

Company: San Diego Gas & Electric Company (U 902 M)
Proceeding: 2019 General Rate Case
Application: A.17-10-_____
Exhibit: SDG&E-23

SDG&E

DIRECT TESTIMONY OF NANCY CLANCY

(ENVIRONMENTAL SERVICES)

October 6, 2017

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



A  Sempra Energy utility®

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Glossary of Acronyms

SUMMARY

O&M	2016 (\$000)	2019 (\$000)	Change
Non-Shared	\$5,825	\$4,851	(\$974)
Shared Services	\$2,512	\$2,107	(\$405)
Total	\$8,337	\$6,958	(\$1,379)

Summary of Requests

- SDG&E’s Environmental Services Department is requesting adoption of its 2019 Test Year forecast of \$6,958,000 for operations and maintenance (O&M) expenses. This represents a decrease of \$1,379,000 from adjusted recorded base year costs of \$8,337,000.
- Requesting authorization to continue the New Environmental Regulatory Balancing Account (NERBA). Providing an estimate of increased costs in Test Year 2019 over base year costs in the amount of \$31,000.
- Providing cost savings estimates related to Fueling Our Future initiatives that will be implemented in various groups within Environmental Services. Total estimated annual cost savings to be achieved in Test Year 2019 from the base year costs are \$1,876,000.
- Requesting costs for water quality compliance items and programmatic permits, which should streamline the permitting process, provide uniform compliance requirements and reduce project costs.
- Requesting costs for environmental compliance tools and resources, such as improved greenhouse gas reporting tools, the addition of two archaeologists for cultural resources support and consultant support to meet regulatory and operational requirements.
- Requesting costs to support the growth of the environmental agency outreach and other related efforts.

1 **DIRECT TESTIMONY OF NANCY CLANCY**
2 **(ENVIRONMENTAL SERVICES)**

3 **I. INTRODUCTION**

4 **A. Summary of Environmental Services Costs and Activities**

5 My testimony supports the Test Year (TY) 2019 forecasts for O&M cost for both non-
6 shared and shared services for the forecast years 2017, 2018, and 2019, associated with the
7 Environmental Services area for SDG&E. I do not sponsor any capital projects. Table 1
8 summarizes my sponsored costs.

9 **TABLE 1**
10 **Test Year 2019 Summary of Total Costs**

O&M	2016 (\$000)	2019 (\$000)	Change
Non-Shared	\$5,825	\$4,851	(\$974)
Shared Services	\$2,512	\$2,107	(\$405)
Total	\$8,337	\$6,958	(\$1,379)

11 In addition to this testimony, please also refer to my work papers, Exhibit SDG&E-23-
12 WP, for additional information on the activities described herein.

13 Environmental Services oversees compliance for federal, state, regional, and local
14 environmental statutes, rules, and regulations, including laws protecting air quality, water
15 quality, hazardous materials, hazardous waste, cultural resources, natural (biological) resources,
16 and environmental permitting. Environmental Services' responsibilities include tracking and
17 analyzing the final versions of environmental regulations; developing compliance policies,
18 procedures, and tools; developing and supporting sustainability efforts; developing and
19 delivering training material; developing and implementing internal quality assurance and quality
20 control procedures; screening planned infrastructure projects for environmental compliance and
21 efforts to avoid and/or minimize project environmental impacts, soils contamination
22 considerations and permitting needs; providing compliance oversight; and developing and
23 obtaining environmental permits and plans. Environmental Services also manages a California
24 certified environmental laboratory, two SDG&E treatment, storage and disposal facilities
25 (TSDFs), the remediation of contaminated soils at current and former utility sites, and responds
26 to emergency hazardous waste release events. Key components of our environmental compliance

1 management program include internal assessments to help support and ensure compliance; a
2 hazardous waste vendor audit program; and rigorous environmental contract terms and
3 conditions for our vendors. Additionally, specialists within Environmental Services analyze the
4 potential impacts of proposed regulations as well as provide early planning for compliance with
5 new regulations. Field-based environmental representatives are located at various SDG&E sites
6 to support day-to-day operations. Environmental Services partners with operations management
7 and crews to focus on compliance requirements and leading practices. Environmental Services
8 also includes on-call environmental specialists to assist field operations.

9 There are numerous acronyms for the various programs, agencies and requirements
10 encountered by Environmental Services and described in this testimony. In addition to
11 describing each acronym in this text, I have included a Glossary of Acronyms in an appendix as
12 a reference.

13 In addition to sponsoring my own organization's costs, I also provide business or policy
14 justification for the following other witnesses who sponsor operational costs driven by
15 environmental regulation or pressures:

