**APPLICATION OF SOUTHERN CALIFORNIA GAS COMPANY &
SAN DIEGO GAS & ELECTRIC COMPANY FOR AUTHORITY TO REVISE THEIR
NATURAL GAS RATES AND IMPLEMENT STORAGE PROPOSALS EFFECTIVE
JANUARY 1, 2020 IN THE TRIENNIAL COST ALLOCATION PROCEEDING**

(A.18-07-024)

(DATA REQUEST CAL ADVOCATES-DR-010)

DATA RECEIVED: 10-30-18

DATE RESPONDED: 11-13-18

QUESTION 1:

In response to the Public Advocates Office's Data Request Cal-Adv-06 Q.2(b), the Applicants provided electronic copies of workpapers from Applicants' prior TCAPs in Excel format, with the file names: (1) 2013 LRMC studies; (2) 2016 LRMC studies; and (3) 2020 LRMC studies. Each Long Run Marginal Cost (LRMC) study file contains the cost calculations and inputs to derive the marginal customer costs, distribution costs, and O&M loaders of SoCalGas. This question pertains specifically to the LRMC customer costs presented in each of the three study files. For purposes of this question, only the relevant portions of the customer files are reproduced below.

The first table is from the 2013 LRMC Study based on the Rental Method and shows the calculation of the total annualized marginal investment (in 2013$/customer) for the different classes of Core Residential. That is, the first table presents the LRMC Cost for the single detached home, multi family home, two categories of master meter (i.e, small & large), and the total or average for the Residential customer. Line 1 of the table shows the 2010 number of customers under each category of Residential. Lines 2 through 6 present each of the components of marginal investment costs in 2013$ per customer, namely:

(a) for the meter and house regulator; (b) for the service lines; and (c) for Exclusive use facilities, under each type of residential customer. Lines 7 through 10 present each of the applicable weighted Real Economic Carrying Cost (RECC) factors used by SoCalGas to annualize the Service line Regulator and Meter (SRM) capital costs. Lines 11 through 14 present the annualized marginal investment cost in $/customer which results from applying the said weighted RECC factors to the above marginal investment costs. And lastly, on line 15 is the sum of the annualized marginal investment cost for the three components (a) through (c) described above.

The second table is from the 2016 LRMC Study while the third table is from the 2020 LRMC Study. The layout of both tables is similar to the first table's. From each of these tables, the Public Advocates Office notes an increasing trend in the percentage portion of service lines in the total marginal investment cost (in $/customer) for the Residential customers. The 2013 LRMC Study shows that service lines (see line 4) are 64% of the total marginal investment (see line 6) while meter and house regulator (see line 3) comprise 36% of the total marginal investment cost. The 2016 LRMC Study shows that service lines (see line 19) have increased to now a higher 73% of the total marginal investment cost (see line 21), while meter and house regulator (see line 18) comprise a lower 27% of the total marginal investment cost. The 2020 LRMC Study shows that service lines (see line 34) have further increased to 84% of the total

marginal investment cost (see line 36) while meter and house regulator (see line 33) have further been reduced to comprise only 16% of the total marginal investment cost. To summarize, over the ten-year period covered by the three LRMC studies, the percentages of service line cost are notably in a declining trend as a component of marginal investment for the Residential customer cost calculation from 64% to 84%, while the meter and house regulators are going in the opposite direction from 36% to 16%.

Please respond to the following:

(a) Please explain in detail the reason/s for the observed trend of the service line cost as a component of marginal investment as noted above, including any change in the methodologies for the cost calculation or sampling methods, or any other changes made by SoCalGas that impacts the way service line costs are estimated.

(b) Please explain in detail whether, and if so how, the recent US tax law changes (i.e., the federal Tax Cut and Jobs Act which lowered the corporate tax rate from 35% to 21% effective February 1, 2018) are reflected in the 2020 LRMC Study, in contrast to the previous 2013 and 2016 LRMC studies.

(c) Please confirm that the capital cost detail for the service line in the 2016 LRMC Study is found in the tab “service cost detail,” and the capital cost detail for the service line in the 2020 LRMC Study is also found in the tab “service cost detail” in the electronic copies of these LRMC studies.

