BEFORE THE PUBLIC UTILITIES COMMISSION

OF THE STATE OF CALIFORNIA

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 17-03-021 (Filed on March 30, 2017)

AMENDED 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

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I. INTRODUCTION

Pursuant to Rule 1.12 of the Rules of Practice and Procedure of the California Public Utilities Commission ("CPUC" or "Commission"), Southern California Gas Company ("SoCalGas") and San Diego Gas & Electric Company ("SDG&E," with SoCalGas, "Applicants") respectfully submit this Amended[1] Application requesting (a) approval of the total forecasted revenue requirement and associated rate recovery for certain Pipeline Safety Enhancement Plan ("PSEP") projects identified as part of Phases 1B and 2A; and (b) authority to (i) modify the existing Safety Enhancement Expense Balancing Accounts ("SEEBAs") and Safety Enhancement Capital Cost Balancing Accounts ("SECCBAs") to record costs discretely for Phase 1B projects, and (ii) create new balancing accounts to record costs for Phase 2 projects.

[1] A redline copy comparing changes from the original Application as filed on March 30, 2017 with this Amended Application is provided herewith.

Consistent with the ~~California Public Utilities~~ Commission ~~("Commission")~~ decision approving PSEP – Decision ("D.") 14-06-007 – this Application follows two after-the-fact reasonableness reviews for the system-wide pipeline safety enhancement projects and – per D.16-08-003 – is the Commission's preferred means to review large projects. In accordance with the foregoing, this Application presents forecasts for certain Phase 1B and Phase 2A PSEP projects. Forecasted expenditures associated with the important safety projects proposed herein are approximately $197.5 million in capital and $57 million in operations and maintenance ("O&M"), which result in a cumulative forecasted 2019 revenue requirement of approximately $44.6 million for SoCalGas and $500,000 for SDG&E[2] (as explained further herein, these amounts are inclusive of certain incurred costs currently recorded to Construction Work In Progress ("CWIP") accounts for capital-related costs and the Pipeline Safety Enhancement Memorandum Accounts ("PSEPMAs" or "PSEP-P2MAs") for O&M-related costs). The following illustrates the rate impact based on the forecasts: for the typical bundled residential customer of SoCalGas using 35 thermal units per month, the monthly bill would be expected to increase by $0.19, or 0.5%, from $41.16 to $41.35; and for the typical bundled residential gas customer of SDG&E using 25 thermal units per month, the monthly bill would be expected to increase by $0.12, or 0.3%, from $37.07 to $37.19.[3]

In this Application and the accompanying prepared direct testimony and workpapers, SoCalGas and SDG&E establish that the proposed pipeline safety work is consistent with the Commission's mandate to execute PSEP; the forecasted costs are robust and reasonable estimates based on the expertise Applicants have acquired in executing PSEP; and the correlated

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[2] These amounts are exclusive of Franchise Fees and Uncollectibles ("FF&U") and have been adjusted for rounding. Exact revenue requirements are set forth in the prepared direct testimony of Sharim Chaudhury (Chapter VI).

[3] Actual individual customer bills may differ.

revenue requirements proposed for recovery are just and reasonable, and thus should be authorized for implementation.

II. BACKGROUND AND PROCEDURAL HISTORY

A. Mandate To Perform Safety Work As Soon As Practicable

On September 9, 2010, a 30-inch diameter natural gas transmission pipeline owned and operated by Pacific Gas and Electric Company ruptured and caught fire in the city of San Bruno, California. This led the Commission to issue Rulemaking ("R.") 11-02-019, "a forward-looking effort to establish a new model of natural gas pipeline safety regulation applicable to all California pipelines."[4]

In D.11-06-017, the Commission found that "natural gas transmission pipelines in service in California must be brought into compliance with modern standards for safety" and ordered all California natural gas transmission pipeline operators "to prepare and file a comprehensive Implementation Plan to replace or pressure test all natural gas transmission pipelines in California that has not been tested or for which reliable records are not available."[5] The Commission required the submitted plans to provide for testing or replacing all such pipelines "as soon as practicable,"[6] and also to "address retrofitting pipeline to allow for in-line inspection tools and, where appropriate, automated or remote controlled shut off valves."[7] The Commission further directed the utilities to develop plans that "provide for testing or replacing all [segments of natural gas pipelines which were not pressure tested or lack sufficient details related to performance of any such test] as soon as practicable"[8] and address "all natural gas transmission

[4] R.11-02-019, mimeo., at 1.
[5] D.11-06-017, mimeo., at 18-19.
[6] D.11-06-017, mimeo., at 19.
[7] D.11-06-017, mimeo., at 21.
[8] D.11-06-017, mimeo., at 19.

pipeline… even low priority segments,"[9] while also "[o]btaining the greatest amount of safety value, i.e., reducing safety risk, for ratepayer expenditures."[10] Many of the requirements of D.11-06-017 were later codified to law at California Public Utilities Code sections 957 and 958.

B. SoCalGas and SDG&E Pipeline Safety Enhancement Plan ("PSEP")

On August 26, 2011, SoCalGas and SDG&E filed their proposed PSEP. The PSEP included, among other things, a prioritization schedule for the Commission-ordered work and a proposed Decision Tree to guide whether individual segments should be pressure tested, replaced, de-rated, or abandoned.[11]

To prioritize PSEP work, SoCalGas and SDG&E split projects into Phase 1 and Phase 2. PSEP Phase 1 is further divided into two sub-phases: Phase 1A and Phase 1B. The scope of Phase 1A, as outlined in SoCalGas' and SDG&E's PSEP, is to pressure test or replace transmission pipelines in Class 3 and 4 locations and Class 1 and 2 locations in high consequence areas that do not have sufficient documentation of a pressure test to at least 1.25 Maximum Allowable Operating Pressure ("MAOP"). Phase 1B focuses primarily on the replacement of non-piggable pipelines that were installed prior to 1946. Phase 2 also is sub-divided into Phase 2A and Phase 2B. Phase 2A consists of the pressure testing or replacement of about 760 miles of pipeline in Class 1 and 2 non-high consequence areas that do not have sufficient documentation of a pressure test to at least 1.25 times MAOP. No standalone Phase 2B[12] projects are proposed in this Application.