- 16 ➤ Mr. R. Dale Tattersall, witness for Real Estate, Land Services, & Facilities (Ex.
17 SDG&E-22), supporting the capital cost for water quality-related Municipal
18 Separate Storm Sewer System (MS4) permit requirements. The MS4 permit
19 policy is fully described in the NERBA section of my testimony. The capital
20 expenditures forecasts sponsored by Mr. Tattersall are prompted by the forecasted
21 MS4 permitting requirements which we project will require stormwater
22 remediation facilities to be constructed at multiple SDG&E sites. Mr. Tattersall's
23 testimony and work papers, Exhibit SDG&E-22-CWP, sponsor such costs.
- 24 ➤ Ms. Carmen Herrera, witness for Fleet Services (Ex. SDG&E-21), supporting
25 costs for the California Air Resources Board's (CARB's) Portable Engine
26 Airborne Toxic Control Measure (ATCM) fleet emission standards went into
27 effect in 2013 and get progressively get more stringent in 2017 and 2020.
28 CARB's goal is to have all portable engines meet defined levels of particulate
29 matter (PM) emissions by 2020 (i.e., equivalent to PM emissions from engines
30 that are controlled by a diesel particulate filter). SDG&E's existing fleet of 50
31 portable diesel engines already meets the 2013 PM standard. SDG&E's Fleet

Services will adjust (e.g., retire older units and/or retrofit them with diesel particulate filters) the portable engine fleet to meet the 2017 and 2020 standards. See supplemental work paper 1EV000.000 in Exhibit SDG&E-23-WP. Ms. Herrera’s testimony and work papers, Exhibit SDG&E-21-WP, sponsor such costs.

- Mr. William Speer, witness for Electric Distribution O&M (SDG&E-15), supporting sulfur hexafluoride (SF6) compliance costs.
- Mr. Alan Colton, witness for Electric Distribution Capital (Ex. SDG&E-14), supporting the SF6 switch replacement project.

SDG&E is required to prepare and submit an annual report for SF6 emissions in accordance with Subpart DD of the EPA’s GHG Mandatory Reporting Rule (MRR). Additionally, SDG&E is required to comply with CARB’s Regulation for Reducing Sulfur Hexafluoride (SF6) Emissions from Gas Insulated Switchgear (as part of the AB32 requirements) and the SF6 emission rate limits and annual reporting requirements therein. To maintain continued compliance with EPA’s Subpart DD and CARB’s SF6 rule, SDG&E must track closely the usage and disbursement of SF6 (and installation and removal of SF6 gas insulated distribution switchgear equipment) in its system. For additional information on SF6 requirements please see supplemental work paper 1EV000.009, Exhibit SDG&E-23-WP.

B. Summary of Costs Related to Fueling our Future (FOF)

As described in the Fueling Our Future Policy testimony of Hal Snyder and Randall Clark (Exhibit SCG-03/SDG&E-03), the utilities kicked off the Fueling Our Future (FOF) initiative in May 2016, to identify and implement efficient operations improvements. Table 2 provides a summary of the forecasted FOF costs and benefits that are further discussed in the relevant sections of my testimony.

TABLE 2
Fueling Our Future O&M Summary of Costs & Benefits

ENVIRONMENTAL (In 2016 \$)			
Fueling Our Future O&M Costs & (Benefits)	Estimated 2017 (000s)	Estimated 2018 (000s)	Estimated 2019 (000s)
Implementation Costs	123	30	0
Ongoing Benefits	(1,398)	(1,876)	(1,876)
Total O&M	(1,275)	(1,846)	(1,876)

1 **C. Organization of Testimony**

2 My testimony is organized as follows:

- 3 • INTRODUCTION
- 4 Summary of Environmental Services Costs and Activities
- 5 Summary of Costs Related to Fueling our Future
- 6 • SAFETY CULTURE
- 7 • NON-SHARED Costs and Activities, Forecast Method and Cost Drivers
- 8 Introduction
- 9 Field Operations
- 10 Hazardous Materials & Waste Management and Site Mitigation
- 11 Environmental Programs
- 12 Environmental Permitting, Project Management and Post Construction
- 13 • NERBA Costs and Activities, Forecast Method and Cost Drivers
- 14 • SHARED Costs and Activities, Forecast Method and Cost Drivers
- 15 • CONCLUSION
- 16 • WITNESS QUALIFICATION

17 **II. SAFETY CULTURE**

18 SDG&E is committed to providing safe and reliable service to its customers. Our safety-
19 first culture focuses on our employees, contractors, customers, and public safety, and is
20 embedded in every aspect of our work. This effort includes developing a trained workforce and
21 providing comprehensive environmental services that meet or exceed federal, state, regional, and
22 local environmental statutes, rules, and regulations. SDG&E's strong safety culture and
23 commitment to further developing environmental services processes and programs is designed to
24 manage safety risks and minimize risks to the environment.

25 A strong safety culture includes the integration of an effective risk management process
26 and approach. SDG&E has in place a well-structured and documented approach to risk
27 management. Environmental Services mitigates risks in several areas:

- 28 • Conducts pre-screening of gas and electric capital and O&M projects to avoid
29 environmental impacts and safety concerns in our operations. Early involvement in
30 the planning and design phases identify safety and environmental issues at a time they
31 can be avoided or minimized.

