**SOUTHERN CALIFORNIA GAS COMPANY AND
SAN DIEGO GAS & ELECTRIC COMPANY**

APPLICATION OF SOUTHERN CALIFORNIA GAS COMPANY AND SAN DIEGO GAS & ELECTRIC COMPANY FOR AUTHORITY TO ESTABLISH A GAS RULES AND REGULATIONS MEMORANDUM ACCOUNT (A.22-05-005)

DATA REQUEST SCGC-01

**RECEIVED: JULY 1, 2022
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Question 1.1:

1.1 At page 2, SoCalGas/SDG&E's witness Travis Sera describes in his testimony that MAOP reconfirmation is required for approximately 150 miles of pipeline segments not in the scope of the Pipeline Safety Enhancement Plan, but that SoCalGas/SDG&E generally expect the majority of miles will be reconfirmed through pressure testing while the remainder will be reconfirmed through replacements.

1.1.1. In making its request for the GRRMA, is SoCalGas/SDG&E claiming that the costs they expect to incur in meeting the new PHMSA regulations are somehow different in nature than the costs that SoCalGas/SDG&E included in their general rate case application, A.17-10-007?

1.1.2. If the answer to the previous question is "yes," please describe in detail how the types of costs that would be expected to be incurred in response to the new PHMSA regulations would differ from the types of costs that SoCalGas/SDG&E included in A.17-10-007.

Response to Question 1.1.1

Yes.

Response to Question 1.1.2

Please see the Prepared Testimony of Travis T. Sera at p. 1, line 22, through p. 2, line 10; p. 2, line 22, through p. 3, line 9; and the Prepared Supplemental Testimony of Ronn Gonzalez, Travis T. Sera, and Rae Marie Yu at p. 12, lines 10-17; and p. 13, lines 10-16; for details of the activities and their related costs that SoCalGas and SDG&E expect to incur in response to the Pipeline and Hazardous Materials Safety Administration's ("PHMSA's") new regulations on Pipeline Safety: Safety of Gas Transmission and Gathering Pipelines ("GTGS Rulemaking"): Maximum Allowable Operating Pressure ("MAOP") Reconfirmation, Expansion of assessment requirements, and Other Related Amendments ("Gas Transmission Safety ("GTS") Rule Part 1" or "Part 1") that are incremental to the costs that SoCalGas and SDG&E included in their Test Year ("TY") 2019 General Rate Cases ("GRCs").[1]

Furthermore, as noted in the Application, the amendments and the compliance costs associated with the regulatory updates from PHMSA's GTGS Rulemaking were not reasonably knowable at

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[1] A.17-10-008 and A.17-10-007, respectively.

the time Applicants filed their TY 2019 GRC applications for which, in both SoCalGas' and SDG&E's respective Applications, they acknowledged that cost drivers relating to PHMSA's Notice of Proposed Rulemaking ("NPRM") for *Pipeline Safety: Safety of Gas Transmission and Gathering Pipelines*, issued on April 8, 2016,[2] could not be defined with specificity,[3] and as such were not included.

[2] The NPRM issued by PHMSA on April 8, 2016 gave rise to the GTGS Rulemaking. *See* Docket No. PHMSA–2011–0023; available at https://www.govinfo.gov/content/pkg/FR-2016-04-08/pdf/2016-06382.pdf.

[3] Application at 10. *See also* SoCalGas 2019 GRC App., Exh. SCG-14 at MTM-19 (Direct Testimony of Maria T. Martinez dated Oct. 6, 2017); available at https://www.socalgas.com/regulatory/documents/a-17-10-008/SCG-14%20Martinez%20Prepared%20Direct%20Testimony.pdf, and SDG&E 2019 GRC App., Exh. SDG&E-11 at MTM-15 to MTM-16 (Direct Testimony of Maria T. Martinez dated Oct. 6, 2017); available at https://www.sdge.com/sites/default/files/SDG%2526E-11%2520Direct%2520Testimony%2520of%2520Maria%2520Martinez%2520-%2520TIMP-DIMP.pdf.

<u>Question 1.2:</u>

1.2. At page 3, witness Sera states he expects an additional GTS rule will be published by June 2022 with compliance obligations starting in 2023 that require the completion of surveys to identify coating damage, remediation of any coating damage, completion of surveys to identify anomalies in cathodic protection, remediation of any such anomalies, periodic interference current survey program and remediation of any associated problems.

- 1.2.1. In making its request for the GRRMA, is SoCalGas/SDG&E claiming that the costs they expect to incur in meeting the new additional GTS rule are somehow different in nature than the costs that SoCalGas/SDG&E included in their general rate case application, A.17-10-007?
- 1.2.2. If the answer to the previous question is "yes," please describe in detail how the types of costs that would be expected to be incurred in response to the new additional GTS rule would differ from the types of costs that SoCalGas/SDG&E included in A.17-10-007.

<u>Response to Question 1.2.1</u>

Yes.