(d) Please explain whether the capital cost detail for the service line is not included in the copy of the 2013 LRMC Study provided to the Public Advocates Office, as there is no “service cost detail” tab in the 2013 LRMC Study, or if located elsewhere, please identify and provide a reference to the location in the study. Otherwise, please provide the capital cost detail for the service line in the 2013 LRMC Study in Excel format.

(e) Please confirm that the capital cost detail for the meter and house regulator in the 2016 LRMC Study is found in the tab “Meter cost detail,” and the capital cost detail for the same in the 2020 LRMC Study is also found in the tab “Meter cost detail” in the electronic copies of these LRMC studies.

(f) Please explain whether the capital cost detail for the meter and house regulator is not included in the copy of the 2013 LRMC Study provided to the Public Advocates Office, as there is no “Meter cost detail” tab in the 2013 LRMC Study, or if located elsewhere, please identify and provide a reference to the location in the study. Otherwise, please provide the

capital cost detail for the meter and house regulator in the 2013 LRMC Study in Excel format.

(g) Please explain in detail the trend in the weighted RECCs in use in the 2013 through 2020 LRMC studies for purposes of the meter/house regulator and service lines.

	TABLE xx - LRMC Customer Cost/Rental Method							
	v11-1-2011							
				Core				
				Residential				
				Single	Multi	Master Meter		Residential
				Family (Detached homes)	Family	Small (up to 100,000 therms/year)	Large (100,001 therms per year and greater)	Total or Avg.
	SCG 2013 TCAP							
1	2010 Number of Customers			3,572,881	1,632,925	121,143	54	5,327,003
2	Marginal Investment: 2013 $/Customer							
3		Meter & House Reg		$488.49	$273.44	$2,735.36	$27,310.05	$473.94
4		Service Lines		$777.43	$869.60	$2,057.98	$28,022.59	$835.08
5		Exclusive Use Facilities		$0.00	$0.00	$0.00	$0.00	$0.00
6		Total		$1,265.92	$1,143.04	$4,793.33	$55,332.64	$1,309.02
7	Weighted RECC factors used to annualize SRM capital costs							
8		Meter & House Reg		9.46%	9.41%	9.51%	9.58%	9.45%
9		Service Lines		8.94%	8.94%	8.94%	8.94%	8.94%
10		Exclusive Use						
11	Annualized Marginal Investment: $/Cust.							
12		Meter & House Reg		$46.19	$25.72	$260.22	$2,614.99	$44.79
13		Service Lines		$69.52	$77.76	$184.03	$2,505.92	$74.68
14		Exclusive Use Facilities		$0.00	$0.00	$0.00	$0.00	$0.00
15	Total Annualized Marginal Investment: 2013			$115.71	$103.49	$444.25	$5,120.91	$119.47

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	SCG 2016 TCAP Phase II						
16	2013 Number of Customers		3,622,567	1,679,697	120,655	56	5,422,975
17	Marginal Investment: 2013 $/Customer						
18		Meter & House Reg	$389.12	$266.41	$1,645.50	$16,562.72	$379.23
19		Service Lines	$889.47	$1,213.40	$2,009.70	$31,036.06	$1,015.04
20		Exclusive Use Facilities	$0.00	$0.00	$0.00	$0.00	$0.00
21		Total	$1,278.58	$1,479.81	$3,655.21	$47,598.78	$1,394.27
22	Weighted RECC factors used to annualize SRM capital costs						
23		Meter & House Reg	9.25%	9.18%	9.37%	9.45%	9.25%
24		Service Lines	8.57%	8.57%	8.57%	8.57%	8.57%
25		Exclusive Use					
26	Annualized Marginal Investment: $/Cust.						
27		Meter & House Reg	$36.00	$24.45	$154.11	$1,565.09	$35.06
28		Service Lines	$76.18	$103.93	$172.13	$2,658.27	$86.94
29		Exclusive Use Facilities	$0.00	$0.00	$0.00	$0.00	$0.00
30	Total Annualized Marginal Investment: 2013		$112.18	$128.38	$326.24	$4,223.35	$122.00
	SCG 2020 TCAP						
31	2016 Number of Customers		3,674,386	1,721,561	120,217	49	5,516,213
32	Marginal Investment: 2016 $/Customer						
33		Meter & House Reg	$378.33	$209.17	$1,805.27	$19,464.95	$356.80
34		Service Lines	$1,773.76	$1,773.65	$9,356.02	$130,050.51	$1,940.10
35		Exclusive Use Facilities	$0.00	$0.00	$0.00	$0.00	$0.00
36		Total	$2,152.09	$1,982.82	$11,161.30	$149,515.46	$2,296.91
37	Weighted RECC factors used to annualize SRM capital costs						
38		Meter & House Reg	9.58%	9.55%	9.52%	9.44%	9.62%
39		Service Lines	7.80%	7.80%	7.80%	7.80%	7.80%
40		Exclusive Use					
41	Annualized Marginal Investment: $/Cust.						
42		Meter & House Reg	$36.24	$19.98	$171.82	$1,836.75	$34.32
43		Service Lines	$138.36	$138.35	$729.80	$10,144.39	$151.33
44		Exclusive Use Facilities	$0.00	$0.00	$0.00	$0.00	$0.00
45	Total Annualized Marginal Investment: 2020		$174.60	$158.33	$901.62	$11,981.14	$185.65