- 1 • Annually, Environmental Services, along with the Safety department, conduct an
2 internal certification of program compliance and identify opportunities for process
3 improvement.
- 4 • Collaborates with Safety and internal stakeholders to develop a library of Fact Sheets,
5 Standards, and company-specific employee training.
- 6 • Key components of our environmental compliance management program include
7 internal assessments to help support and ensure compliance; a hazardous waste
8 vendor audit program; and rigorous environmental contract terms and conditions for
9 our vendors.
- 10 • The Environmental Services hazardous material crew receives training on the
11 appropriate fact sheets, standards, and specific safety related training for packaging,
12 managing, and responding to hazardous material release events. (i.e., release of
13 transformer oil due to a car pole contact) to protect the public, our customers, and our
14 employees.
- 15 • Field-based environmental representatives are located at SDG&E sites to support day-
16 to-day operations. They manage programs, emergency response plans, and permits to
17 protect our customers, the public and our employees.
- 18 • On-call environmental specialists are available to assist field operations and activate
19 an Environmental Services Emergency Command Center to support the SDG&E
20 Emergency Operations Center (EOC).
- 21 • Environmental Services also manages a California certified environmental laboratory
22 to support environmental services and safety, two SDG&E treatment, storage, and
23 disposal facilities (TSDFs), the remediation of contaminated soils at current and
24 former utility sites.
- 25 • Finally, Environmental Services' commitment to safety is the continuous
26 implementation of safety training and education of our workforce to ensure the safe
27 operations of our gas and electric system for the benefit of the public as well as the
28 workers.

1 **III. NON-SHARED COSTS**

2 **A. Introduction**

3 Environmental Services' non-shared O&M costs are reflected in Table 3 below. The
4 forecasted reduction in Test Year 2019 costs is related to continuous improvement in our
5 operations through various FOF initiatives that are described in more detail below.

6 **TABLE 3**

7 **Non-Shared O&M Summary of Costs ENVIRONMENTAL**

ENVIRONMENTAL (In 2016 \$)	2016 Adjusted-Recorded (000s)	TY2019 Estimated (000s)	Change (000s)
Environmental Services	\$5,021	\$4,016	(\$1,005)
NERBA - Electric	\$287	\$303	\$16
NERBA – Gas	\$517	\$532	\$15
Total Non-Shared Services	\$5,825	\$4,851	(\$974)

8 **1. Description of Costs and Activities**

9 The costs included in this cost category include employee labor costs and non-labor costs
10 that are described in more detail within the individual activities below.

11 **2. Forecast Method**

12 A base year forecasting methodology, plus incremental upward and downward pressures,
13 was used to forecast labor and non-labor costs for this cost category. This method, which was
14 used in SDG&E's 2016 GRC, is again most appropriate in this GRC. This method identifies
15 specific new environmental regulatory and program-related requirements and costs impacting the
16 company during the GRC forecast period which are incremental to historically incurred costs.
17 Traditional averaging or trending based on historically recorded costs would fail to capture these
18 incremental costs forecasted for Test Year 2019. Starting with base year represents a
19 conservative base upon which to apply forecasted incremental cost pressures and cost reductions
20 described for each activity below.

21 **3. Cost Drivers**

22 The cost drivers are described in for each activity below.

23 Table 4 summarizes the total non-shared O&M forecasts for the listed cost categories
24 based upon activity.

1 **TABLE 4**

2 **Non-Shared O&M Categories and Costs ENVIRONMENTAL**

ENVIRONMENTAL			
Categories of Management	2016 Adjusted-Recorded (000s)	TY2019 Estimated (000s)	Change (000s)
B. Environmental Field Operations	\$935	\$958	\$23
C. Hazardous Materials & Waste Management	\$2,705	\$1,939	(\$766)
Site Assessment & Mitigation	\$208	\$228	\$20
D. Environmental Programs	\$1,023	\$741	(\$282)
E. Environmental Permitting, Project Mgmt. and Post Construction	\$150	\$150	\$0
Subtotal Unbalanced O&M	\$5,021	\$4,016	(\$1,005)
F. NERBA	\$804	\$835	\$31
TOTAL O&M	\$5,825	\$4,851	(\$974)

3 **B. Environmental Field Operations**

4 **1. Description of Costs and Activities**

5 The compliance activities in this O&M cost category are associated with managing and
 6 maintaining the environmental compliance for the company’s approximately 200 facilities and
 7 approximately 450 environmental permits and plans in addition to providing environmental
 8 compliance oversight for projects. This Field Operations section within Environmental Services
 9 includes 8.0 FTEs. The activity also records non-labor expenses for fees and assessments
 10 associated with these compliance activities.

11 **2. Cost Drivers**

12 The primary cost drivers for this activity are employee labor charges, permits and
 13 associated fees, and non-labor charges. Upward pressures from base year costs include reporting
 14 systems costs offset by FOF savings. We anticipate achieving FOF savings of \$34,000 by Test
 15 Year 2019 by utilizing new technology and reporting processes to drive efficiencies within this
 16 activity. The net upward pressure from base year costs is \$23,000. See work paper group
 17 1EV000.000 and supplemental work paper 1EV000.002 in Exhibit SDGE-23-WP.

1 **C. Hazardous Materials & Waste Management and Site Assessment &**
2 **Mitigation**

3 **1. Description of Costs and Activities**

4 The Hazardous Materials and Waste section manages and oversees the hazardous
5 materials and waste operations which include: the operation of two Treatment, Storage and
6 Disposal Facilities (“TSDF”), conducting and managing cleanup activities from gas operations,
7 electrical equipment and company operations, and managing the receipt, storage and shipment of
8 hazardous materials and waste. These activities are performed by company employees and
9 contracted vendors.

