

Application: A.22-09-006  
Witness: Nasim Ahmed  
Marjorie Schmidt-Pines  
Chapter: 6

**PREPARED DIRECT TESTIMONY OF  
NASIM AHMED AND MARJORIE SCHMIDT-PINES  
ON BEHALF OF SOUTHERN CALIFORNIA GAS COMPANY  
(REGULATORY ACCOUNTING, COST RECOVERY,  
REVENUE REQUIREMENT, AND RATES)**

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

March 1, 2024

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1 **CHAPTER 6**

2 **PREPARED DIRECT TESTIMONY OF NASIM AHMED**  
3 **AND MARJORIE SCHMIDT-PINES**  
4 **(Regulatory Accounting, Cost Recovery, Revenue Requirement, and Rates)**

5 **I. PURPOSE**

6 The purpose of this chapter is to present Southern California Gas Company’s (SoCalGas)  
7 cost recovery proposal related to 1) the accounting treatment and recovery of costs associated  
8 with the Hydrogen Blending Demonstration Projects of SoCalGas (Projects) as described in  
9 Chapters 1 and 2, Direct Testimony of Blaine Waymire, and Decision (D.) 22-12-057, and 2) the  
10 request of SoCalGas to establish a balancing account. This chapter will also present SoCalGas’s  
11 revenue requirement associated with the Projects and provide the cost allocation method for the  
12 proposed balancing account.

13 **II. SOCALGAS REGULATORY ACCOUNTING AND COST RECOVERY**

14 SoCalGas proposes to establish the Hydrogen Blending Demonstration Project Balancing  
15 Account (HBDPBA). The HBDPBA will be an interest-bearing, two-way balancing account  
16 recorded on SoCalGas’s financial statements. The HBDPBA will consist of two subaccounts.  
17 The first subaccount will record the difference between the authorized funding in rates approved  
18 in the Amended Application and actual incremental operations and maintenance (O&M) costs,  
19 including applicable incremental overhead costs, associated with the Projects. The second  
20 subaccount will record SoCalGas’s allocation of costs associated with an independent research  
21 study to be conducted by an independent third-party, continued workshops with the opportunity  
22 for parties and community-based organizations (CBO) to seek compensation, and the other  
23 reports described in D.22-12-057. SoCalGas proposes to include the balance of the first  
24 subaccount of the HBDPBA in its annual Regulatory Accounts Balance update filing for  
25 amortization in gas transportation rates. At the completion of the independent research study and  
26 other reports, SoCalGas will request amortization of the second subaccount in its next General  
27 Rate Case (GRC) or other proceeding. At the end of the amortization period for each  
28 subaccount, SoCalGas will transfer any residual balance in the subaccounts of the HBDPBA to  
29 the Core Fixed Cost Account (CFCA) and Noncore Fixed Cost Account (NFCA) and eliminate  
30 the HBDPBA.

1 **III. SOCALGAS ILLUSTRATIVE REVENUE REQUIREMENT**

2 The forecasted revenue requirements are \$26.8 million and \$53.6 million for the Closed  
3 System Project and Open System Project, respectively, over the years 2025 through 2028. Since  
4 this proposal includes costs above and beyond those authorized by the California Public Utilities  
5 Commission (Commission or CPUC) in SoCalGas’s most recent General Rate Case, all costs  
6 associated with the Projects are incremental, and thus are additive to any currently authorized  
7 levels of revenue requirement.

8 **A. O&M COSTS**

9 Table NA-1 below summarizes the direct costs described in the testimonies of Blaine  
10 Waymire (Chapters 1 & 2).<sup>1</sup> These costs do not yet reflect the impact of loaders and escalation.

**Table NA-1: Direct Costs (in Millions)**

	<b>2025</b>	<b>2026</b>	<b>2027</b>	<b>2028</b>	<b>Total</b>
Closed System Project – UC Irvine	\$ 16.4	\$ 5.7	\$ 0.9	\$ 1.5	\$ 24.4
Open System Project – City of Orange Cove	\$ 34.4	\$ 11.7	\$ 1.0	\$ 1.4	\$ 48.4

11  
12 **B. OVERHEAD ALLOCATIONS**

13 Overhead allocations are directly associated with project costs and are used to account for  
14 costs that cannot be economically direct-charged, such as payroll taxes and administrative and  
15 general costs. Overhead allocations are added to project costs, consistent with those costs’  
16 classification as company labor, contract labor, or purchased services and materials. Overhead  
17 loaders used to develop the revenue requirement for the Projects are for illustrative purposes and  
18 subject to change. The overhead allocations in this application adhere to the methodology  
19 established by the Federal Energy Regulatory Commission (FERC)<sup>2</sup> and were derived using the

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<sup>1</sup> Prepared Direct Testimony of Blaine Waymire Chapter 1 & 2 at Table 6. References to “testimony” herein are to the prepared direct testimony served in support of this application, unless otherwise indicated.