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[9] D.11-06-017, mimeo., at 20.
[10] D.11-06-017, mimeo., at 22.
[11] On December 2, 2011, SoCalGas and SDG&E amended their PSEP to include supplemental testimony to address issues identified in an Amended Scoping Ruling issued on November 2, 2011.
[12] Phase 2B involves pressure testing or replacing pipelines with record of a pressure test, but without record of a pressure test to the modern standards embodied in 49 Code of Federal Regulations Part 192, Subpart J. D.16-08-003, mimeo., at 7-8. Certain parties disagree as to whether Phase 2B has been

In June 2014, the Commission issued D.14-06-007 which approved SoCalGas and SDG&E's proposed PSEP and "adopt[ed] the concepts embodied in the Decision Tree,"[13] "adopt[ed] the intended scope of work as summarized by the Decision Tree,"[14] and "adopt[ed] the Phase 1 analytical approach for Safety Enhancement…as embodied in the Decision Tree…and related descriptive testimony."[15] For Phase 1, D.14-06-007 authorizes Applicants to begin work as described in their PSEP and to record costs in two-way balancing accounts subject to refund pending a subsequent reasonableness review.[16] The decision alternatively authorizes Applicants to file for preapproval of specific projects seeking specific guidance.[17]

On June 17, 2015, SoCalGas and SDG&E filed Application ("A.") 15-06-013 seeking authorization to proceed with Phase 2 of their PSEP. In the decision thereon, the Commission ordered Applicants to file, "as soon as possible,"[18] a forecast application for Phase 2 project costs to be incurred in 2017 and 2018.[19] This forecast application is submitted forthwith in accordance with this Commission directive.

C. Regulatory Accounts

In accordance with D.14-06-007, Applicants created the SECCBAs and SEEBAs to record costs associated with Applicants' Phase 1 projects.[20] In D.16-08-003, the Commission

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mandated by the Commission, or whether it is necessary. The parties to Applicants' second reasonableness review for PSEP (A.16-09-005) have agreed that any decision on Phase 2B miles considered in that proceeding would not be precedential as to whether all of Phase 2B has been mandated or is necessary. SoCalGas and SDG&E agree to the same for purposes of this Application.

[13] D.14-06-007, mimeo., at 2.
[14] D.14-06-007, mimeo., at 22.
[15] D.14-06-007, mimeo., at 59 (Ordering Paragraph 1).
[16] D.14-06-007, mimeo., at 59.
[17] D.14-06-007, mimeo., at 61.
[18] D.16-08-003, mimeo., at 16 (Ordering Paragraph 4).
[19] D.16-08-003, mimeo., at 16 (Ordering Paragraph 4).
[20] D.14-06-007, mimeo., at 60 (Ordering Paragraph 4); Advice Letters 4664 and 2300-G.

authorized Applicants to implement fifty-percent interim rate recovery with respect to the SEEBAs and SECCBAs, subject to refund pending reasonableness review.[21]

Also in D.16-08-003 the Commission authorized Applicants to record costs associated with planning and engineering for Phase 2 projects in newly created memorandum accounts and ordered that properly recorded costs would be subject to later ratemaking review pursuant to the schedule adopted.[22] The PSEPMAs were created by SoCalGas Advice Letter 5017-A and SDG&E Advice Letter 2506-G-A for this purpose.[23]

III. RELEVANT COMMISSION GUIDANCE

A. Forecasted Revenue Requirement – Just and Reasonable Standard

This is a ratesetting proceeding. Applicants bear the burden of establishing affirmatively the reasonableness of all aspects of their requests herein.[24] Pursuant to Public Utilities Code sections 451 and 454, all rates and charges collected by a utility must be "just and reasonable," and a public utility may not change any rate "except upon a showing before the commission and a finding by the commission that the new rate is justified."[25] Thus, the Commission requires that Applicants demonstrate with admissible evidence that the revenue requirement proposed herein is just and reasonable.[26]

[21] D.16-08-003, mimeo., at 16 (Ordering Paragraph 4).
[22] D.16-08-003, mimeo., at 8, 14 (Ordering Paragraph 1).
[23] The memorandum accounts were established as PSEP-Phase 2 Memorandum Accounts, or "PSEP-P2MAs."
[24] D.14-06-007, mimeo., at 12, 55 (Conclusion of Law 3).
[25] Pub. Util. Code §§ 451, 454.
[26] D.14-06-007, mimeo., at 12; Pub. Util. Code § 451.

B. Burden of Proof - Preponderance of the Evidence

The standard of proof to be applied in determining the reasonableness of Applicants' forecasted revenue requirement is preponderance of the evidence.[27] Preponderance of the evidence is defined "in terms of probability of truth, e.g., 'such evidence as, when weighed with that opposed to it, has more convincing force and the greater probability of truth.'"[28] Thus, Applicants "must present more evidence that supports the requested result than would support an alternative outcome."[29]

C. Other Commission Guidance

D.14-06-007 authorizes Applicants to file for preapproval of specific projects seeking approval of a cap or for other specific guidance.[30] Moreover, as set forth in D.16-08-003, the Commission prefers forecast applications for the review of large projects such as the PSEP pipeline testing and replacement projects.[31] Applicants submit these Phase 1B and Phase 2A projects for approval in accordance with this guidance.