10 **2. Cost Drivers**

11 The primary cost drivers for this activity include employee labor charges and non-labor
12 charges related to contracted services with outside vendors and disposal fees incurred for
13 hazardous waste. We anticipate that several FOF initiatives may provide annual cost savings of
14 \$809,000 by Test Year 2019. The overall objective of the FOF initiatives in the activity is to
15 reduce the number of hazardous material jobs through the utilization of a new suite of tools. The
16 net decrease in forecasted costs from the base year to Test Year 2019 is \$766,000. See work
17 paper group 1EV000.000 in Exhibit SDGE-23-WP.

18 **Site Assessment & Mitigation O&M Costs:** The Hazardous Substance Cleanup Cost
19 Account (HSCCA) provides a uniform methodology for allocating costs and cost recovery
20 associated with covered hazardous substance-related activities, including hazardous substance
21 cleanup and litigation, and related insurance recoveries, as set forth in D.94-05-020. The costs
22 include operating and maintenance costs for the first ten years following inclusion of a site under
23 the definition of covered hazardous substance cleanup costs. After year ten, the operating and
24 maintenance costs covered by the HSCCA are shifted to standard operating and maintenance
25 costs for Environmental Services. SDG&E has two sites that have reached the ten-year mark;
26 one in 2013 and another in 2015. The net upward cost pressure from base year costs is \$20,000.

27 **D. Environmental Programs**

28 **1. Description of Costs and Activities**

29 The compliance activities in this non-shared O&M cost category include specialists who
30 provide guidance in air and water quality, natural resources, and cultural resources, conduct
31 project screening for potential environmental impacts, obtain environmental permits, review
32 proposed regulations, and provide compliance guidance and oversight.

1 **2. Cost Drivers**

2 The cost drivers in Environmental Programs are primarily employee labor in addition to
3 non-labor charges for consultants, permits, and employee related expenses. The upward
4 financial pressures identified in this cost category are for labor adjustments for the full year
5 funding of certain positions that were vacant for a period of time during the base year as well as
6 labor costs to add cultural resources staff. Other upward pressures include non-labor costs for
7 greenhouse gas reporting. The downward financial pressures include one labor vacancy through
8 that will not be backfilled as well as non-recurring non-labor costs incurred in the base year
9 related to greenhouse gas software development. We anticipate that several FOF initiatives in
10 this area, including the outsourcing of the instructional design function and the utilization of
11 tools to streamline work, will result in savings of \$264,000 by Test Year 2019. The net
12 downward pressure forecasted from the base year costs is \$282,000. See work paper group
13 1EV000.000 and supplemental work papers in Exhibit SDGE-23-WP for the following.

14 **Cultural Resource FTEs:** SDG&E is requesting \$35,000 to cover the O&M labor
15 component for two additional Cultural Resource FTEs required to manage the growth in
16 workload associated with the following:

- 17 (i) Increased requirements for compliance with Cultural Resource, Tribal
18 Cultural Resource, and Native American Site regulations and laws.
- 19 (ii) Projects including the Fire Risk Mitigation (FiRM) scheduled to remove and
20 replace approximately 1800 poles in 2017, 2000 poles in 2018, and 2000 poles
21 in 2019 for a total of 5800 over three years compared to only 3686 in the three
22 years preceding.
- 23 (iii) Four Critical Asset Security Team (CAST) projects.
- 24 (iv) 43 Transmission Line Fiber Build projects.
- 25 (v) Operations and Maintenance component of the Cleveland National Forest
26 (CNF) Powerline Replacement Projects.
- 27 (vi) Management of long-term post-construction operations and maintenance
28 requirements.

29 Starting in 2017, SDG&E will be implementing and/or developing five management
30 plans for Operations & Maintenance (O&M) activities in association with the Sunrise Powerlink,
31 East County (ECO) Substation, CNF Powerline Replacement, and Ocotillo and Centinella solar

1 projects which include additional reporting requirements, site management, and consultation.
2 SDG&E will be required to inspect and report on the condition of cultural resources within these
3 project areas on an annual basis. See work paper group 1EV000.000 and supplemental work
4 paper 1EV000.003 in Exhibit SDGE-23-WP.

5 **Greenhouse Gas Reporting (GHG):** SDG&E conducts periodic reporting of its GHG
6 inventory. Consultant support is used to compile and review GHG reports. A new GHG
7 management and reporting software system was developed in 2016, is being implemented in
8 2017 and will require that SDG&E pay a new licensing fee of \$29,000.00 annually. See work
9 paper group 1EV000.000 and supplemental work paper 1EV000.004 in Exhibit SDGE-23-WP.

10 **Health Risk Assessments (HRAs):** The San Diego Air Pollution Control District
11 (APCD) has incorporated the new 2015 Office of Environmental Health Hazard Assessment
12 (OEHHA) Guidance Manual for Preparation of HRAs into its “Hot Spots” (AB2588) reporting
13 program. With new (more stringent) pollutant risk factors and procedures released in the
14 guidance manual, we anticipate that three of SDGE’s facilities will be required to conduct HRAs.
15 APCD will be conducting a prioritization of the Miramar Energy Facility, Palomar Energy
16 Center, and the Cuyamaca Peaker based on their latest annual toxic emissions inventory reports
17 in 2017 and will notify SDG&E if HRAs will be required. SDG&E needs consultant support to
18 prepare HRA reports, reduction plans and possible installation of additional toxic controls. This
19 work is scheduled for 2017-2019. See work paper group 1EV000.000 and supplemental work
20 paper 1EV000.005 in Exhibit SDGE-23-WP.