<u>Response to Question 1.2.2</u>

Please see the Prepared Testimony of Travis T. Sera at p. 3, line 11, through p. 4, line 10, for details of the activities and their related costs that SoCalGas and SDG&E anticipate to incur as a result of the GTS Rule Part 2 at this time, which is incremental to the costs that SoCalGas and SDG&E included in their TY 2019 GRC Application. SoCalGas and SDG&E expect the GTS Rule Part 2 to expand the current requirements of 49 C.F.R. Part 192. For instance, based on the proposed changes to 49 C.F.R. §§ 192.319, 192.461, and 192.465 as presented by PHMSA in the Notice of Proposed Rulemaking for *Pipeline Safety: Safety of Gas Transmission and Gathering Pipelines* issued April 8, 2016 ("NPRM"),[4] the final GTS Rule Part 2 may introduce survey and related remediation requirements that are not currently found in 49 C.F.R. Part 192.[5] While

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[4] *See* Docket No. PHMSA–2011–0023; available at https://www.govinfo.gov/content/pkg/FR-2016-04-08/pdf/2016-06382.pdf.

[5] Based on PHMSA's latest update on June 27, 2022, GTS Rule Part 2 is anticipated to be published in July 2022. *See* PHMSA's PIPES Act Webchart, https://www.phmsa.dot.gov/sites/phmsa.dot.gov/files/2022-06/6.24.22%20PIPES%20Act%20Website%20Chart.pdf.

SoCalGas and SDG&E may perform similar pipeline activities, such activities have not been categorically required and costs included in the TY 2019 GRC Application were based on internally established standards that will be updated upon issuance of the GTS Rule Part 2.

Furthermore, as noted in the Application, the amendments and the compliance costs associated with the regulatory updates from PHMSA's GTGS Rulemaking were not reasonably knowable at the time Applicants filed their TY 2019 GRC applications where, in both SoCalGas and SDG&E's respective Applications, they acknowledged that cost drivers relating to the NPRM could not be defined with specificity and as such were not included.[6]

[6] Application at 10. *See also* SoCalGas 2019 GRC App., Exh. SCG-14 at MTM-19 (Direct Testimony of Maria T. Martinez dated Oct. 6, 2017); available at https://www.socalgas.com/regulatory/documents/a-17-10-008/SCG-14%20Martinez%20Prepared%20Direct%20Testimony.pdf, and SDG&E 2019 GRC App., Exh. SDG&E-11 at MTM-15 to MTM-16 (Direct Testimony of Maria T. Martinez dated Oct. 6, 2017); available at https://www.sdge.com/sites/default/files/SDG%2526E-11%2520Direct%2520Testimony%2520of%2520Maria%2520Martinez%2520-%2520TIMP-DIMP.pdf.

<u>Question 1.3:</u>

1.3. On page 4, witness Sera describes in his testimony that the new valve rule is expected to take effect no later than April 10, 2023, which will require the installation of rupture mitigation valves on a variety of transmission lines capable of meeting certain performance standards. The valve rule also requires updates to existing emergency response procedures.

- 1.3.1. In making its request for the GRRMA, is SoCalGas/SDG&E claiming that the costs they expect to incur in meeting the new valve rule are somehow different in nature than the costs that SoCalGas/SDG&E included in their general rate case application, A.17-10-007?
- 1.3.2. If the answer to the previous question is "yes," please describe in detail how the types of costs that would be expected to be incurred in response to the new valve rule would differ from the types of costs that SoCalGas/SDG&E included in A.17-10-007.

<u>Response to Question 1.3.1</u>

Yes.

<u>Response to Question 1.3.2</u>

Please see the Prepared Testimony of Travis T. Sera at p. 5, line 1, through p. 7, line 12; and the Prepared Supplemental Testimony of Ronn Gonzalez, Travis T. Sera, and Rae Marie Yu at p. 14, line 7 through p. 15, line 5, for details of the activities and their related costs that SoCalGas and SDG&E expect to incur in response to PHMSA's new rule titled *Pipeline Safety: Valve Installation and Minimum Rupture Detection Standards* ("Valve Rule"), that are incremental to the costs that SoCalGas and SDG&E included in their TY 2019 GRCs.

<u>Question 1.4:</u>

1.4. In D.19-09-051, the Commission adopted a post test year mechanism for SoCalGas/SDG&E that included a Z-factor mechanism. The Z-factor mechanism is described at page 711 of that decision as follows:

> The Z-Factor mechanism uses a series of eight criteria outlined in D.94-06-011 to identify exogenous cost changes that qualify for rate adjustments prior to the next GRC test year if all eight criteria are met. Rate adjustments are allowed for only the portion of Z-Factor costs not already contained in the annual revenue requirement and only for costs that exceed a $5 million deductible per event. No changes are being proposed to the current Z-Factor mechanism that is in place. We deem the request reasonable and find that SDG&E and SoCalGas should be authorized to continue their separate Z-Factor memorandum account procedure. Applicants are to notify the Commission's Executive Director by letter in case of a Z-Factor event and provide all information and relevant details surrounding the event. Applicants may then file an application for a revenue requirement supplement if the Z-Factor event exceeds $5 million.