Source: Tab “cust MUC,” SCG LRMC Customer Cost excel file in 2013 LRMC Study, 2016 LRMC Study, and 2020 LRMC Study provided in Response to Cal-Adv-06 Q.2(b).

RESPONSE 1:

SoCalGas objects to the question (and applicable subparts) as overly burdensome, irrelevant, and out of scope of Applicants' prepared material to the extent the question seeks an analysis or explanation of 2013 TCAP data itself. While the 2013 TCAP LRMC model was provided to Cal Advocates per their data request, SoCalGas did not analyze or rely on 2013 TCAP data or modeling inputs and outputs to prepare its 2020 LRMC study (although SoCalGas explained that the LRMC methodology itself is consistent with prior TCAPs (see Cal PA-DR-006, Response 2(a)). Subject to and without waiving these objections, Applicants respond as follows.

a) Notwithstanding and subject to the objection stated above, SoCalGas responds to the reasons for long-run marginal cost changes, including the service line costs, between the 2016 and 2020 TCAPs. In preparing 2020 LRMC cost studies, SoCalGas did not review/analyze the LRMC cost estimates in the 2013 TCAP.

The observed trend of the service line cost, relative to meter cost, between the 2016 TCAP and the 2020 TCAP increased as a result of paving costs that have gone up over the years along with additional backfill requirements driven by new regulations, while meter costs decreased as a result of better pricing associated with larger number of meters and regulators purchased for the AMI project and lower labor costs due to the meters coming with an AMI device already installed.

(b) The recent US tax law changes (i.e., the federal Tax Cut and Jobs Act which lowered the corporate tax rate from 35% to 21% effective February 1, 2018) are not reflected in the 2020 LRMC Study. The 2020 LRMC studies utilized 2016 data including the then-effective tax laws. The recent US tax law changes became effective in 2018.

(c) Confirmed.

(d) Notwithstanding and subject to the stated objection provided above, and without verifying its contents, Applicants are providing the following, believed to pertain to the 2013 LRMC study. See attachment. The capital cost detail for the service line was not included in the copy of the 2013 LRMC Study previously provided.


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(e) Confirmed.

(f) Notwithstanding and subject to the stated objection provided above, and without verifying its contents, Applicants are providing the following, believed to pertain to the 2013 LRMC study. See attachment. The capital cost detail for the meter and house regulator was not included in the copy of the 2013 LRMC Study previously provided.


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(g) Notwithstanding and subject to the objection stated above, SoCalGas responds to the reasons for long-run marginal cost changes, including the RECC factors between the 2016 and 2020 TCAPs.

RECC factors are a function of many inputs related to a specific Asset type. Changes in authorized Rate of Return (ROR), Book Life, Tax life and Salvage Value all drove changes in RECC factors between the 2016 and 2020 TCAP applications.

Between the 2016 and 20120 TCAPs, changes in Book Lives were the primary drivers of changes in RECC factors. Where book lives increased RECC factors decreased, and where book lives decreased RECC factors increased. Holding all other factors constant, if the Book Life of the asset increases, the RECC would fall. With a longer book life, customers pay a smaller amount of depreciation each year.