21 **Construction Stormwater General Permit (CGP)-5 Year Renewal:** In 2009 the
22 California State Water Resources Control Board (SWRCB) adopted the new Construction Storm
23 Water General Permit Order 2009-0009-DWQ (CGP). The SWRCB will consider renewing the
24 Permit for another 5 years in early 2018. SDG&E needs consultant assistance when the draft
25 renewal permit is issued in late 2017 to reconfigure existing SWPPP templates and reporting
26 forms and provide training to field staff on new procedures and monitoring requirements dictated
27 by the Permit. This work is scheduled to start in 2017 and be completed in 2018. See work
28 paper group 1EV000.000 and supplemental work paper 1EV000.006 in Exhibit SDGE-23-WP.

29 **Natural Gas Pipeline Discharge Programmatic Permit:** To facilitate permitting for
30 groundwater or wastewater discharges during natural gas pipeline operation and maintenance
31 (O&M) and construction activities and to obtain uniform permit requirements throughout the

1 state, SDG&E, in partnership with Southern California Gas Company (SoCalGas) and Pacific
2 Gas and Electric Company (PG&E), requested a National Pollutant Discharge Elimination
3 System (NPDES) programmatic permit from the SWRCB in 2015. The final Permit is expected
4 to be issued by the SWRCB in the Summer of 2017 and a new annual permit fee of \$12,000 will
5 be required at that time. See work paper group 1EV000.000 and supplemental work paper
6 1EV000.007 in Exhibit SDGE-23-WP.

7 **Vault De-Watering Permit-Special Studies:** On October 21, 2014, the California
8 SWRCB adopted the new Utility Vault De-Watering General Permit Order 2014-0174-DWQ.
9 This Permit is a NPDES permit pursuant to the Clean Water Act¹ that regulates short-term
10 intermittent discharges from utility vaults and underground structures to surface waters.
11 Consultant support is needed to maintain an up to date the Pollution Prevention Plan,
12 development of two Special Study Reports (due in 2019 and 2020), field work including routine
13 and Special Study monitoring of pollutants and reporting, as well as all supporting documents
14 and activities required by the permit. See work paper group 1EV000.000 and supplemental work
15 paper 1EV000.008 in Exhibit SDGE-23-WP.

16 **E. Environmental Permitting, Project Management and Post Construction**

17 **1. Description of Costs and Activities**

18 This non-shared O&M cost category includes ancillary costs related to employees who
19 charge capital project licensing and permitting completed by land planners and project managers,
20 capital project construction-phase environmental compliance completed by compliance leads,
21 and capital project post-construction environmental compliance completed by project managers
22 and environmental specialists who provide guidance in natural and cultural resources and habitat
23 restoration. These teams work on electric capital projects under the jurisdiction of the CPUC
24 and/or CEC, as well as projects that meet existing General Order (GO) 131-D exemptions and
25 are therefore exempt from active CPUC permitting requirements. These teams also work on gas
26 capital projects that are regulated by the CPUC pursuant to GO 112-F.

¹ 33 U.S.C. § 1251 et seq. (1972).

1 **2. Cost Drivers**

2 The O&M costs for the Environmental Project Permitting, Environmental Project
3 Management and Post-Construction Compliance teams are primarily employee labor and non-
4 labor charges associated with licensing, permitting, construction and/or post-construction
5 environmental compliance for capital and O&M projects. There are no upward or downward
6 pressures identified for these teams during the forecast period.

7 **F. NERBA**

8 **1. Description of Costs and Activities**

9 **a. Background**

10 In the 2012 GRC, the Commission approved the NERBA as a two-way balancing account
11 to record costs associated with certain new and proposed environmental rules or regulations.
12 The currently authorized NERBA gas and electric subaccounts include (1) Assembly Bill 32;
13 (AB32) Administration Fees; (2) Municipal Separate Stormwater Sewer Systems (MS4); (3)
14 Polychlorinated Biphenyls (PCB) Phase-Out; (4) Subpart W of Part 98 of Title 40 of the Code of
15 Federal Regulations; (5) Leak Detection Abatement Repair (LDAR); and (6) Natural Gas Leak
16 Abatement Program (NGLAP).

17 The intent of the NERBA is to record costs meeting the following key criteria: (1)
18 uncertainty as to the scope, magnitude, and mechanics of the compliance requirements associated
19 with new, proposed, or evolving environmental rules or regulations; and (2) potential for
20 incurring significant incremental costs. See work paper group and supplemental work papers for
21 1EV001.000 and 1EV002.000 in Exhibit SDG&E-23-WP.

22 On June 19, 2017, the Commission issued a Decision 17-06-015 directing SDG&E to file
23 a Tier 3 Advice Letter to establish the revenue requirement to be incorporated in customer’s rates
24 for the NGLAP Sub-account of the NERBA.² Accordingly, the NERBA-related cost forecasts
25 associated with the NGLAP Subaccount for 2018 - 2019 are not included in this testimony.