IV. SPECIFIC REQUESTS

A. Authorization To Proceed with Certain PSEP Projects

Through PSEP, SoCalGas and SDG&E are tasked with simultaneously executing numerous unique and discrete safety enhancement projects as soon as practicable while continuing to maintain safe and reliable natural gas service to customers. This requires Applicants to design, plan, and construct multiple projects in a coordinated and concerted manner across their combined 24,000-square mile service territory. With over four years of

[27] D.14-06-007, mimeo., at 13, 55 (Conclusion of Law 4).
[28] D.14-06-007, mimeo., at 13, D.08-12-058; citing Witkin, Calif. Evidence, 4th Edition, Vol. 1, 184.
[29] D.14-06-007, mimeo., at 13.
[30] D.14-06-007, mimeo., at 61.
[31] D.16-08-003, mimeo., at 12, 16.

PSEP-specific experience, Applicants have refined and continue to enhance their capabilities in planning, projecting, and executing PSEP projects.

As described hereinabove, the Commission previously has approved the scope of Phase 1B in Applicant's PSEP[32] and has authorized Applicants to file a forecast application for Phase 2A projects.[33] Applicants now seek to execute to completion nine Phase 1B projects and three Phase 2A projects and recover the total associated revenue requirement in customer rates. The twelve projects and their estimated costs are summarized as follows:

Table 1

Line	Phase	Action	Total Estimated Capital Cost (in 000s)	Total Estimated O&M Cost (in 000s)
127	1B	Replace 0.003 mi. (15 feet)[34]	$1,830[35]	
7043	1B	Replace 0.0014 mi (7.5 feet)	$1,807	
36-37 Section 11	1B	Replace 7.6 miles	$64,672	
36-1001/45-1001	1B	Replace 1.6 miles	$14,981	
38-514	1B	Replace 1.4 miles	$9,992	
38-960	1B	Replace 6.1 miles	$24,423	
43-121	1B	Replace 0.3 miles	$11,060	
38-556	2A	Replace 5.6 miles	$17,357	
36-37 Section 12	1B	De-Rate / Abandon 31 miles	$20,934	
36-1002	1B	De-Rate 16.7 miles	$6,372	
Segment 2000C	2A	Test 23 miles	$4,602	$27,402
Segment 2000D	2A	Test 14 miles	$6,084	$29,638

[32] D.14-06-007, mimeo., at 58 (Conclusion of Law 22).
[33] D.16-08-003, mimeo., at 16 (Ordering Paragraph 4).
[34] As discussed in the prepared direct testimony of Mr. Gonzalez (Chapter II) at Section VII, while the Decision Tree analysis outcome was to replace this segment of Line 127, Applicants' analysis of the pipeline characteristics and related documentation suggests that non-destructive examination ("NDE") would provide a reasonable level of assurance at a significantly lower cost to ratepayers. Accordingly, although Applicants are prepared to replace this segment in accordance with the Decision Tree principles (and have included the cost therefor herein), Applicants request that the Commission review the alternative presented in Mr. Gonzalez's testimony (Chapter II) and accompanying workpapers and provide guidance to Applicants as to preference between NDE and replacement.
[35] The total estimated Operations and Maintenance cost of the alternative NDE option presented is approximately $911,000.

In complying with the Commission's directive to obtain "the greatest amount of safety value, i.e., reducing safety risk, for ratepayer expenditures,"[36] Applicants have included in the proposed scope of work certain "incidental" and "accelerated"[37] miles, as explained in the prepared direct testimony of Ronn Gonzalez (Chapter II). When addressed, these miles are identified with specificity in the accompanying supporting workpapers.

The workpapers[38] detail the scope of each project, setting forth the mileage to be addressed and Applicants' specific proposals following the Commission-approved Decision Tree, as set forth in the prepared direct testimony of Hugo Mejia (Chapter I).[39] A justification for each project is provided, including a description of alternatives considered by Applicants. When implicated, the workpapers describe a plan for how Applicants will maintain service to customers while the projects are underway.

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[36] D.11-06-017, mimeo., at 22.

[37] "Accelerated" miles include segments that would otherwise be addressed in a later phase of PSEP under the Decision Tree prioritization process but are advanced in order to realize operating and cost efficiencies. "Incidental" miles are not scheduled to be addressed in PSEP but are included within the scope of work where it is determined addressing them improves cost and program efficiency, addresses implementation constraints, or facilitates the continuity of testing. As explained in the accompanying testimony and workpapers, any Phase 2B segments proposed to be addressed as part of the projects proposed in this Application are so proposed in order to improve cost and program efficiency, address implementation constraints, or facilitate the continuity of testing; i.e., there are no standalone Phase 2B projects proposed in this Application.

[38] In order to facilitate an understanding of the workpapers, an Introduction, Construction Summary, and Glossary have also been provided.

[39] D.14-06-007, mimeo., at 56 (Conclusion of Law 8).

The workpapers also set forth a proposed schedule based on the Seven Stage Review Process[40] Applicants developed and have been using to implement PSEP.[41] The schedules are updated as the projects are further developed.

Finally, the workpapers include detailed cost estimates for each project. These estimates were developed at Stage 3 of the Seven Stage Review Process[42] in accordance with the forecast methodology described in detail in Mr. Gonzalez's prepared direct testimony (Chapter II). The estimates include costs associated with project management, engineering and design, environmental permitting, land acquisition, material and equipment procurement, and construction. They account for site mobilization, site facilities and management, materials, site activities, scope of work, pressure testing, tie-ins, removal of existing pipeline activities, site restoration, field overheads, and support. Detailed assumptions in deriving the cost estimates are stated in each set of workpapers.

The cost estimates for the projects were developed by Applicants' experienced professionals using Applicants' internal estimating tool. As Applicants have refined the tool based on their actual experience planning, projecting, and executing PSEP, Applicants' PSEP expertise has grown and concomitantly cost estimates have become more useful tools in forecasting the expected cost of projects. The estimates prepared for this Application include

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[40] As described in A.16-09-005, the Seven Stage Review Process sequences and schedules PSEP project workflow deliverables and consists of seven stages with specific objectives for each stage, including an evaluation at the end of each stage to verify that objectives have been met. The Seven Stage Review Process is described in detail in the accompanying workpapers at WP-Intro-2 – WP-Intro-3.

