

Company: San Diego Gas & Electric Company (U902M)
Proceeding: 2016 General Rate Case
Application: A.14-11-003
Exhibit: SDG&E-218

SDG&E

REBUTTAL TESTIMONY OF R. SCOTT PEARSON

(ENVIRONMENTAL SERVICES)

June 2015

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



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APPENDIX A, Response to FEA-SDG&E-DR-02, Question 7

1 **SDG&E REBUTTAL TESTIMONY OF R. SCOTT PEARSON**
2 **(ENVIRONMENTAL SERVICES)**
3

4 **I. SUMMARY OF DIFFERENCES**

TOTAL O&M - Constant 2013 (\$000)			
	Base Year 2013	Test Year 2016	Change
SDG&E	8,356	9,273	917
ORA	8,356	8,923	567
FEA	8,356	9,107	751

5
6 **II. INTRODUCTION**

7 **A. Office of Ratepayer Advocates (ORA)**

8 ORA issued its report on SDG&E Environmental Services on April 24, 2015.¹ ORA
9 proposes a reduction of \$350K in my test year (TY) 2016 forecast for total operations and
10 maintenance (O&M) expense. The following is a summary of ORA's positions:

- 11 • In non-shared services O&M, ORA recommends \$4.406 million for 2016, which is
12 \$253K (5%) less than my request.² This proposed reduction impacts only the
13 Environmental Compliance cost category. ORA does not oppose my non-shared cost
14 forecast for New Environmental Regulatory Balancing Account (NERBA), the other cost
15 entry in the non-shared services category.³
- 16 • ORA does not oppose my request to continue and update the NERBA,⁴ which uses a two-
17 way balanced accounting treatment and consists of several component activities "to
18 record costs associated with certain new and proposed environmental rules or
19 regulations."⁵ The currently authorized NERBA costs include (1) Assembly Bill 32
20 Administration Fees; (2) Gas Cap and Trade related costs; (3) Subpart W of Part 98 of
21 Title 40 of the Code of Federal Regulations; and, (4) Polychlorinated Biphenyls (PCB)
22 Phase-Out.⁶ While ORA supports the continuation of the NERBA, ORA does propose a

¹ Exhibit ORA-14, Report on Environmental Services (S. Chia), (full title truncated) (ORA-14).

² ORA-14, p. 30, lines 17-19.

³ ORA-14, p. 31, lines 17-25.

⁴ ORA-14, p. 32, lines 8-10.

⁵ ORA-14, p. 31, lines 20-21.

⁶ ORA-14, p. 31, lines 20-25.

1 reduction to the TY 2016 environmental/safety blanket capital projects category, which
2 contains the Municipal Separate Storm Sewer System (MS4) capital project, that is to be
3 added to the NERBA.⁷ These MS4 capital project forecasts are shown in Mr. James
4 Seifert's capital workpapers (SDG&E's witness for Real Estate, Land Planning and
5 Facilities),⁸ whose rebuttal addresses ORA's proposed reductions to those costs.

- 6 • In shared services O&M, ORA recommends \$4.517 million for 2016, which is \$98K
7 (2%) less than my request. This proposed reduction impacts Environmental Programs
8 only.⁹

9 **B. Federal Executive Agencies (FEA)**

10 FEA submitted testimony on May 15, 2015.¹⁰ The following is a summary of FEA's
11 positions:

- 12 • In non-shared services O&M, FEA recommends \$843K for 2016 NERBA cost
13 categories.¹¹ This is \$166K (16.45%) less than my request for NERBA and 4% less than
14 my total non-shared services O&M request for 2016 (\$4,658K).
- 15 • FEA otherwise supports ORA's acceptance of SDG&E proposed continuation of and
16 modifications to the NERBA, as well as ORA's proposed reduction to the MS4 NERBA
17 capital costs discussed above.¹²
- 18 • FEA proposes no other reductions to my overall O&M request.