² See Decision (D.) 17-06-015, Decision Approving Natural Gas Abatement Program Consistent with Senate Bill 1371.

1 **b. Proposal**

2 As mentioned in the Regulatory Accounts testimony of Norma Jasso (Exhibit SDG&E-
3 41), SDG&E is requesting that the existing structure of the NERBA balancing accounts be
4 authorized to continue during this GRC cycle. SDG&E’s proposed NERBA-related costs are
5 shown below in Table 5.

6 **TABLE 5**
7 **Non-Shared Balanced O&M Summary of Costs for NERBA**

NERBA ITEM	2016 Adjusted- Recorded	TY 2019 Estimated	Change	Status
AB32 Administrative Fees	\$804	\$804	\$0	Continue in 2019 GRC Period
MS4	\$0	\$31	\$31	Continue in 2019 GRC Period
PCB Phase-out	\$0	\$0	\$0	Continue in 2019 GRC Period
Subpart W	\$0	\$0	\$0	Continue in 2019 GRC Period
LDAR	\$0	\$0	\$0	Emergent Regulatory LDAR costs
NGLAP	\$0	\$0	\$0	NGLAP costs not forecasted in TY2019 GRC. Costs to be authorized in SB1371 OIR.
TOTAL	\$804	\$835	\$31	

8 The regulatory accounting for the NERBA is addressed by Ms. Jasso (Ex. SDG&E-41).

9 **c. Forecast Method**

10 A base year forecast methodology, plus incremental upward pressures, was used to
11 determine cost requirements for NERBA as a cost category. As NERBA items are not readily
12 predictable given the attributes for NERBA as described earlier, traditional averaging of
13 historical costs would not be a representative forecast method. See work paper group and
14 supplemental work papers for 1EV001.000 and 1EV002.000 in Exhibit SDG&E-23-WP.

15 **d. Cost Drivers**

16 The following NERBA subaccounts collectively contribute to a total forecasted amount
17 of \$835 million in Test Year 2019:

1 **AB32 Administrative Fees:** SDG&E pays administrative fees as required by the
2 California’s Global Warming Solutions Act of 2006, referred to as “Assembly Bill (AB) 32.”
3 These fees are for CARB to recover its costs to implement AB32. AB32 requires public utility
4 gas corporations, such as SDG&E, to pay annual administrative fees for each therm of natural
5 gas they deliver to any end user in California, excluding natural gas delivered to electric
6 generating facilities and to wholesale providers. AB32 requires electric generating facilities
7 located in California, such as SDG&E’s Palomar Power Plant, to pay annual administrative fees
8 for each megawatt per hour (MW-hr) of net power generated by the combustion of natural gas.
9 Due to regulatory uncertainty related to GHG inventory and reporting requirements, the import
10 of electric power from out of state is unpredictable, the production of power plants is subject to
11 ISO load requirements in California and it is difficult to predict market forces in summer months
12 SDG&E will continue to track the AB32 Administrative fees in the NERBA during the GRC
13 (2017-2019). SDG&E is not seeking additional dollars for the AB32 Administrative Fees
14 beyond the base year level. See work paper group 1EV001.000 and 1EV002.000, and
15 supplemental work papers 1EV001.002 and 1EV002.002 in Exhibit SDG&E-23-WP.

16 **Municipal Separate Stormwater Sewer System (MS4) Permit:** The San Diego
17 Regional Water Quality Control Board (RWQCB) issued a revised MS4 Permit to
18 owners/operators that include new requirements for cities and municipalities located in San
19 Diego and Orange Counties, the Orange County Flood Control District and the San Diego
20 County Regional Airport Authority.³ In addition, municipalities and owner/operators must
21 regulate dischargers within their jurisdictions and commercial facilities must minimize the
22 discharge of pollutants through the implementation of Best Management Practices (BMPs). The
23 MS4 Permit also requires the development and implementation of watershed based plans (Water
24 Quality Improvement Plans or WQIPs), and the identification and development of strategies for
25 priority water bodies that need further protection and/or restoration. In 2016, San Diego and
26 Orange Counties, the City of San Diego, the Orange County Flood Control District and the San
27 Diego County Regional Airport Authority issued updated stormwater ordinances, released their
28 new jurisdictional plans and BMP requirements³. Due to the uncertainty of additional cities and

³ San Diego Regional Water Quality Control Board Order No. R9-2013-0001, as amended by Order Nos. R9-2015-0001 and R9-2015-0100.

1 municipalities that may become more stringent during BMP implementation and may impose
2 further compliance requirements during an inspection at our facilities in the future, SDG&E is
3 including costs associated with MS4 Permit requirements in rates and subject to two-way
4 balancing account treatment in the NERBA. See work paper group 1EV001.000 and
5 1EV002.000, and supplemental work papers 1EV001.003 and 1EV002.004 in Exhibit SDG&E-
6 23-WP.

7 **PCB Phase-out Costs:** Although no costs are currently forecasted for the PCB Phaseout
8 subaccount, unforeseen regulatory requirements may present themselves within this GRC period
9 that may require incremental costs to comply and thus should qualify as appropriate for inclusion
10 within this existing NERBA two-way balancing account. See supplemental workpaper
11 1EV001.001 for additional details.