[41] Applicants utilized the Seven Stage Review Process in executing the projects for which they seek cost recovery in A.16-09-005 currently pending before the Commission and in the projects for which they were granted cost recovery in D.16-12-008. Among other things, the Seven Stage Review Process includes an analysis of whether miles can be descoped from PSEP through lowering of MAOP or other means that would preclude the need to pressure test or replace pipelines.

[42] Stage 3 is the beginning of detailed planning where a project execution plan is finalized, baseline schedules are developed, funding estimates are developed, and project funding is obtained. Additional detail regarding Stage 3 is provided in the workpapers at WP-Intro-3.

input from various constituencies who participate in PSEP projects, including but not limited to subject matter experts regarding engineering design, construction, land services, and environmental matters. Notwithstanding the level of rigor and data considered in deriving the estimates, they remain, nevertheless, estimates, and thus cannot account for all circumstances encountered once a project is underway.

B. Approval of Applicants' Forecasted Revenue Requirements

Applicants' fully loaded and escalated forecasted costs for the twelve Commission-ordered safety enhancement projects included in this Application are $197.5 million for capital and $57 million for O&M.[43] These forecasts translate to a revenue requirement of approximately $44.6 million for SoCalGas and approximately $500,000 for SDG&E, for a total revenue requirement of $45.1 million (without Franchise Fees and Uncollectibles ("FF&U")) to be amortized in January 1, 2019 rates. [44] The prepared direct testimony of Karen Chan (Chapter IV) details the derivation of the annual revenue requirements for each of Applicants.[45]

The forecasted costs include all applicable costs associated with supporting the PSEP organization and PSEP project execution (referred to as General Management and Administration ("GMA") costs), as described in the prepared direct testimony of Jose Pech (Chapter III); incremental company overheads, as described in the testimony of Ms. Chan

[43] As discussed *infra*, these costs also include engineering and design costs incurred to date.

[44] Ms. Chan's prepared direct testimony (Chapter IV) shows PSEP related costs of $6.8, $0.8, and $38.4 million (with FF&U) in 2017, 2018 and 2019, respectively, for a combined total $46 million to be recovered in January 1, 2019 rates. While Mr. Chaudhury's prepared direct testimony (Chapter VI) discusses the revenue requirements without FF&U, the illustrative rates in Section D, *infra*, include FF&U.

[45] The revenue requirement evaluation assumes all capital costs, including Allowance for Funds Used During Construction, are recovered through depreciation over the book-life of the assets and assumes O&M is recovered in the period it is spent. In addition to expenditure amounts, the revenue requirements include all other expenses required to support the investment, including authorized return on investment, income and property taxes, franchise fees, uncollectibles, and working cash associated with O&M.

(Chapter IV); and actual planning and engineering design costs incurred to date, as described in the prepared direct testimony of Ronn Gonzalez (Chapter II). The forecasts are based on certain assumptions detailed in the workpapers for each project and the testimonies of Messrs. Pech (Chapter III) and Gonzalez (Chapter II), including project duration, construction method, environmental considerations, and that use of the Performance Partnership Program or other competitive sourcing methods will drive cost savings.

The forecasted amounts account for disallowances ordered by the Commission, so disallowances are not included in the associated revenue requirement or rate calculation. The twelve projects included in this Application do not ~~include pressure testing or replacement of post-1955 pipeline segments, and thus~~implicate certain disallowances ~~have not been implicated~~pertaining to testing or replacing post-1955 vintage pipelines.[46] The Commission has ordered two other disallowances: executive incentive compensation[47] and costs associated with searching for records of pipeline testing.[48] Accordingly, as described in the testimony of Mr. Gonzalez (Chapter II), neither have been included in the forecasted costs or correlated revenue requirements presented for recovery herein.

C. Proposed Regulatory Accounting Treatment of Costs

In accordance with Commission precedent which authorized Applicants to create the SECCBAs and SEEBAs,[49] Applicants propose balancing account treatment of actual total costs incurred in executing the twelve projects proposed herein, including the associated forecasted total revenue requirements, on an aggregate basis. Balancing account treatment is consistent

[46] The Commission ordered costs for such segments should be disallowed and further ordered the disallowance of undepreciated book value associated with such segments. *See* D.14-06-007, mimeo., at 56-57 (Conclusions of Law 13 and 14); *see also* D.15-12-020, mimeo., at 23 (Ordering Paragraph 1).
[47] D.14-06-007, mimeo., at 57-58 (Conclusions of Law 16 and 25).
[48] D.14-06-007, mimeo., at 4 and 56 (Conclusion of Law 13).
[49] D.14-06-007, mimeo., at 60 (Ordering Paragraph 4); Advice Letters 4664 and 2300-G.

with Applicants' prior PSEP cost recovery and promotes fairness to both ratepayers and Applicants for this important Commission-mandated safety enhancement work. With over four years' PSEP experience informing their estimates, Applicants do not anticipate that actual costs will deviate significantly from their detailed estimates unless due to unanticipated occurrences (e.g., those encountered following final scoping and planning stages and into construction, such as the discovery of encroachments, or changes in local permitting requirements, etc.). As described in Applicants' previously filed after-the-fact reasonableness reviews of costs expended in furtherance of PSEP projects, these unanticipated circumstances are nearly impossible to predict or to account for with certainty. Thus, if unanticipated circumstances raise the costs of these projects – which are Commission-ordered safety enhancements and result in tangible ratepayer benefits – then it would be fair for the costs to be borne by ratepayers.[50] Ultimately, complying with PSEP is an unavoidable cost of providing safe and reliable utility service, is required by the Commission, and is mandated by law.[51]

Similarly, if actual costs fall short of forecasted expenditures, then ratepayers will benefit from Applicants' increased efficiencies and savings.[52]

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[50] This is consistent with Commission precedent that, in after-the-fact reasonableness reviews where utilities propose to recover their actual costs, satisfying the reasonable manager standard does not require perfection, perfect foresight, or optimum outcomes. D.90-09-088, mimeo., at 16; D.97-08-055, mimeo., at 54; D.14-07-007, mimeo., at 36.