<sup>2</sup> FERC guidelines reference the Statement of Federal Financial Accounting Standards 4: Managerial Cost Accounting Standards and Concepts.

1 same methodology used in SoCalGas’s 2019 GRC filing.<sup>3</sup> Only overhead allocations considered  
2 incremental to the Projects are applied in the determination of the revenue requirement.

3 **C. ESCALATION**

4 Escalation is applied to direct costs to properly account for inflation. SoCalGas applied  
5 the indices published in IHS Global Insight’s First Quarter 2023 Utility Cost Forecast for this  
6 application.

7 **D. TOTAL O&M COSTS**

8 Table NA-2 below summarizes the total loaded and escalated O&M costs.

**Table NA-2: Total O&M**  
*(In Millions includes escalation, overheads)*

	<b>2025</b>	<b>2026</b>	<b>2027</b>	<b>2028</b>	<b>Total</b>
Closed System Project – UC Irvine	\$ 17.1	\$ 6.1	\$ 1.2	\$ 1.6	\$ 26.0
Open System Project – City of Orange Cove	\$ 36.5	\$ 12.7	\$ 1.2	\$ 1.5	\$ 51.9

9  
10 **E. REVENUE REQUIREMENT**

11 The revenue requirement includes all incremental O&M expenditure including direct  
12 costs, overheads, and escalation. In addition to all incremental O&M expenditures, the revenue  
13 requirement includes other costs required to support the investment, working cash, and franchise  
14 fees & uncollectibles (FF&U).<sup>4</sup> The sections below cover these components in greater detail.

15 **1. O&M Expenses**

16 The loaded and escalated O&M expenses shown in Table SW-2 above are included as a  
17 component of the total revenue requirement.

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<sup>3</sup> Application (A.) 17-10-007/008 (cons.), Second Revised SoCalGas/SDG&E Direct Testimony of James Vanderhye (Shared Services & Shared Assets Billing, Segmentation & Capital Reassignments), Ex. SCG-34-2R/SDG&E-32-2R (April 6, 2018).

<sup>4</sup> The revenue requirement components and the rate base calculations are computed based on the same standard, Commission-approved methodology used in the 2019 GRC and other incremental applications.

1                                   **2. Working Cash**

2                   Working cash is “the funding supplied by investors to meet day-to-day utility operational  
3 requirements, and to cover the time that expenditures are made for services until the time  
4 revenues are collected for those services.”<sup>5</sup> It is included as a component of the total revenue  
5 requirement.

6                                   **3. FF&U**

7                   FF&U covers payments made to counties and incorporated cities pursuant to local  
8 ordinances granting right of way access, as well as uncollectible expenses incurred by  
9 SoCalGas.<sup>6</sup>

10                                   **4. Forecasted Revenue Requirement**

11                   Table NA-3 summarizes the forecasted revenue requirements for the proposed Projects.

**Table NA-3: Forecasted Revenue Requirement Summary (*In Millions*)**

	<b>2025</b>	<b>2026</b>	<b>2027</b>	<b>2028</b>	<b>Total</b>
Closed System Project – UC Irvine	\$17.6	\$6.3	\$1.2	\$1.7	\$26.8
Open System Project – City of Orange Cove	\$37.7	\$13.1	\$1.3	\$1.6	\$53.6

12                   During the program life, SoCalGas will record the actual revenue requirements in the  
13 approved regulatory account. Further details of the regulatory accounting treatment of the actual  
14 revenue requirements are discussed above in Section II.

15                   SoCalGas uses the forecasted revenue requirement for purposes of illustrating the  
16 potential rate impact of the proposed Projects. The details of the illustrated rate impact are  
17 discussed below (Section IV).

18 **IV. SOCALGAS GAS RATES AND BILL IMPACT**

19                   SoCalGas proposes to recover the cost of the Projects and any balances recorded to the  
20 HBDPBA in transportation rates using the Equal Cents Per Therm (ECPT) cost allocation  
21 methodology. The ECPT cost allocation method allocates costs across customer classes based

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<sup>5</sup> D.19-09-051 at 649.