12 **Subpart W Costs:** Although no costs are currently forecasted for the Subpart W
13 subaccount, unforeseen regulatory requirements may present themselves within this GRC period
14 that may require incremental costs to comply and thus should qualify as appropriate for inclusion
15 within this existing NERBA two-way balancing account. See supplemental workpaper
16 1EV002.002 for additional details.

17 **Emerging LDAR Costs:** Due to emerging LDAR regulatory requirements not associated
18 with SB1371, SDG&E anticipates impacts to our facilities and operations including, but not
19 limited to, the testing, monitoring and repair of leaks in compressor engines, pneumatic
20 controllers and piping. Additionally, unforeseen regulatory requirements may present
21 themselves within this GRC period that may require incremental costs to comply and thus should
22 qualify as appropriate for inclusion within this existing NERBA two-way balancing account.
23 Based on the foregoing, SDG&E respectfully requests the continuance of the existing LDAR
24 NERBA two-way balancing account to include emerging LDAR costs.

25 **IV. SHARED COSTS**

26 **A. Introduction**

27 Environmental Services' shared O&M costs are incurred for leadership, strategy and
28 oversight of environmental services activities at SDG&E and SoCalGas. Table 6 summarizes the
29 total shared O&M forecasts for the listed cost categories.

1
2

TABLE 6
Shared O&M Summary of Costs

ENVIRONMENTAL			
Shown in Thousands of 2016 Dollars Incurred Costs (100% Level)			
Categories of Management	2016 Adjusted-Recorded	TY 2019 Estimated	Change
B. Environmental Services Director	\$249	\$249	\$0
C. VP Operations Support	\$440	\$440	\$0
D. Environmental Lab	\$1,091	\$660	(\$431)
E. Environmental Communications	\$732	\$758	\$26
Total Shared Services (Incurred)	\$2,512	\$2,107	(\$405)

3 I am sponsoring the forecasts on a total incurred basis, as well as the shared services
4 allocation percentages related to those costs. Those percentages are presented in my shared
5 services work papers, Exhibit SDG&E-23-WP, along with a description explaining the activities
6 being allocated. The dollar amounts allocated to affiliates are presented in the Shared Services
7 and Shared Assets Billing, Segmentation, and Capital Reassignments testimony of James
8 Vanderhye (Exhibit SCG-34/SDG&E-32).

9 **B. Environmental Services Director**

10 **1. Description**

11 The Director provides leadership and strategic direction to Environmental Services at
12 SDG&E and SoCalGas.

13 **2. Forecast**

14 A base year forecast methodology was used to determine cost requirements. This method
15 is most appropriate because it identifies specific environmental regulatory changes and their
16 related costs impacting the company during the GRC period. The specific cost drivers are best
17 applied to a conservative base year level and would not be captured in traditional averaging or
18 trending.

19 **3. Cost Drivers**

20 The primary cost drivers are straight time labor, employee non-labor costs, consulting
21 fees and costs related to department wide functions. There are three shared service employees
22 including a Director, Business Planning Manager and Administrative Assistant. There are no
23 upward or downward pressures associated with this activity in the forecast period. See work
24 papers 2100-3589.000 in Exhibit SDG&E-23-WP.

1 **C. VP Operations Support**

2 **1. Description**

3 The VP of Operations Support provides leadership and strategic direction to
4 Environmental Services at SDG&E and SoCalGas. This shared-service functional area consists
5 of the Vice President of Operations Support and one executive assistant. The Vice President of
6 Operations Support is the Chief Environmental Officer for SDG&E and SoCalGas.

7 **2. Forecast**

8 A base year forecast methodology was used to determine cost requirements. This method
9 is most appropriate because it identifies specific environmental regulatory changes and their
10 related costs impacting the company during the GRC period. The specific cost drivers are best
11 applied to a conservative base year level and would not be captured in traditional averaging or
12 trending. There are no forecast adjustments for this functional area.

13 **3. Cost Drivers**

14 The primary cost drivers are employee labor and non-labor costs for department wide
15 functions, consulting fees and employee non-labor costs. There is one cost center utilized by this
16 organization. There are no upward or downward pressures associated with this activity in the
17 forecast period. See work papers 2100-3588.000 in Exhibit SDG&E-23-WP.

18 **D. Environmental Lab⁴**

19 **1. Description of Costs and Activities**

20 The compliance activities in this non-shared O&M cost category include operation of
21 SDG&E's California State Certified Environmental Analysis Laboratory ("The Lab"). This
22 functional area performs a broad spectrum of environmental and chemical sampling, testing and
23 analysis for operational maintenance and regulatory compliance. This activity is reflected in a
24 separate work paper grouping because it was a shared service cost center in the prior GRC
25 proceeding. This activity is no longer a shared service activity and will be reflected as a non-
26 shared service in Errata.

⁴ This activity is reflected in a separate work paper grouping because it was a shared service cost center in the prior GRC proceeding. This activity is no longer a shared service activity and will be reflected as a non-shared service in Errata.

1 **2. Forecast Method**

2 A zero-base forecast methodology was used to determine cost requirements. This
3 forecast methodology was utilized due to the reduction of headcount for the Lab that took place
4 during the base year. As a result, of the reduction of headcount, utilizing a base year or average
5 trending forecasting methodology would not be representative of forecasted costs. All other
6 forecasting techniques produced a higher forecasted amount in the test year than the zero-base
7 forecast methodology.