19 **C. Environmental Defense Fund (EDF)**

20 EDF submitted testimony on May 15, 2015.¹³ The following is a summary of EDF's
21 positions:

- 22 • EDF does not oppose or support a specific dollar amount request,¹⁴ but recommends leak
23 quantification reporting that EDF presumes will be adopted in Rulemaking (R.) 15-01-
24 008,¹⁵ filed January 15, 2015 and is still in process.

⁷ ORA-14, pp. 32, 37-39.

⁸ Exhibit (Ex.) SDG&E-17-CWP, p. 29.

⁹ ORA-14, p. 33, lines 8-16.

¹⁰ Confidential Direct and Exhibit of Ralph C. Smith, CPA on behalf of FEA (full title truncated) (FEA/Smith).

¹¹ FEA/Smith, p. 26, lines 3-10.

¹² FEA/Smith, p. 22, lines 11-14.

¹³ Opening Testimony of Environmental Defense Fund (EDF/O'Connor).

¹⁴ EDF/O'Connor, p. 10, lines 7-9.

¹⁵ R. 15-01-008, CPUC Gas Leak Abatement Rulemaking Pursuant to Requirements in SB 1371.

- EDF recommends the Commission adopt one of two options for allocating funds to meet the objective of having utilities perform leak quantification: one-way, or two-way balancing account similar to the NERBA.¹⁶
- EDF claims that the utilities should have included costs associated with leak quantification in their GRC requests.¹⁷
- EDF claims the GRC should be held open until the conclusion of the R.15-01-008 proceeding to address the leak detection and repair program.¹⁸

D. Coalition of California Utility Employees (CCUE)

CCUE submitted testimony on May 15, 2015.¹⁹ The following is a summary of CCUE’s positions:

- CCUE describes three options for allocating funds to meet the objective to pay for SB 1371 compliance: two-way balancing account, one-way balancing account or a mechanism to allow funding to be added to the authorized GRC funding mid-cycle.²⁰
- CCUE recommends specific areas where SDG&E should be doing more in this GRC cycle for R.15-01-008 related proposals to achieve SB 1371 goals.²¹

III. REBUTTAL TO PARTIES’ O&M PROPOSALS

A. Non-Shared Services O&M

1. Environmental Compliance

	Test Year 2016	
	Constant 2013 (\$000)	
SDG&E	3,649	
ORA	3,396	(253)

ORA uses a five-year average (2009-2013) to derive a forecast that is \$253K (7%) less than my test year forecast for Environmental Compliance cost area, which started with base year 2013 and added incremental costs. ORA observed relatively stable costs for the period 2009-

¹⁶ EDF/O’Connor, p. 20, lines 6-12.

¹⁷ EDF/O’Connor, p. 19, lines 7-12.

¹⁸ EDF/O’Connor, p. 20, lines 13-14.

¹⁹ Prepared Testimony of David Marcus on Behalf of CCUE (full title truncated) (“CCUE/Marcus”).

²⁰ CCUE/Marcus, pp. 46-51.

²¹ CCUE/Marcus, p. 35, lines 9-14.

1 2013,²² for both expenses as well as the count of Full-Time Equivalent employees (FTEs) over
2 that period. SDG&E is requesting full-year funding for 2.4 FTEs for this necessary compliance
3 function, and \$162K would provide that level of funding. SDG&E is also requesting non-labor
4 increases to meet its water quality permitting fee increases and consulting costs driven by Bureau
5 of Land Management environmental assessments, for an additional \$106K.

6 SDG&E disagrees with ORA's assertion that its historical average would somewhat
7 alleviate the labor discrepancies caused by vacancies, transfers, and leaves which impacted
8 recorded FTE levels. SDG&E needs its full staffing levels to perform this compliance function.
9 Further, ORA did not factor the non-labor upward pressures that impact this cost category. ORA
10 appears not to have considered recommending, at a minimum, the \$106K to its five-year average
11 in recognition of these upward pressures in non-labor fees and assessments.