<sup>6</sup> FF&U multipliers used for these revenue requirements are consistent with those supported in D.19-09-051.

on each customer class’s respective share of total average year gas demand forecast from the TCAP D.20-02-045. The allocation is 38.7% to Core customers, of which 25.7% is allocated to the Residential class, and 61.3% is allocated to noncore customers. SoCalGas used the ECPT method to allocate costs across customer classes such as the allocation of the California Alternate Rates for Energy (CARE) program costs for low-income customers. CARE program costs are recovered in the Public Purpose Program Surcharge (PPPS).<sup>7</sup> Another example of the application that uses the ECPT method is the cost recovery in transportation rates of the balance in the Residential Uncollectible Balancing Account (RUBA).<sup>8</sup>

Table MSP-1, Table MSP-2, and Table MSP-3 below show the class average rate and residential bill impacts for both projects, the UC Irvine project, and the City of Orange Cove project, respectively, for 2025 to 2028. The table shows current and proposed class average gas transportation rates by major customer class upon recovery of costs associated with both projects and the individual projects. The gas transportation rates are for services from SoCalGas City Gate to end-use customers’ meters. As shown in the table above, the highest revenue requirement for the projects is in 2025, resulting in largest rate impact that year. Even for that year, the residential Non-CARE bill impacts for the projects are negligible. For both projects, the 2025 average monthly bill of 36 therms/month is expected to increase by \$0.20 per month, or 0.29%, increasing from \$68.40 to \$68.60.

**MSP-1: Class Average Rate and Residential Bill Impacts  
(Both Projects)**

	2024	2025	Change \$	Change %	2026	Change \$	Change %
<b>SoCalGas Rates \$/th</b>							
<b>CORE</b>							
Residential						\$0.0017	
	\$1.1948	\$1.2003	\$0.0055	0.46%	\$1.1966	6	0.15%
Commercial & Industrial	\$0.6846	\$0.6904	\$0.0058	0.84%	\$0.6866	\$0.0019	0.28%
Total Core	\$1.0062	\$1.0118	\$0.0056	0.56%	\$1.0081	\$0.0019	0.19%
<b>Non-CORE</b>							
C&I – Distribution	\$0.2639	\$0.2721	\$0.0082	3.10%	\$0.2682	\$0.0043	1.62%

<sup>7</sup> See SoCalGas Advice No. 6216.

<sup>8</sup> See Resolution E-5114, which directed SoCalGas to recover the costs of forgiven gas arrearages through gas transportation rates allocated across customer classes using ECPT.

Electric Generation - Distribution	\$0.2460	\$0.2556	\$0.0096	3.92%	\$0.2516	\$0.0056	2.28%
Electric Generation - Transmission							
Class Average	\$0.2600	\$0.2693	\$0.0093	3.59%	\$0.2653	\$0.0053	2.04%
Total Non-CORE	\$0.1270	\$0.1360	\$0.0089	7.04%	\$0.1320	\$0.0050	3.91%
System	\$0.5240	\$0.5316	\$0.0076	1.46%	\$0.5277	\$0.0038	0.72%
<b>SoCalGas Non-CARE Residential Bill \$/month</b>	\$68.40	\$68.60	\$0.20	0.29%	\$68.47	\$0.06	0.09%

	2024	2027	Change \$	Change %	2028	Change \$	Change %
<b>SoCalGas Rates \$/th</b>							
<b>CORE</b>							
Residential	\$1.1948	\$1.1949	\$0.0001	0.01%	\$1.1950	\$0.0002	0.01%
Commercial & Industrial	\$0.6846	\$0.6848	\$0.0002	0.03%	\$0.6849	\$0.0003	0.04%
Total Core	\$1.0062	\$1.0064	\$0.0001	0.01%	\$1.0065	\$0.0002	0.02%
<b>Non-CORE</b>							
C&I – Distribution	\$0.2639	\$0.2664	\$0.0025	0.93%	\$0.2665	\$0.0025	0.97%
Electric Generation - Distribution	\$0.2460	\$0.2486	\$0.0026	1.07%	\$0.2489	\$0.0029	1.19%
Electric Generation - Transmission							
Class Average	\$0.2600	\$0.2626	\$0.0026	1.00%	\$0.2628	\$0.0028	1.09%
Total Non-CORE	\$0.1270	\$0.1296	\$0.0026	2.01%	\$0.1298	\$0.0027	2.16%
System	\$0.5240	\$0.5256	\$0.0016	0.31%	\$0.5257	\$0.0018	0.34%
<b>SoCalGas Non-CARE Residential Bill \$/month</b>	\$68.40	\$68.41	\$0.00	0.01%	\$68.41	\$0.01	0.01%