Increasing the Salvage Percent would have a downward impact on RECC (holding all other factors constant) as customers would contribute less for remediation of the asset (if the value is negative) or receive more in salvage benefits (if the value is positive). In this case, a negative salvage value represents the amount above the purchase price that is collected in rates to cover the expected remediation costs of removing the asset after its useful life.

The increase in Federal Tax life from 15 years to 20 years between 2010 and 2013 put upward pressure on the RECC factors (holding all else constant), by reducing deferred tax liabilities, which increases rate base. A larger rate base each your increases items related to return on capital. Additionally, as the tax life is increased, the tax related depreciation expense would be less in each year, causing the income tax expense to be larger each year.

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QUESTION 2:

The Public Advocates Office notes a difference in the sample sizes used in the 2016 LRMC study and the 2020 LRMC study. For instance, the 2016 LRMC Study had a sample size of 62,981 for single family while the 2020 LRMC Study had a sample size of 82,389 for single family. These sample sizes are shown in the tab "Meter cost detail" for the calculation of weighted average meter and regulator CAPEX/customer. Further, in the same tab, "Meter cost detail," the Public Advocates Office notes that the Code S60 Rate SF had a sample size of 790, an average labor cost of $1,270.50/meter and an average $/meter cost of $2,101.37 in the 2016 LRMC Study. On the other hand, the same Code S60 Rate SF had a sample size of 985, an average labor cost of $1,437.05/meter and average $/meter cost of $729.26 in the 2020 LRMC Study. The change in the average $/meter cost is significant between the two LRMC studies for Code S60. A similar observation in the 2016 LRMC can be made for Code 61 Rate SF with a sample size of only 31, an average labor cost of $1,270.50/meter and a substantially higher average $/meter cost of $3,810.20. On the other hand, the same Code 61 Rate SF had a sample size of 41, an average labor cost of $3,386.05/meter and an average $/meter cost of $729.26 in the 2020 LRMC Study. The data for these sample observations are summarized below:

(1) 2016 LRMC Study File
Calculation of Weighted Average Meter & Regulator CAPEX/ Customer

Code	Rate	Meter Size	Above Std	Sam ple Size	avg labor $/m eter	avg $/m eter	avg $/regulator
S10	SF	1	0	48,499	$146.51	$75.57	$18.31
30	SF	3	0	9,907	$188.67	$142.86	$18.31
31	SF	3	1	33	$183.14	$384.71	$275.00
S40	SF	4	0	3,525	$178.21	$648.17	$215.60
41	SF	4	1	51	$178.21	$2,327.46	$260.17
S50	SF	5	0	17	$178.21	$648.17	$215.60
S60	SF	6	0	790	$1,270.50	$2,101.37	$215.60
61	SF	6	1	31	$1,270.50	$3,810.20	$255.46
S70	SF	7	0	3	$1,270.50	$2,101.37	$215.60
S80	SF	8	0	91	$1,270.50	$2,143.01	$257.66
81	SF	8	1	22	$1,270.50	$3,851.84	$636.94
S90	SF	9	0	3	$1,270.50	$2,143.01	$257.66
91	SF	9	1	5	$1,270.50	$3,851.84	$636.94
100	SF	10	1	4	$1,270.50	$4,493.89	$3,927.24
	tot SF			62,981			

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(2) 2020 LRMC Study File
Calculation of Weighted Average Meter & Regulator CAPEX/ Customer

Code	Rate	Meter Size (1)	Above Std (2)	custom ers (3)	avg labor $/m eter	avg $/m eter	avg $/regulator
S10	SF	1	0	44,606	$143.91	$47.02	$18.07
30	SF	3	0	30,792	$166.35	$123.97	$18.07
31	SF	3	1	19	$161.18	$427.15	$279.00
S40	SF	4	0	5,457	$171.25	$576.52	$219.00
41	SF	4	1	34	$2,120.25	$462.92	$278.00
S50	SF	5	0	282	$171.25	$576.52	$219.00
S60	SF	6	0	985	$1,437.05	$729.76	$219.00
61	SF	6	1	41	$3,386.05	$729.76	$279.00
S70	SF	7	0	3	$1,437.05	$729.76	$219.00
S80	SF	8	0	128	$1,437.05	$818.36	$280.00
81	SF	8	1	30	$3,386.05	$818.36	$640.00
S90	SF	9	0	7	$1,437.05	$818.36	$280.00
91	SF	9	1	4	$3,386.05	$818.36	$640.00
100	SF	10	1	1	$4,769.78	$4,433.19	$3,300.00
	tot SF			82,389			

Please respond to the following:

(a) Please confirm that “CAPEX” stands for “capital expenditures,” or if it does not, please state what it stands for.