12 By contrast, for SDG&E's shared services expense, ORA did not oppose use of 2013
13 recorded expenses as the starting basis to forecast 2016 costs for Environmental Compliance, and
14 did not oppose costs for full-year funding adjustment for labor (\$96K aggregate total from all
15 cost centers) nor the request to hire 0.6 FTEs.²³ ORA used different methods to derive its
16 recommendations for non-shared services where SDG&E used 2013 recorded expenses as its
17 starting point for both cost categories. SDG&E supports its forecast, as it considers the merits of
18 the individual incremental drivers and activities that influence these costs, and believes it to be
19 the preferred methodology for this activity.

20 **2. NERBA Costs**

	Test Year 2016 Constant 2013 (\$000)	
SDG&E	1,009	
ORA	1,009	0
FEA	843	(166)

21
22 **a. ORA**

23 ORA neither opposes my request to continue and update the NERBA²⁴ nor my non-
24 shared cost forecast for the NERBA. The NERBA costs include forecast costs for MS4
25 requirements and consist of \$19K in Environmental Services O&M and \$6.348 million capital in

²² ORA-14, pp. 30-31.

²³ Ex. SDG&E-18-WP, pp. 56, 70, 87, 88, 113 and 121.

²⁴ ORA-14, p. 32, lines 8-10.

1 Mr. James Seifert's testimony and workpapers for TY 2016. ORA does not challenge the need
2 for MS4 permit costs, or the inclusion of MS4 costs in the NERBA, but does propose reductions
3 to Mr. Seifert's capital request that would reduce funding available to comply with the MS4
4 requirements. These proposed reductions are addressed in Mr. Seifert's rebuttal testimony.²⁵

5 **b. FEA**

6 FEA uses a three-year average (2012-2014) of non-shared recorded expense for NERBA
7 to develop its alternate forecast. FEA asserts that NERBA O&M costs have been decreasing
8 each year, and therefore a three-year average is appropriate. FEA's alternate forecast of \$843K
9 consists of \$263K for electric and \$580K for gas.²⁶ FEA's approach disregards evidence
10 regarding the incremental upward pressures which I described in my direct testimony, namely,
11 the anticipated upward pressures from AB32 electric fees, PCB Phase Out and MS4 program
12 costs.²⁷ In selecting its averaging period, FEA did not use all the data available, and does not
13 explain why it omitted 2011 recorded costs, which would have increased that average.

14 Borrowing from data reflected in ORA's table (in thousands of 2013 dollars):²⁸

15

Description	2011	2012	2013	2014
NERBA	2,044	1,062	786	681

16
17 A four-year average (2011-2014) would yield a forecast of \$1,143K, which exceeds
18 SDG&E's forecast of \$1,009K. Further, it should be noted that ORA did not oppose SDG&E's
19 test year NERBA O&M cost forecast or forecast methodology,²⁹ lending further support to
20 SDG&E's methodology.

21 FEA agrees with ORA's proposed reductions to SDG&E's capital expenditures to meet
22 MS4 requirements, these are those same capital costs addressed in the testimony of Mr. James
23 Seifert and his rebuttal.³⁰ For the same reasons noted for ORA above, SDG&E disagrees with
24 FEA's proposed reduction of costs for MS4 compliance.

²⁵ Ex. SDG&E-217.

²⁶ FEA/Smith, p. 26, lines 3-6.

²⁷ Ex. SDG&E-18, pp. RSP-5 through RSP-11.

²⁸ ORA-14, p. 30, Table 14-19.

²⁹ ORA-14, p. 32, lines 8-10.

³⁰ Ex. SDG&E-17 and Ex. SDG&E-217.

1 Lastly, during discovery SDG&E became aware of an error in its O&M cost forecast,
2 which is not reflected in ORA's analysis but which SDG&E will adjust here. SDG&E's O&M
3 cost forecast of \$1,009K was inadvertently overstated by \$42K.³¹ See Appendix A, which is an
4 SDG&E data request response identifying this error. SDG&E's corrected forecast for 2016
5 NERBA O&M is \$967K (\$1,009K – \$42K).

6 **B. Shared Services O&M**

7 ORA proposes a test year forecast of \$4,517K in shared services O&M³² in comparison
8 to my forecast of \$4,615K. ORA's only challenge here is a proposed reduction to my forecast
9 for Environmental Programs by \$98K.³³ SDG&E does not oppose this reduction.