[51] Pub. Util. Code §§ 957, 958.

[52] As described further in Section IV C 3, *infra*, and Mr. Austria's prepared direct testimony (Chapter V), Applicants propose that the true-up of balances in the balancing accounts proposed herein be addressed in the Applicants' annual regulatory account balance update advice letter filing for gas transportation rates effective January 1 of the following year. If Applicants determine that any over- or under-collections in the PSEP balancing accounts are due to timing and not due to permanent differences, these balances will be carried over to the following year and not incorporated in the following year's gas transportation rates.

1. Authorization To Subdivide Existing Phase 1 SEEBAs and SECCBAs

As noted herein and in the prepared direct testimony of Reginald Austria (Chapter V), Applicants have existing SEEBAs and SECCBAs to record the revenue requirements related to Phase 1 costs. In order to appropriately track costs separately for Phases 1A and 1B, Applicants propose to modify each of their existing SEEBAs and SECCBAs to create two subaccounts: Phase 1A Subaccounts, which would continue to record Phase 1A PSEP activity and other Phase 1 projects that are not included in this Application, and would remain subject to fifty percent interim rate recovery, subject to refund;[53] and Phase 1B Subaccounts, which would record on an aggregate project basis the difference between the forecasted revenue requirements adopted in a decision on this Application and the actual costs of the Phase 1B projects proposed herein. Just like the original SEEBAs and SECCBAs, the subaccounts would be interest-bearing accounts.[54]

2. Authorization To Create Phase 2 Balancing Accounts

Similar to the SECCBAs and SEEBAs established pursuant to Commission order for Phase 1,[55] Applicants each seek the creation of two balancing accounts to record on an aggregate project basis the difference between the forecasted revenue requirements approved by the Commission pursuant to this Application and the corresponding actual costs related to implementing Phase 2 of PSEP: Safety Enhancement Expense Balancing Account – Phase 2 ("SEEBA-P2") and Safety Enhancement Capital Cost Balancing Account ("SECCBA-P2"). As detailed in Mr. Austria's (Chapter V) prepared direct testimony, the SEEBA-P2s will be interest-bearing accounts to record on an aggregate basis the difference between actual and forecasted revenue requirements associated with O&M projects, and the SECCBA-P2s will be interest-

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[53] D.16-08-003, mimeo., at 15 (Ordering Paragraph 2).
[54] D.14-06-007, mimeo., at 60 (Ordering Paragraph 4); Advice Letters 4664 and 2300-G.
[55] D.14-06-007, mimeo., at 60 (Ordering Paragraph 4).

bearing accounts to record on an aggregate basis the difference between the actual and forecasted revenue requirements associated with capital projects. Unlike the existing Phase 1 balancing accounts, the SEEBA-P2s and SECCBA-P2s will reflect a credit for the forecasted revenue requirements approved in this proceeding.

Applicants further propose to transfer to the SEEBA-P2s and SECCBA-P2s: (a) those Phase 2A planning and engineering design costs associated with O&M projects that currently are recorded in the PSEPMAs, and (b) those Phase 2A planning and engineering design costs associated with capital projects that currently are recorded in the Construction Work in Progress accounts.[56] It is consistent with Applicants' prior cost-recovery applications that the costs of discrete projects be considered together, as a composite, rather than piecemeal.[57]

3. Treatment of Balancing Accounts

As set forth in detail in the testimony of Mr. Austria (Chapter V), Applicants propose that the balances in the Phase 1B Subaccounts of the SEEBAs and SECCBAs and the SEEBA-P2 and SECCBA-P2 accounts be addressed in each utility's annual regulatory account balance update filing for gas transportation rates effective January 1 of the year following a decision on this Application.[58] With respect to the capital-cost related PSEP balancing accounts (i.e., the SECCBA Phase 1B Subaccounts and SECCBA-P2 accounts), Applicants will continue to balance the difference between actual and forecasted revenue requirements until the Phase 1B

[56] CWIP reflects PSEP capital expenditures recorded on Applicants' financial statements (i.e., balance sheet) until the capital project is placed in service. At that time the associated actual revenue requirements (i.e., depreciation, return and taxes) will be quantified based on capital expenditures incurred and be recorded in Applicants' SECCBA-P2s.

[57] See A.14-12-016 and A.16-09-005. In A.14-12-016, Applicants removed from consideration projects which had not been completed at the time the application was submitted to the Commission. A.16-09-005 seeks cost recovery only for projects that have been completed.

[58] Upon approval of this regulatory account balance update filing, Applicants will include any over- or under-collection balance in rates, as appropriate, in their consolidated rate Tier 1 filing submitted to the Commission prior to year-end.

and Phase 2 PSEP assets are rolled into authorized ratebase in connection with each Applicant's next General Rate Case.

D. Authorization To Implement Rate Recovery

Applicants' fully loaded and escalated forecasted costs for the twelve projects included in this Application are $197.5 million for capital[59] and $57 million for operating and maintenance, which translate to a 2019 revenue requirement of approximately $44.6 million for SoCalGas and approximately $500,000 for SDG&E.[60]

Applicants propose to allocate the revenue requirement consistent with the existing cost allocation and rate design for transportation rates, including allocation to the backbone function.[61] PSEP costs functionalized as high pressure distribution costs will be allocated using the existing marginal demand measures for high pressure distribution costs.[62] The following table illustrates the functional allocation.