(b) Please explain in detail how SoCalGas determines the appropriate sample size for purposes of its calculation of the average labor cost (in $/meter), the average $/meter, and the average $/regulator of the different customer meters, including how the sample size impacts the weighted average meter and regulator cost calculation.

(c) Please provide the corresponding sample size in the 2013 LRMC Study since the tab “Meter cost detail” was not included in the study.

(d) Please explain how SoCalGas calculates the average labor cost in $/meter and describe the sources of data for the calculation to arrive at the average labor cost.

(e) Please explain how SoCalGas calculates the average cost in $/meter and the average regulator cost in $/regulator and describe the sources of data for the calculation to arrive at the cost estimates for average cost of meter and regulators.

RESPONSE 2:

SoCalGas objects to the question (and applicable subparts) as overly burdensome, irrelevant, and out of scope of Applicants' prepared material to the extent the question seeks an analysis or explanation of 2013 TCAP data itself. While the 2013 TCAP LRMC model was provided to Cal Advocates per their data request, SoCalGas did not analyze or rely on 2013 TCAP data or modeling inputs and outputs to prepare its 2020 LRMC study (although SoCalGas explained that the LRMC methodology itself is consistent with prior TCAPs (see Cal PA-DR-006, Response 2(a)). Subject to and without waiving these objections, Applicants respond as follows.

(a) Confirmed.

(b) In the 2020 TCAP, as well as in the 2016 TCAP, for calculating marginal customer-related costs for residential, core commercial and industrial customer classes, SoCalGas used all new customers (i.e., the population of new customers) added to SoCalGas' system during the then-recent prior five years (premises with initial gas service start). For all other rate classes, SoCalGas used all existing and new customers to ensure adequate number of observations. The Public Advocates Office's reference to "sample size" pertains to column titles in the 2016 TCAP file; however, the referenced column titles should not have contained the term "sample size" in them for the reasons just described. SoCalGas corrected this in the 2020 excel file.

(c) Notwithstanding and subject to the objection stated above, and without verifying its contents, please refer to the attachment provided in Response 1(f). The corresponding new customer population, not the sample size, in the 2013 LRMC Study is shown in the tab "Meter cost detail."

(d) The average labor cost in $/meter in the 2020 TCAP LRMC study inadvertently included labor and nonlabor charges. The average labor cost in $/meter in the 2016 LRMC study included labor charges only; nonlabor charges were included in the meter cost itself. However, the meter set assembly costs, which comprise both meter set costs and labor costs to install the meter sets are appropriately calculated in these two TCAPs.

Total Labor hours associated with new customers was divided by the total number of new meter sets installed to estimate the labor hours per meter.

(e) SoCalGas calculates the average cost in $/meter by taking the total number of meters purchased and dividing it by the total cost for the same meters based on meter size. The same

approach was followed for regulators. The data source is the Gas Engineering Department, Measurement Group.

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QUESTION 3:

The Public Advocates Office notes a dramatic difference in the number of new customers in the last 5 years as used in the 2016 LRMC study and the 2020 LRMC study for the calculation of the weighted average service line and service line replacement cost (in $/customer). For instance, the 2016 LRMC Study had a total of 37,038 new customers in the last 5 years for single family, and the 2020 LRMC Study had a total of 71,556 new customers in the last 5 years for single family. These sample sizes are shown in the tab "service cost detail."

