Application No: A.18-11-XXX
Exhibit No.:
Witness: P. Moersen

Application of Southern California Gas Company (U 904 G) and San Diego Gas & Electric Company (U 902 G) for Review of Costs Incurred in Executing Pipeline Safety Enhancement Plan	Application A.18-11-XXX

CHAPTER VII

DIRECT TESTIMONY OF PATRICK MOERSEN

(OVERHEADS)

ON BEHALF OF

SOUTHERN CALIFORNIA GAS COMPANY

AND

SAN DIEGO GAS & ELECTRIC COMPANY

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

November 13, 2018

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1   **I.   PURPOSE AND OVERVIEW OF TESTIMONY**

2   The purpose of my direct testimony on behalf of Southern California Gas Company

3   (SoCalGas) and San Diego Gas & Electric Company (SDG&E) is to explain the allocation of

4   company overheads to Pipeline Safety Enhancement Plan (PSEP) projects.

5   **II.   OVERHEADS**

6   The Capital and Operations and Maintenance (O&M) costs of completing a project

7   consist of both direct costs and indirect (or overhead) costs where the sum amounts to the fully-

8   loaded cost.

9   Direct costs are for those activities and services that support a specific project, such as

10   labor costs which include salaries of staff employees, and non-labor costs which includes

11   contract labor, purchased services, and materials required for a specific project.[1] These costs are

12   charged directly to the project since they are readily identifiable and can be directly traced.

13   Indirect costs are for those activities and services that are associated with direct costs—such as

14   payroll taxes and pension and benefits[2]—which benefit a project but are not directly charged.

15   Indirect costs are incorporated into the costs presented for review in this Application.

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[1] For PSEP, direct costs also include PSEP programmatic costs or PSEP General Management and Administration (GMA) costs. These PSEP GMAs are support costs that are not attributable to specific projects but are incurred to build out the foundational elements of PSEP and support the PSEP program, including the organization, departments, processes, and procedures, which support project-specific activities. GMAs are discussed in greater detail in Chapter V (Mejia) and Chapter VI (Tran).

[2] Total indirect costs applied to capital projects consist of: Overheads, Allowance for Funds Used During Construction (AFUDC), and Property Tax. AFUDC is the net cost for borrowed funds used for construction purposes plus a reasonable rate on other funds, such as equity. The calculation of AFUDC follows Federal Energy Regulatory Commission (FERC) Code of Federal Regulations found under item 17 of the Gas Plant Instruction of Part 201. Additionally, Resolution G-2739 grants SoCalGas a modification to the FERC AFUDC formula. Capitalization of property tax for both SDG&E and SoCalGas was ordered by the CPUC in Decision (D).13-05-010.

On a monthly basis, the Affiliate Billing and Costing teams at SoCalGas and SDG&E review overhead activity and set overhead rates that take into account the particular overhead's loading base,[3] pool activity,[4] and historical and budgeted data. Once reviewed and approved, overhead rates are input into the SAP accounting system. Through the accounting system, overhead rates are applied to Capital and O&M cost inputs monthly in accordance with its classification, i.e., company labor, contract labor, purchased services, and materials.

Because PSEP is an incremental project, only incremental overhead loaders are included in this proceeding for recovery. For example, overheads associated with incremental labor are included since they will proportionately increase as a result of SoCalGas and SDG&E PSEP activities. The following overheads are allocated to PSEP projects and included for recovery:

- **Payroll Tax** – represents SoCalGas and SDG&E's portion of required contributions to the state and federal governments for State Unemployment Insurance, Federal Unemployment Insurance, and Federal Retirement and Medical Insurance;
- **Vacation and Sick time** – represents costs paid by SoCalGas and SDG&E for employees' non-productive time, such as vacation and sick days, holidays, and jury duty;
- **Benefits (non-balanced only)**[5] – represents benefits such as medical and dental;
- **Workers' Compensation** – represents cost of expected payments to employees for work-related injuries, plus the cost of workers' compensation insurance premiums to cover claims over a certain dollar amount;

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[3] Loading base represents all the associated direct costs to which the overhead will be applied. For example, payroll tax will be applied to labor costs.
[4] Pool activity represents the actual direct costs of the overhead which are recorded to an account referred to as a pool.
[5] Non-balanced benefits exclude Pension and Post-Retirement Benefits Other Than Pensions (PBOPs) which are subject to separate balancing account treatment. Non-balanced benefits include employee benefits such as medical and dental.

- **Public Liability / Property Damage** – represents the cost of expected payments to third parties for liability and property damage claims submitted to SoCalGas and SDG&E plus the cost of insurance premiums;

- **Incentive Compensation Plan** – represents the incentive compensation plan costs paid to employees based on individual and company performance as compared to pre-established goals;

- **Purchasing** – represents costs related to the procurement activity in obtaining goods and services for SoCalGas and SDG&E;

- **Administrative and General** – represents the cost of administrative and general support provided by functional areas such as Accounting and Finance, Human Resources, Information Technology, and Tax; and

- **PSEP Insurance** – represents additional insurance obtained for PSEP work performed by third party contractors and allocated to PSEP Capital and O&M projects through a separate insurance overhead loader.[6]

III. PSEP INSURANCE COSTS

The PSEP-specific insurance policies under the Owner Controlled Insurance Program (OCIP), which is discussed further in Chapter VIII (Cayabyab), provides coverage specifically related to contractors working on various aspects of PSEP-related activities. No non-PSEP activities are covered by the OCIP. As OCIP costs are directly attributable to PSEP activities, accounting processes were developed to facilitate the appropriate accounting for the policy premium payments and subsequent allocation to specific PSEP projects. The following summarizes the accounting and allocation processes related to OCIP coverage.

