 authorizes SoCalGas to include the HR Expansion Project capital additions as part of the SoCalGas rate base when the facilities are placed into service.

As described in Section IV. A of A. 09-07-014, storage wells (FERC account 352) have a depreciable life of 26 years, storage lines (FERC account 353) have a depreciable life of 40 years and purification equipment (FERC account 356) have a depreciable life of 38 years. These depreciation lives reflect the most recently

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approved rates authorized by the Commission in SoCalGas' GRC decision D.08-07-046. However, each specific depreciation life may change as a result of future GRC decisions.

- g. Please refer to Table 1 in SoCalGas' application A.09-07-014 as shown below:

Table 1 Detailed Summary of Inventory Capacity				
	Core Storage Bcf	Balancing Bcf	Unbundled Storage Bcf	Total Inventory Bcf
2009	79	4.2	47.9	131.1
2010	80	4.2	48.9	133.1
2011	81	4.2	48.9	134.1
2012	82	4.2	48.9	135.1
2013	83	4.2	48.9	136.1
2014	83	4.2	49.9	137.1
2015	83	4.2	50.9	138.1
2016	83	4.2	50.9	138.1

- h.* Approximately 61% of the HR Expansion cost (which is 100% inventory cost) will be allocated to core customers, 36% to unbundled storage, and the remaining 3% to noncore customers via the load balancing function. Since most noncore customers do not buy storage, most noncore transportation customers will get only a very small portion of the costs.
- i.* Approximately 61% of the vintage HR cost (i.e. original HR inventory cost, prior to expansion) is allocated to core customers, 36% to unbundled storage, and the remaining 3% to all noncore transportation customers via the load balancing function.