The Public Advocates Office further notes a significantly higher New Business cost in $/ft and Replacement Cost in $/ft between the two LRMC studies. In addition, the values shown for average length in feet also appear to differ substantially between the two studies. These observations are shown below:

2016 LRMC Study File

Code	Rate	Pipe Diam ete r Inches	Pipe frac	Pipe Type	# New Customer s last 5 years	Avg Length feet	New Business $/ft	Replacem en t $/ft	Service Line CAPEX $/custom er	Replacem ent Service Line CAPEX $/custom er
0.5P	SF	0	12	P	34,195	44.7	$15.45	$61.16	**$691**	**$2,734**
0.75	SF	0	34	S	32	90.4	$117.05	$176.35	**$10,582**	**$15,943**
1P	SF	1	0	P	2,791	74.9	$29.72	$88.83	**$2,227**	**$6,654**
1S	SF	1	0	S	3	74.0	$127.41	$228.95	**$9,428**	**$16,942**
2P	SF	2	0	P	17	171.1	$31.10	$79.98	**$5,321**	**$13,685**
	Tot SF				37,038				**$818**	**$3,047**

2020 LRMC Study File

Code (1)	Rate	Pipe Diam ete r Inches	Pipe frac (2)	Pipe Type (3)	# New Custom er s last 5 years (4)	Avg Length feet (5)	New Business $/ft (6)	Replacem en t $/ft (6)	Service Line CAPEX $/custom er	Replacem ent Service Line CAPEX $/custom er
0.5P	SF	0	12	P	61,397	39.4	$91.55	$133.24	**$1,567**	**$5,254**
0.75	SF	0	34	S	96	30.0	$293.61	$404.07	**$1,567**	**$12,122**
1P	SF	1	0	P	9,975	57.4	$92.90	$164.92	**$1,567**	**$9,469**
1S	SF	1	0	S	44	8.5	$305.21	$515.37	**$1,567**	**$4,369**
2P	SF	2	0	P	44	274.6	$223.00	$291.44	**$1,567**	**$80,034**
	Tot SF				71,556				**$1,567**	**$5,897**

Please respond to the following:

(a) Please explain in detail the reasons for the differences observed above and provide supporting references.

(b) Please provide the corresponding 2013 LRMC Study; the tab "service cost detail" was not included in the response to Data Request Adv-06 Q.2(b).

(c) Please explain how SoCalGas calculated the cost of New Business in $/ft and the Replacement cost in $/ft for the service line and service line replacement cost.

(d) Please describe the sources of data for the calculation of New Business and Replacement Cost to arrive at the cost estimates for the weighted average service line and service line replacement cost.

(e) Please describe the source of data for the number of New Customers in the last 5 years used in each of the LRMC studies and provide supporting references.

RESPONSE 3:

SoCalGas objects to the question (and applicable subparts) as overly burdensome, irrelevant, and out of scope of Applicants' prepared material to the extent the question seeks an analysis or explanation of 2013 TCAP data itself. While the 2013 TCAP LRMC model was provided to Cal Advocates per their data request; however, SoCalGas did not analyze or rely on 2013 TCAP data or modeling inputs and outputs to prepare its 2020 LRMC study (although SoCalGas explained that the LRMC methodology itself is consistent with prior TCAPs (see Cal PA-DR-006, Response 2(a)). Subject to and without waiving these objections, Applicants respond as follows.

(a) The reasons for the differences in new customers observed above is the growth in new business residential service in recent years. For reasons for the observed cost differences, refer to response to Q1(a).

(b) Notwithstanding and subject to the objection stated above, please refer to the attachment provided in Response 1(d).

(c) SoCalGas calculated the cost of New Business in $/ft and the Replacement cost in $/ft using 2015-2017 New Business service line and Replacement service line cost data extracted by the Distribution Planning Department based on actual project costs. The Distribution Planning Department provided the cost data and the percentages by labor and nonlabor categories. Then, overhead rates, provided by the Accounting Group, were applied to these direct costs.

(d) The sources of data for the calculation of New Business and Replacement
Cost to arrive at the cost estimates for the weighted average service line and service line replacement costs were 2015 - 2017 recorded service line data and the overhead rates provided by the Accounting Group. 2015- 2017 data extracted by the Distribution Planning Group were based on actual projects and their underlying costs.

(e) The sources of data for the number of New Customers in the last 5 years
used in the 2016 and the 2020 TCAP LRMC studies were from the CIS mainframe billing system.