**MSP-2: Class Average Rate and Residential Bill Impacts  
(UC Irvine Project)**

	2024	2025	Change \$	Change %	2026	Change \$	Change %
<b>SoCalGas Rates \$/th</b>							
<b>CORE</b>							
Residential	\$1.1948	\$1.1964	\$0.0016	0.13%	\$1.1952	\$0.00042	0.03%
Commercial & Industrial	\$0.6846	\$0.6864	\$0.0018	0.26%	\$0.6852	\$0.0006	0.08%
Total Core	\$1.0062	\$1.0079	\$0.0017	0.17%	\$1.0068	\$0.0005	0.05%
<b>Non-CORE</b>							
C&I – Distribution	\$0.2639	\$0.2680	\$0.0041	1.55%	\$0.2668	\$0.0029	1.09%

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Electric Generation - Distribution	\$0.2460	\$0.2515	\$0.0055	2.25%	\$0.2501	\$0.0042	1.70%
Electric Generation - Transmission							
Class Average	\$0.2600	\$0.2652	\$0.0052	2.00%	\$0.2638	\$0.0039	1.49%
Total Non-CORE	\$0.1270	\$0.1319	\$0.0048	3.80%	\$0.1306	\$0.0035	2.78%
System	\$0.5240	\$0.5276	\$0.0036	0.69%	\$0.5263	\$0.0024	0.45%
<b>SoCalGas Non-CARE Residential Bill \$/month</b>	<b>\$68.40</b>	<b>\$68.46</b>	<b>\$0.06</b>	<b>0.08%</b>	<b>\$68.42</b>	<b>\$0.02</b>	<b>0.02%</b>

	2024	2027	Change \$	Change %	2028	Change \$	Change %
<b>SoCalGas Rates \$/th</b>							
<b>CORE</b>							
Residential	\$1.1948	\$1.1948	\$0.0000	0.00%	\$1.1948	\$0.0000	0.00%
Commercial & Industrial	\$0.6846	\$0.6847	\$0.0001	0.01%	\$0.6847	\$0.0001	0.01%
Total Core	\$1.0062	\$1.0063	\$0.0000	0.00%	\$1.0063	\$0.0001	0.01%
<b>Non-CORE</b>							
C&I – Distribution	\$0.2639	\$0.2663	\$0.0023	0.88%	\$0.2663	\$0.0024	0.90%
Electric Generation - Distribution	\$0.2460	\$0.2485	\$0.0025	1.01%	\$0.2487	\$0.0027	1.12%
Electric Generation - Transmission							
Class Average	\$0.2600	\$0.2624	\$0.0025	0.95%	\$0.2626	\$0.0027	1.03%
Total Non-CORE	\$0.1270	\$0.1294	\$0.0024	1.90%	\$0.1296	\$0.0026	2.02%
System	\$0.5240	\$0.5254	\$0.0015	0.28%	\$0.5256	\$0.0016	0.30%
<b>SoCalGas Non-CARE Residential Bill \$/month</b>	<b>\$68.40</b>	<b>\$68.40</b>	<b>\$0.00</b>	<b>0.00%</b>	<b>\$68.40</b>	<b>\$0.00</b>	<b>0.00%</b>

**MSP-3: Class Average Rate and Residential Bill Impacts  
(City of Orange Cove Project)**

	2024	2025	Change \$	Change %	2026	Change \$	Change %
<b>SoCalGas Rates \$/th</b>							
<b>CORE</b>							
Residential	\$1.1948	\$1.1984	\$0.0036	0.30%	\$1.1959	\$0.00111	0.09%
Commercial & Industrial	\$0.6846	\$0.6885	\$0.0039	0.57%	\$0.6859	\$0.0013	0.19%
Total Core	\$1.0062	\$1.0100	\$0.0038	0.37%	\$1.0075	\$0.0012	0.12%

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<b>Non-CORE</b>							
C&I - Distribution	\$0.2639	\$0.2702	\$0.0063	2.38%	\$0.2675	\$0.0036	1.37%
Electric Generation - Distribution	\$0.2460	\$0.2537	\$0.0077	3.13%	\$0.2509	\$0.0049	2.00%
Electric Generation - Transmission							
Class Average	\$0.2600	\$0.2674	\$0.0074	2.84%	\$0.2646	\$0.0046	1.78%
Total Non-CORE	\$0.1270	\$0.1340	\$0.0070	5.53%	\$0.1313	\$0.0043	3.37%
System	\$0.5240	\$0.5297	\$0.0058	1.10%	\$0.5271	\$0.0031	0.59%
<b>SoCalGas Non-CARE Residential Bill \$/month</b>	\$68.40	\$68.54	\$0.13	0.19%	\$68.44	\$0.04	0.06%