Table 2
Forecasted Revenue Requirement by Function (in $000s)

$000's	SoCalGas	SDG&E	Total
Backbone Transmission	$38,874	$0	$38,874
Local Transmission	$3,758	$562	$4,319
High Pressure Distribution:	$1,946	$0	$1,946
Total $000's	$44,578	$562	$45,139

The costs will be amortized in transportation rates over a 12-month period, as discussed further in the prepared direct testimony of Sharim Chaudhury (Chapter VI), commencing January 1 the year following the Commission's decision on this Application. Applicants propose to implement rates by filing advice letters. The illustrative rate impacts are as follows:

[59] Capital-related costs include depreciation, taxes and return associated with the cost of the PSEP assets.
[60] As discussed *infra* at Section IV B, these costs also include engineering and design costs incurred to date.
[61] D.14-06-007, mimeo., at 50, 61 (Ordering Paragraph 9).
[62] D.16-12-063, mimeo., at 59 (Conclusion of Law 24).

Table 3

$/therm except as noted	1/1/2017 Rates	Proposed Rates	Increase (decrease)	% change
Illustrative Transportation Rates				
$/therm except as noted				
SCG Summary				
Core Rates				
Residential	$0.722	$0.723	$0.001	0.2%
Residential class average bill $/month	$41.16	$41.35	$0.19	0.5%
Core C&I	$0.296	$0.297	$0.001	0.3%
NGV (uncompressed)	$0.135	$0.136	$0.001	0.4%
NonCore Distribution Level Service Rates				
C&I Rate	$0.070	$0.071	$0.001	0.8%
Electric Generation Tier 1	$0.116	$0.116	$0.001	0.5%
Electric Generation Tier 2	$0.045	$0.046	$0.001	1.1%
NonCore Transmission Level Service Rates				
C&I Rate (w/ csitma & CARB Fee adders)	$0.020	$0.021	$0.000	1.8%
Electric Generation Rate (w/CARB Fee)	$0.016	$0.016	$0.000	2.3%
Backbone Transmission Service $/dth/day	$0.321	$0.364	$0.043	13.4%
Revenue Requirement $ millions	$2,548	$2,593	$45	1.8%
CARB Fee Credit $/therm	($0.0009)	($0.0009)	$0.0000	0.0%
SDG&E Summary				
Core Rates				
Residential	$0.962	$0.962	$0.001	0.1%
Residential class average bill $/month	$37.07	$37.19	$0.12	0.3%
Core C&I	$0.372	$0.373	$0.000	0.1%
NGV (uncompressed)	$0.133	$0.133	$0.001	0.4%
NonCore Distribution Level Service Rates				
C&I Rate	$0.092	$0.092	$0.000	0.4%
Electric Generation Tier 1	$0.116	$0.117	$0.001	0.5%
Electric Generation Tier 2	$0.045	$0.046	$0.001	1.1%
NonCore Transmission Level Service Rates				
C&I Rate (w/ csitma & CARB Fee adders)	$0.017	$0.018	$0.000	2.1%
Electric Generation Rate (w/CARB Fee)	$0.016	$0.016	$0.000	2.3%
Revenue Requirement $ millions	$396	$397	$1	0.1%
CARB Fee Credit $/therm	($0.001)	($0.001)	$0.000	0.0%

As described in the testimonies of Ms. Chan (Chapter IV) and Mr. Austria (Chapter V), as projects are completed, Applicants will calculate for each year, until assets are rolled into authorized ratebase,[63] on an aggregate basis, the difference between actual capital-related and O&M costs and the associated revenue requirements adopted herein and incorporated in rates. Should there be differences between the two, they will be addressed in Applicants' annual regulatory account balance update filing, as appropriate, for rates effective January 1 of the following year.[64]

V. DESCRIPTION OF TESTIMONY

Support for Applicants' requests is provided in the accompanying prepared direct testimonies and workpapers. The direct testimonies describe Applicants' PSEP efforts and provide detail on the plan for implementation and execution of the projects proposed herein, Applicants' forecast methodology, and demonstrate that the revenue requirements correlated to Applicants' estimates are just and reasonable and worthy of rate recovery. The table below lists the direct testimony chapter number, sponsoring witness, and provides a brief description of the testimony.

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[63] In connection with Applicants' General Rate Case.

[64] Again, upon approval of this advice letter, the revenue requirement changes associated with regulatory account balances will be incorporated in the Applicants' consolidated rate advice letter filing for gas transportation rates effective January 1 of the following year.

Chapter	Witness	Description and Purpose
I	Mejia	Reaffirms Applicants' commitment to enhancing the safety of the SoCalGas and SDG&E natural gas system promptly and expeditiously in accordance with Commission mandate; describes scope of the 12 Phase 1B and Phase 2A projects proposed, including reduction from "as-filed" mileage; underscores promotion of reducing safety risk for ratepayer expenditures; discusses application of the Commission-approved Phase 1 Decision Tree to Phase 2 projects.
II	Gonzalez	Provides an overview of each project proposed in this Application, including whether incidental or accelerated miles are addressed; describes estimating methodology, including project cost components, and tool; addresses incurred planning and engineering design costs; and discusses disallowances, where implicated.
III	Pech	Discusses PSEP organization that allows for safe, prudent, and expeditious execution of the Commission's safety enhancement mandates; details General Management and Administration costs and incremental overheads (and exclusion of non-incremental overheads), cost tracking and management, and allocation methodology for projects proposed herein.
IV	Chan	Analyzes revenue requirements resulting from forecasted capital and O&M costs of projects proposed herein.
V	Austria	Discusses regulatory accounting treatment of revenue requirements associated with PSEP projects recorded in the existing and proposed balancing accounts.
VI	Chaudhury	Details rate impacts that would result from the amortization of the balances recorded in the regulatory accounts proposed to be created.

The workpapers submitted for each project proposed in this Application detail the scope of each project, setting forth the mileage to be addressed, application of the Decision Tree, project justification, plan to minimize or preclude customer impacts, project schedule, robust cost estimates, and list of assumptions.

VI. STATUTORY AND PROCEDURAL REQUIREMENTS

A. Rule 2.1 (a) – (c)

This Application is made pursuant to Sections 451, 454, 489, 491, 701, 728, 729, 957, and 958 of the Public Utilities Code of the State of California, the Commission's Rules of Practice and Procedure, and relevant decisions, orders, and resolutions of the Commission. In accordance with Rule 2.1 (a) - (c) of the Commission's Rules of Practice and Procedure, SoCalGas and SDG&E provide the following information.