8 **3. Cost Drivers**

9 The cost drivers in this section are primarily employee labor charges, outsourced vendor
10 costs, lab supplies and employee non-labor charges. Through the successful implementation of
11 Fueling Our Future initiatives, we anticipate that cost savings will be achieved in this activity
12 primarily through the downsizing of the Lab through a headcount reduction of 6.4 FTE. It is
13 forecasted that a portion of the labor savings will be offset by higher non-labor costs due to
14 outsourcing work to contractors that had originally been performed by employees of the Lab.
15 The net downward pressure from base year costs is \$431,000.

16 **E. Environmental Communications⁵**

17 **1. Description of Costs and Activities**

18 This group was formerly known as the Environmental Strategy and Sustainability group.
19 With a new title of “Environmental Communications” this group will continue doing
20 sustainability work however their primary function is outreach to environmental agencies, tribal
21 leaders, non-government organizations (NGOs), and other key stakeholders.

22 The activities in this O&M cost category include development and implementation of a
23 comprehensive Environmental Communications Plan (“The Plan”). The Plan will include
24 communication on important points such as new environmental regulatory requirements, climate
25 resiliency planning, aging infrastructure, population growth, and the emergence of varying
26 energy resources. These communication activities are not performed by other community
27 relations groups within SDG&E due to the specialized focus on environmental issues. The
28 Environmental Communication group also leads the Environmental Champions initiative which

⁵ This activity is no longer a shared service activity and will be reflected as a non-shared service in Errata.

1 supports non-profit organizations whose programs promote environmental education, community
2 engagement, and stewardship in underserved communities throughout our service territory. This
3 activity is no longer a shared service activity and will be reflected as a non-shared service in
4 Errata.

5 **2. Forecast Method**

6 A base year forecast methodology, plus incremental upward and downward pressures,
7 was used to determine cost requirements. This method is most appropriate because it identifies
8 specific cost drivers impacting the company during the GRC period. The specific cost drivers
9 are best applied to a conservative base year level and would not be captured in traditional
10 averaging or trending.

11 **3. Cost Drivers**

12 The cost drivers associated with this function are primarily labor costs for employees and
13 non-labor charges for consultants, benchmarking fees and employee expenses. Upward
14 pressures are primarily attributable to the addition of three positions during the forecast period.
15 The added positions include two communications specialist/writers, and one graphic web
16 designer that will help align SDG&E's environmental activities and communications with the
17 energy industry, residential and commercial customers, employees, nonprofits, educators,
18 regulators, utilities, municipalities, environmental agencies, water and wastewater districts, tribal
19 leaders, and other environmental advocates. The upward pressures are offset by downward
20 pressures resulting from the retirement of two employees that had been part of the Strategy and
21 Sustainability Manager section. The net incremental increase in costs from the base year is
22 \$26,000. Please refer to work paper group 2100-3282.000 in Exhibit SDG&E-23-WP.

23 **V. CONCLUSION**

24 My testimony and work papers provide support for the costs I sponsor for Environmental
25 Services, and the reasonableness of the methodologies used to derive those costs. The Test Year
26 forecasts represent a decrease over base year costs due to continuous improvements in our
27 organization. I respectfully ask the Commission to fully fund our important work so SDG&E can
28 continue to meet its obligations to applicable regulations and environmental stewardship. This
29 concludes my prepared direct testimony.

1 **VI. WITNESS QUALIFICATIONS**

2 My name is Nancy Clancy. My business address is 8335 Century Park Ct., San Diego,
3 California, 92123. My current position is Environmental Programs Manager under the
4 Operations Support organization. The Environmental Services organization provides services to
5 SDG&E. I joined Sempra Energy, the parent company of SDG&E in 2000. I have been in my
6 current position at SDG&E since January 2014. I hold a Bachelors' of Science Degree in
7 Organizational Behavior from the University of San Francisco. I have not previously testified
8 before the Commission.

GLOSSARY OF ACRONYMS

AB	Assembly Bill
ACOE	Army Corps of Engineers
ATCM	Airborne Toxic Control Measures
BLM	Bureau of Land Management
BMP	Best Management Practice
CARB	California Air Resources Board
CO2	Carbon Dioxide
EA	Environmental Assessment
EPA	Environmental Protection Agency
GHG	Greenhouse Gas
HSCCA	Hazardous Substance Cleanup Cost Account
LDAR	Leak Detection Abatement Repair
MS4	Municipal Separate Storm Sewer System
NERBA	New Environmental Regulatory Balancing Account
NOx	Nitrogen Oxides
NPDES	National Pollution Discharge Elimination System
PCB	Polychlorinated biphenyls
PM	Particulate Matter
RECLAIM	Regional Clean Air Incentives Market
RTC	RECLAIM Trading Credit
RWQCB	Regional Water Quality Control Board
SB	Senate Bill
SCAQMD	South Coast Air Quality Management District
SF6	Sulfur Hexafluoride
SOx	Sulfur Oxides
TSDF	Treatment Storage and Disposal Facility
WDR	Waste Discharge Requirement
WQC	Water Quality Certification
WQIP	Water Quality Improvement Plan