	2024	2027	Change \$	Change %	2028	Change \$	Change %
<b>SoCalGas Rates \$/th</b>							
<b>CORE</b>							
Residential	\$1.1948	\$1.1948	\$0.0000	0.00%	\$1.1948	\$0.0000	0.00%
Commercial & Industrial	\$0.6846	\$0.6847	\$0.0001	0.01%	\$0.6847	\$0.0001	0.01%
Total Core	\$1.0062	\$1.0063	\$0.0000	0.00%	\$1.0063	\$0.0001	0.01%
<b>Non-CORE</b>							
C&I - Distribution	\$0.2639	\$0.2663	\$0.0023	0.88%	\$0.2663	\$0.0024	0.90%
Electric Generation - Distribution	\$0.2460	\$0.2485	\$0.0025	1.01%	\$0.2487	\$0.0027	1.11%
Electric Generation - Transmission							
Class Average	\$0.2600	\$0.2624	\$0.0025	0.95%	\$0.2626	\$0.0027	1.02%
Total Non-CORE	\$0.1270	\$0.1294	\$0.0024	1.90%	\$0.1296	\$0.0026	2.02%
System	\$0.5240	\$0.5255	\$0.0015	0.28%	\$0.5256	\$0.0016	0.30%
<b>SoCalGas Non-CARE Residential Bill \$/month</b>	\$68.40	\$68.40	\$0.00	0.00%	\$68.40	\$0.00	0.00%

1 **V. CONCLUSION**

2 For all the reasons discussed above, SoCalGas requests that the Commission adopt its  
3 cost recovery, revenue requirement, and rate impact proposals as discussed above, and find the  
4 request to be just and reasonable.

5 This concludes the joint prepared direct testimony.

6 **VI. QUALIFICATIONS**

7 **Nasim Ahmed**

8 My name is Nasim Ahmed. I am employed by SoCalGas. My business address is 555  
9 West Fifth Street, Los Angeles, California, 90013-1011. I am the Principal Accountant -  
10 Supervisor in the Regulatory Accounts group within the Accounting and Finance Department  
11 which supports the regulatory activities for SoCalGas. My responsibilities for SoCalGas’  
12 regulatory balancing, tracking, and memorandum accounts include implementation of regulatory  
13 accounting procedures for compliance with Commission decisions, quantifying and recording the  
14 monthly entries and adjustments to the regulatory accounts and preparing forecasted balances for  
15 regulatory accounts for inclusion in SoCalGas’ annual compliance filings. I began my  
16 employment at Pacific Lighting Corporation, then the parent company of SoCalGas, in 1987 in  
17 the Internal Audit Department. I have held various positions of increasing responsibility in  
18 Internal Audit, General Accounting, and Utility Regulatory Accounting before assuming my  
19 current position. I received my Bachelor of Science degree in Accounting from California State  
20 University, Long Beach in 1987. I have previously testified before the Commission.

21 **Marjorie Schmidt-Pines**

22 My name is Marjorie A. Schmidt-Pines. My business address is 555 West Fifth Street,  
23 Los Angeles, California, 90013-1011. I am a Senior Principal Regulatory Economic Advisor in  
24 the CPUC/FERC Gas Regulatory Affairs Department for SoCalGas and SDG&E as of December  
25 2017. I hold a Bachelor of Science degree in Business Administration with an emphasis in  
26 Accounting from California State University at Northridge, California. I have been employed by  
27 SoCalGas since 1981 and have held positions of increasing responsibilities as an Accountant and  
28 Senior Accountant in the Accounting & Finance department, as an Analyst and a Budget  
29 Coordinator in the Gas Supply department, as a Market Advisor for the Marketing and Customer  
30 Services departments and Principal Regulatory Economic Advisor in the Regulatory Affairs

1 Department. As Senior Principal Regulatory Economic Advisor, I represent the Gas Rate Design  
2 Group for both SoCalGas and SDG&E in the role of Project Manager, Senior Analyst and  
3 witness in various major regulatory proceedings and filings dealing with allocating authorized  
4 revenue requirements to functions and customer rate classes, developing the design of the rate  
5 for each class, calculating customer rate changes, and computing the impact on customers'  
6 monthly bills. I have previously testified before the Commission.