1.4.1. In making its request for the GRRMA, is SoCalGas/SDG&E claiming that the Z-factor mechanism adopted in D.19-09-051 and reflected in SoCalGas's tariff at Preliminary Statement Part VI, Memorandum Accounts, Z Factor Account (ZFA), does not apply to the types of costs that SoCalGas/SDG&E state (above) will be recorded in this account?

1.4.2. If the answer to the previous question is "yes," please explain in detail why each of the types of costs that SoCalGas/SDG&E expects to book into the GRRMA could not be booked into a Z-factor memorandum account.

1.4.3. If SoCalGas/SDG&E agree that the ZFA apply to the costs described in their application for the GRRMA account, please explain in detail why SoCalGas/SDG&E feel it is appropriate to request that an additional memorandum account be established.

Response to Question 1.4.1

Yes, SoCalGas and SDG&E claim that the Z-factor mechanism adopted in D.19-09-051 does not apply to the costs to be recorded in the GRRMA.

Response to Question 1.4.2

D.94-06-011 laid out nine (9) criteria where all must be met in order for costs to qualify for the Z-factor mechanism.[7] The costs presented in A.22-05-005 and proposed to be recorded in the GRRMA do not meet at least the 4th, 5th, and 9th factors, as explained below.

4th Factor: Are the costs a normal part of doing business?

Yes. In D.94-06-011, the Commission noted that "to the extent that costs at issue are simply normal business costs, the mere fact that they are increasing does not make them eligible for Z factor treatment…Across the board changes in tax laws, etc. affect all companies as part of the normal cost of doing business, and therefore would not be considered Z factors."[8] PHMSA's amendments (referred to as GTS Rule Part 1, GTS Rule Part 2, and Valve Rule in A.22-05-005) apply to all natural gas pipeline operators and impact their normal cost of doing business. As such, the incremental costs that are being incurred as a result of these amendments are not eligible for Z factor treatment because they increase the normal cost of doing business.

The Commission further reasoned in D.19-09-051 that "[a] key element in a Z-Factor event is that the event is unpredictable and occurs after base rates have been set and there is nothing that differentiates the TY from the attrition years insofar as the possible occurrence of a Z-Factor event."[9] These new regulations were not unpredictable. As indicated in their TY 2019 GRC,[10] SoCalGas and SDG&E were aware of the plans to enact the new regulations. At the time of filing their 2019 GRC applications, these regulations were neither effective nor finalized. Thus,

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[7] D.05-03-023 removed criterion six of the original nine criteria laid out in D.94-06-011 as it no longer applied.
[8] 55 CPUC 2nd 1, 37.
[9] *Id*. at 38.
[10] SoCalGas 2019 GRC App., Exh. SCG-14 at MTM-19 (Direct Testimony of Maria T. Martinez dated Oct. 6, 2017); available at https://www.socalgas.com/regulatory/documents/a-17-10-008/SCG-14%20Martinez%20Prepared%20Direct%20Testimony.pdf, and SDG&E 2019 GRC App., Exh. SDG&E-11 at MTM-15 to MTM-16 (Direct Testimony of Maria T. Martinez dated Oct. 6, 2017); available at https://www.sdge.com/sites/default/files/SDG%2526E-11%2520Direct%2520Testimony%2520of%2520Maria%2520Martinez%2520-%2520TIMP-DIMP.pdf.

SoCalGas and SDG&E filed a separate application, i.e., A.22-05-005 (originally A.21-05-010), when the details of these new regulations were finalized to request a cost recovery mechanism to have the opportunity to seek recovery of incremental costs incurred upon a reasonableness review. Therefore, because applicants do not meet the 4th factor, the Z-Factor Account would not be available for tracking costs.

5th Factor: Does the event have a disproportionate impact on utility?

No. The costs do not have a disproportionate impact on SoCalGas and SDG&E because PHMSA's amendments equally impact all natural gas pipeline operators. Therefore, because Applicants do not meet the 5th factor, the Z-Factor Account would also not be available for tracking costs.

9th Factor: Are the costs proposed for Z factor treatment reasonable?

This factor is inapplicable because SoCalGas and SDG&E are only asking for a memorandum account to record these costs, and their reasonableness would only be determined after costs they have been incurred and presented to the Commission for review.

Therefore, because Applicants do not meet at least three of the above stated factors, they are not eligible to use the Z-Factor Account.

<u>Response to Question 1.4.3</u>

Not applicable.

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Question 1.5:

1.5. In D.21-05-003, the Commission extended SoCalGas/SDG&E’s post test year mechanism to the years 2022 and 2023. In making its request for the GRRMA, is SoCalGas/SDG&E claiming that D.21-05-003 did not extend the Z-factor mechanism included in the post test year mechanism adopted in D.19-09-051 to the years 2022 and 2023?

Response

SoCalGas and SDG&E are not claiming that D.21-05-003 did not extend the Z-factor mechanism included in the post test year mechanism adopted in D.19-09-051 to the years 2022 and 2023.