10 **IV. REBUTTAL TO OTHER PARTIES' PROPOSALS**

11 **A. EDF**

12 EDF did not support a specific dollar amount increase or reduction to SDG&E's
13 requested expenses. Rather, EDF recommends that the Commission adopt one of two options for
14 allocating funds to meet the objective of having utilities perform leak quantification. The first
15 option is a two-way balancing account similar to the NERBA, so that any overestimation of
16 funds must be returned to the ratepayers. In the event of an underestimation, SDG&E may
17 continue to address the issue and be granted the necessary additional funding at a later date.³⁴
18 Second, if the Commission prefers a one-way balancing account, EDF suggests that funding
19 determination be held open until a cost estimate can be calculated in R.15-01-008.³⁵ With either
20 option, EDF claims the Commission and parties will benefit from the information gained through
21 R.15-01-008.³⁶ SDG&E disagrees with EDF's recommendations.

22 SDG&E's GRC forecasts its test year costs, which include costs associated with leak-
23 related work. The GRC establishes a test year cost of service revenue requirement, and costs
24 associated with leak-related work are part of SDG&E's expected cost of service. However, the
25 GRC should not be used to resolve the issues raised in the Rulemaking. Therefore, EDF's
26 recommendation to keep the GRC open until resolution of that Rulemaking is neither feasible

³¹ Response to FEA Data Request 02, Question 7 (see Appendix A).

³² Ex. ORA-14, p. 33, line 8.

³³ Ex. ORA-14, p. 34, lines 24-26.

³⁴ EDF/O'Connor, p. 20, lines 7-10.

³⁵ EDF/O'Connor, p. 20, lines 10-12.

³⁶ EDF/O'Connor, p. 20, lines 12-14.

1 nor desirable. The two proceedings have their respective scope, process, and evidence. In fact,
2 the Rulemaking's final scope, objectives, and procedural schedule have yet to be determined at
3 this stage, with the first prehearing conference scheduled for June 8.

4 My understanding is that the Rulemaking established a two-phase process. The
5 Rulemaking is still in the information-gathering Phase 1; parties' proposals for rules and
6 procedures to comply with SB 1371, including metrics and methodologies for quantification, will
7 not occur until 2016, based on the preliminary schedule. Thus, EDF's claim that the utilities
8 should have included costs associated with leak quantification in their GRC requests would have
9 resulted in those estimated costs being premature and perhaps speculative in lieu of any
10 Commission requirements that have yet to be established by the Rulemaking. It would also
11 cause undue delay in this GRC to keep this proceeding open until that Rulemaking is closed.
12 Because the Rulemaking is only in the initial information-gathering phase, it will likely not reach
13 a final decision adopting requirements until sometime in 2016. In the event the Rulemaking
14 requires incremental costs to be incurred during the GRC cycle, SDG&E's NERBA, which
15 proposes to add an LDAR component, is a two-way regulatory mechanism that SDG&E can seek
16 to record those incremental costs. In short, the two proceedings can and should proceed
17 independently.

18 **B. CCUE**

19 CCUE's testimony recommended an increase to SDG&E's 2016 capital expenses by
20 \$75.9 million to address SB 1371 compliance.³⁷ CCUE recommends that the Commission adopt
21 one of three options for allocating funds to pay for that SB 1371 compliance. Options one and
22 two are for one-way and two-way balancing accounts, respectfully. The third option is a
23 mechanism to allow funding for SB 1371 compliance to be added to the authorized GRC funding
24 at mid-cycle.³⁸

25 In terms of balancing costs related to leak detection and repair, my proposal to continue
26 the NERBA and expand it to include O&M costs for LDAR is the reasonable approach to
27 addressing the incremental costs that are expected to be incurred as a result of SB 1371 in this
28 GRC cycle.

³⁷ CCUE/Marcus, p. 1, lines 17-18.

³⁸ CCUE/Marcus, pp. 46-49.