1. Rule 2.1 (a) – Legal Name

SoCalGas is a public utility corporation organized and existing under the laws of the State of California. SoCalGas' principal place of business and mailing address is 555 West Fifth Street, Los Angeles, California, 90013.

SDG&E is a public utility corporation organized and existing under the laws of the State of California. SDG&E is engaged in the business of providing electric service in a portion of Orange County and electric and gas service in San Diego County. SDG&E's principal place of business is 8330 Century Park Court, San Diego, California, 92123.

2. Rule 2.1 (b) – Correspondence

All correspondence and communications to SoCalGas and SDG&E regarding this Application should be addressed to:

BRIAN HOFF

Regulatory Case Manager for:

SOUTHERN CALIFORNIA GAS COMPANY
SAN DIEGO GAS & ELECTRIC COMPANY
555 West Fifth Street, GT-14D6
Los Angeles, California 90013
Telephone: (213) 244-3543
Facsimile: (213) 244-4957
E-mail: BHoff@semprautilities.com

A copy should also be sent to:

AVISHA A. PATEL

Attorney (and Party) for:

SOUTHERN CALIFORNIA GAS COMPANY
SAN DIEGO GAS & ELECTRIC COMPANY
555 West Fifth Street, GT-14E7
Los Angeles, California 90013
Telephone: (213) 244-2954
Facsimile: (213) 629-9620
E-mail: APatel@semprautilities.com

3. Rule 2.1 (c)

a. Proposed Category of Proceeding

SoCalGas and SDG&E propose that this proceeding be categorized as "Ratesetting" under Rule 1.3(e) because the Application will have a potential future effect on SoCalGas and SDG&E's rates.

b. Need for Hearings

SoCalGas and SDG&E anticipate that evidentiary hearings will be necessary.

c. Issues to be Considered and Relevant Safety Considerations

The principal issues to be considered in this proceeding are (1) whether certain two-way balancing accounts and sub-accounts should be created; and (2) whether SoCalGas' and SDG&E's revenue requirements associated with the forecasted costs presented in this Application and proposed to be recorded in their respective SECCBA Phase 1B Subaccounts, SECCBA-P2s, and SEEBA-P2s are justified for rate recovery.

PSEP is safety driven. This Application proposes commencing two additional phases of Applicants' Commission-ordered and approved PSEP, provides for rate recovery of forecasted PSEP costs, and could impact future safety enhancement work if the Commission issues guidance on future PSEP work and activities.

d. Proposed Schedule

SoCalGas and SDG&E propose the following schedule for this Application:

EVENT	DATE
Application	March 30, 2017
Responses/Protests	May 1, 2017 (30 days from Daily Calendar notice)
SoCalGas/SDG&E Reply Responses/Protests	May 11, 2017
Prehearing Conference	June 22, 2017
Intervenor Testimony	September 21, 2017
Rebuttal Testimony	November 2, 2017
Evidentiary Hearings	December 11-15, 2017
Opening Briefs	February 7, 2018
Reply Briefs	March 7, 2018
Proposed Decision	May 2018
Commission Decision	June 2018

4. Rule 2.2 – Articles of Incorporation

A copy of SoCalGas' Restated Articles of Incorporation, as last amended, presently in effect and certified by the California Secretary of State, was previously filed with the Commission on October 1, 1998, in connection with A.98-10-012, and is incorporated herein by reference.

A copy of SDG&E's Restated Articles of Incorporation as last amended, presently in effect and certified by the California Secretary of State, was filed with the Commission on September 10, 2014 in connection with SDG&E's Application No. 14-09-008, and is incorporated herein by reference.

B. Rule 3.2 (a) – (d)

In accordance with Rule 3.2 (a) - (d) of the Commission's Rules of Practice and Procedure, SoCalGas and SDG&E provide the following information.

1. Rule 3.2 (a)(1) – Balance Sheet and Income Statement

The most recent updated Balance Sheet and Income Statements for SoCalGas and SDG&E are attached to this application as Attachment A and Attachment B, respectively.

2. Rule 3.2(a)(2) and (3) – Statement of Present and Proposed Rates

The rate changes that will result from this application are described in Attachment C and Attachment D for SoCalGas and SDG&E, respectively.

3. Rule 3.2(a)(4) – Description of Applicant's Property and Equipment

A general description of SoCalGas' property and equipment was previously filed with the Commission on May 3, 2004 in connection with SoCalGas' Application 04-05-008, and is incorporated herein by reference. A statement of Original Cost and Depreciation Reserve as of ~~September 30~~December 31, 2016 is attached as Attachment E.

A general description of SDG&E's property and equipment was filed with the Commission on October 5, 2001, in connection with Application 01-10-005, and is incorporated herein by reference. A statement of Original Cost and Depreciation Reserve as of ~~September 30~~December 31, 2016 is attached as Attachment F.

4. Rules 3.2(a)(5) and (6) – Summary of Earnings

The summary of earnings for SoCalGas and SDG&E are included herein as Attachment G and Attachment H.

5. Rule 3.2(a)(7) – Depreciation

For financial statement purposes, depreciation of utility plant has been computed on a straight-line remaining life basis at rates based on the estimated useful lives of plant properties. For federal income tax accrual purposes, SoCalGas and SDG&E generally compute depreciation using the straight-line method for tax property additions prior to 1954, and liberalized depreciation, which includes Class Life and Asset Depreciation Range Systems, on tax property additions after 1954 and prior to 1981. For financial reporting and rate-fixing purposes, "flow through accounting" has been adopted for such properties. For tax property additions in years 1981 through 1986, SoCalGas and SDG&E have computed their tax depreciation using the Accelerated Cost Recovery System. For years after 1986, SoCalGas and SDG&E have computed their tax depreciation using the Modified Accelerated Cost Recovery Systems and, since 1982, have normalized the effects of the depreciation differences in accordance with the Economic Recovery Tax Act of 1981 and the Tax Reform Act of 1986.