As part of the OCIP allocation process, a specific overhead was created to load OCIP cost based on the contractor costs incurred on each project. Accounting procedures were implemented to record contractor costs to a specific cost element on existing and future PSEP

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[6] In accordance with D.16-12-063, included in the PSEP Insurance amount submitted for review in this proceeding are costs associated with projects submitted for review in A.14-12-016.

1 internal orders. The contractor costs incurred on each project provide the basis for allocation of

2 OCIP premiums (i.e., contractor costs incurred establish the "loading base"). OCIP overhead

3 cost pool (allocable costs) includes the applicable premium costs that are applied to PSEP project

4 internal orders. The process outlined below summarizes the steps related to the overhead pool

5 allocation.

6   The OCIP costs were incurred at Sempra Energy and subsequently billed to SoCalGas

7 and SDG&E. To calculate the billing an allocation percentage was provided to Sempra Energy

8 that was used to split the premium costs between SoCalGas and SDG&E. As the payment of

9 insurance premium costs are initially recorded as pre-paid insurance, the Financial Accounting

10 department established an amortization schedule for the pre-paid insurance account based on the

11 term of the policy. Based on the amortized cost, the Financial Accounting department records an

12 accounting entry for the monthly amortization of pre-paid insurance premiums. These recurring

13 journal entries, along with applicable service fees, provide the funding to the OCIP cost pool

14 which is subsequently allocated to specific PSEP projects as part of the monthly accounting close

15 process.

16   Additional detail regarding the OCIP costs by projects are available in the accompanying

17 workpapers.[7]

18   The incremental overheads discussed above, with totals provided below, are the only

19 overheads sought to be reviewed in this Application. SoCalGas and SDG&E are not seeking

20 recovery of non-incremental overheads that are currently recovered in base rates. Examples of

21 non-incremental overheads for which SoCalGas and SDG&E do not seek review in this

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[7] See Ch. VII (Moersen) workpapers.

proceeding include: Warehouse, Fleet, Shop, Small Tools, Supervision/Engineering, and

Department Overhead – Replacement.

Table 1
SoCalGas Overhead Costs ($000's)

SoCalGas	Capital	O&M	Total
Payroll Taxes	2,847	424	3,271
Vacation & Sick	4,395	645	5,040
Benefits (non-balanced)	5,500	810	6,310
Workers Compensation	505	69	574
Public Liability/ Property Damage	832	138	970
Incentive Compensation Plan	4,895	694	5,588
Purchasing	2,812	280	3,092
Administrative & General	7,742	0	7,742
PSEP Insurance	4,855	2,160	7,015
Total Overhead Costs[8]	**34,383**	**5,218**	**39,601**

Table 2
SDG&E Overhead Costs ($000's)

SDG&E	Capital	O&M	Total
Payroll Taxes	458	36	494
Vacation & Sick	731	55	786
Benefits (non-balanced)	891	67	958
Workers Compensation	66	4	70
Public Liability/ Property Damage	175	13	188
Incentive Compensation Plan	1,025	93	1,118
Purchasing	362	24	386
Administrative & General	3,116	26	3,142
PSEP Insurance	986	70	1,055
Total Overhead Costs[9]	**7,810**	**388**	**8,198**

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[8] The overhead costs shown in the SoCalGas table are reflective of overheads applied to direct costs—Labor and Non-Labor. Not included in the figures are overheads applied to projects by a journal entry.
[9] Total overhead costs shown in the SDG&E table are reflective of overheads applied to direct costs—Labor and Non-Labor. Not included in the figures are overheads applied to projects by a journal entry.

1   **IV.   CONCLUSION**

2   The overheads applied to PSEP are calculated and allocated reasonably. SoCalGas and

3   SDG&E request that the Commission find that SoCalGas and SDG&E have appropriately

4   applied overhead costs to the PSEP projects presented in this Application and approve those

5   costs for rate recovery.

6   This concludes my prepared Direct Testimony.

V.   WITNESS QUALIFICATIONS

My name is Patrick Moersen.   My business address is 555 W. Fifth Street, Los Angeles, CA 90013-1011. I am employed by Southern California Gas Company (SoCalGas) as the Financial Services Manager overseeing the rate base, depreciation, sundry billing and affiliate billing, and costing functions including overheads, in the SoCalGas Accounting Operations department.

I received a Bachelor of Science degree in Business with an emphasis in Finance from California State University of Northridge in 1981. I also received a Master of Business Administration with an emphasis in Finance from California Lutheran University in 1998.

I have been employed by SoCalGas in various positions and responsibilities since 1994. My experience has included positions in Internal Audit, Financial Planning, Accounts Payable, Treasury, Cash Management, and Asset and Project Accounting. My current responsibilities include managing the rate base and depreciation functions, affiliate billing and sundry billing, and costing function including overheads for SoCalGas.

I have previously testified before this Commission.