1 CCUE proposes that the Commission reject SDG&E's supposed "stodgy" reliance on
2 traditional methodologies, and require SDG&E to begin implementing use of Picarro or
3 comparable new technologies.³⁹ Any SB 1371 regulatory requirements to be established
4 regarding best management practices or tools for leak detection, repair and/or quantification are
5 outside of the scope of the GRC and are currently being addressed in the Commission's R.15-01-
6 008. It would be beyond the scope of this proceeding for the Commission to impose any specific
7 use of technologies or methodologies for leak management practices when those requirements
8 are to be established by the Rulemaking.

9 **V. CONCLUSION**

10 While maintaining our disagreement with ORA's reduced recommendation for
11 Environmental Compliance, we incorporate the other portions of ORA's analysis and the self-
12 corrected item related to NERBA O&M. Accordingly, SDG&E can support and requests a total
13 O&M forecast of \$9.133 million, which is \$140K less than my original forecast of \$9.273
14 million. I disagree entirely with FEA's proposed reduction to the NERBA O&M forecast. In
15 addition, EDF's recommendation to balance all leak related costs or to alternatively hold the
16 GRC open until R.15-01-008 concludes, should be rejected as unworkable and premature.
17 Furthermore, CCUE's recommendation to balance all leak related costs or to create a mechanism
18 to allow funding mid-cycle, and its proposal to use specific technologies for leak detection,
19 should also be rejected as unworkable and premature.

20 This concludes my prepared rebuttal testimony.

³⁹ CCUE/Marcus, p. 37, lines 8-10.

APPENDIX A

RESPONSE TO FEA-SDG&E-DR-02, QUESTION 7

**FEA DATA REQUEST
FEA-SDG&E-DR-02
SDG&E 2016 GRC – A.14-11-003
SDG&E RESPONSE
DATE RECEIVED: APRIL 21, 2015
DATE RESPONDED: MAY 6, 2015**

FEA 02 - 7. Refer to the chart on page RSP-7 of Exhibit SDG&E-18 and provide the calculations supporting each of the 2016 cost amounts included in the table, including any documents supporting the Company's estimate.

SDG&E Response:

This information is contained in the workpapers of: R. Scott Pearson (Exhibit SDG&E-18-WP) for 1EV000.001 and 1EV000.002; James Carl Seifert (Exhibit SDG&E-17-CWP, Page 29 of 109) for Budget Code 703; and, John L. Dagg (Exhibit SDG&E-05-WP) for 1GT001.000.

NERBA Item	2016 Cost (\$000)	Base Year Spend	Incremental Increase	Supplemental Work Paper Detailing Incremental Increase
AB32 Administrative Fees – Electric	\$310	\$223	\$87	SDG&E-18-WP, Page 42 of 132
AB32 Administrative Fees - Gas	\$560	\$560	\$0	N/A
Subpart W	\$3	\$3	\$0	N/A
PCB Phase Out	\$75	\$0	\$75	SDG&E-18-WP, Pages 48 of 132
MS4 – O&M	\$19	\$0	\$19	SDG&E-18-WP, Pages 46-47 of 132
MS4 – Capital*	\$6,348	\$0	\$6,348	SDG&E-17-CWP, Page 29 of 109
LDAR**	\$42	\$0	\$42	SDG&E-18-WP, Pages 43-45 of 132
LDAR**	\$74 \$42	\$0	\$74 \$42	SDG&E-05-WP, Page 15 of 25
Gas Cap and Trade	N/A	Remove from NERBA		

* See also the response to question FEA 02 – Q30 for documents supporting the company's estimate.

** For the LDAR estimates, the incremental O&M of \$42K listed in Scott Pearson's testimony (SDG&E-18, Pages RSP-7 to RSP-8) and workpapers (SDG&E-18-WP, Page 36-37 of 132) was included in error and should be removed. The 2016 incremental O&M forecast amount of \$74K appearing in John Dagg's (SDG&E-05) testimony is an appropriate NERBA item; however, the forecast should have reflected \$42K (as supported by the supplemental workpaper for LDAR shown on SDG&E-18-WP, Pages 43-45 of 132) instead of \$74K.