6. Rule 3.2(a)(8) – Proxy Statement

A copy of SoCalGas' most recent proxy statement, dated April 22, 2016, was mailed to the Commission on April 29, 2016, and is incorporated herein by reference.

A copy of most recent proxy statement sent to all shareholders of SDG&E's parent company, Sempra Energy, dated March 25, 2016, was mailed to the Commission on April 29, 2016, and is incorporated herein by reference.

7. Rule 3.2(a)(10) – Statement re Pass Through to Customers

This Application will seek the Commission's authorization to revise SoCalGas and SDG&E's current base rate revenue requirement to recover their projected costs of their operations, as well as owning and operating their natural gas facilities and infrastructure, for the purposes of serving their customers. It is not only a pass through of costs.

8. Rule 3.2 (b) – Notice to State, Cities and Counties

SoCalGas and SDG&E will, within twenty days after the filing this Application, mail a notice to the State of California and to the cities and counties in its service territory and all parties to A.15-06-013 (SoCalGas and SDG&E's Phase 2 PSEP proceeding), A.14-12-016 (SoCalGas and SDG&E's Pipeline Safety & Reliability Memorandum Account proceeding), A.16-09-005 (SoCalGas and SDG&E's 2016 Reasonableness Review), and A.11-11-002 (SoCalGas and SDG&E's 2013 TCAP/PSEP proceeding).

9. Rule 3.2 (c) – Newspaper Publication

SoCalGas and SDG&E will, within twenty days after the filing of this Application, publish in newspapers of general circulation in each county in their service territory notice of this Application.

10. Rule 3.2 (d) – Bill Insert Notice

SoCalGas and SDG&E will, within 45 days after the filing of this Application, provide notice of this Application to their customers along with the regular bills sent to those customers that will generally describe the proposed rate changes addressed in this Application.

VII. CONCLUSION

Through PSEP, SoCalGas and SDG&E continue to invest in the safety of their natural gas transmission system. These investments will enhance the safety of California's natural gas infrastructure not only in the near term but also for decades to come. In order to expedite this important safety work and to allow for implementation of forecasted revenue requirements in rates, and for the reasons described above and in the prepared direct testimony and workpapers supporting this application, SoCalGas and SDG&E respectfully request that the Commission:

- Approve application of the Commission-approved Decision Tree to Applicants' Phase 2 PSEP;
- Approve Applicants' forecasted costs associated with the completion of the nine Phase 1B projects presented in this Application;
- Advise of a preference between following the Decision Tree and replacing a segment of Line 127 or conducting NDE on that segment instead;
- Approve Applicants' forecasted costs associated with the three Phase 2A projects presented in this Application;
- Find just and reasonable, and authorize Applicants to recover in rates, the forecasted revenue requirement associated with completion of the twelve projects presented in this Application;
- Approve Applicants' proposed regulatory accounting treatment of forecasted and actual costs associated with the twelve projects, on an aggregate basis, presented in this Application;
- Approve for filing with the Commission the proposed preliminary statements (appended to the prepared direct testimony of Reginald Austria (Chapter V)) for the balancing accounts proposed herein;
- Authorize Applicants to subdivide the existing SECCBA accounts into the two subaccounts proposed in this Application: Phase 1A Subaccount and Phase 1B Subaccount;

- Authorize Applicants to subdivide the existing SEEBA accounts into the two subaccounts proposed in this Application: Phase 1A Subaccount and Phase 1B Subaccount;
- Authorize Applicants to create two new balancing accounts for Phase 2 as proposed in this Application -- SECCBA-P2 and SEEBA-P2 -- and to transfer costs tracked in the PSEPMAs into these new balancing accounts;
- Find SoCalGas and SDG&E correctly have allocated PSEP revenue requirements by functional area;
- Authorize Applicants to begin to implement in transportation rates the revenue requirements associated with the twelve projects proposed in this Application effective January 1 of the year following a decision on this Application via Tier 1 Advice Letter;
- Authorize Applicants to balance, on an aggregate basis, the actual capital and O&M costs with the associated forecasted revenue requirements and to address any differences, as appropriate, in the Applicants' Annual Regulatory Account Balance Update Tier 2 Advice Letter filing with the Commission;
- Authorize SoCalGas and SDG&E to recover the ongoing capital-related revenue requirements associated with capital expenditures approved in this proceeding through a Tier 2 Advice Letter until such costs are incorporated in base rates in connection with the SoCalGas and SDG&E's next General Rate Case proceeding; and
- Provide such other and further ratemaking relief relating to PSEP as the Commission deems necessary or appropriate.

Respectfully submitted,

By: ___________________________________

DAVID BUCZKOWSKI

Vice President – Gas Engineering and Major Projects for:

SOUTHERN CALIFORNIA GAS COMPANY
SAN DIEGO GAS & ELECTRIC COMPANY

By: ______________________________

AVISHA A. PATEL

AVISHA A. PATEL

Attorney for:

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E-mail: APatel@semprautilities.com

~~March~~June 21, 2017

OFFICER VERIFICATION

I am an officer of Southern California Gas Company and San Diego Gas & Electric Company and am authorized to make this verification on their behalf. The matters stated in the foregoing Application are true to my own knowledge, except as to matters that are stated therein on information and belief, and as to those matters I believe them to be true.

I declare under penalty of perjury under the laws of the State of California that the foregoing is true and correct.

Executed this ~~30~~21st day of ~~March~~June, 2017, at Los Angeles, California.

By: ________________________________

DAVID BUCZKOWSKI

Vice President – Gas Engineering and Major Projects for:

SOUTHERN CALIFORNIA GAS COMPANY
SAN DIEGO GAS & ELECTRIC COMPANY