

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

Application of San Diego Gas & Electric Company  
(U 902 G) and Southern California Gas Company  
(U 904 G) to Recover Costs Recorded in their Pipeline  
Safety and Reliability Memorandum Accounts.

Application 14-12-016  
(Filed December 17, 2014)

**REPLY BRIEF OF SOUTHERN CALIFORNIA GAS COMPANY (U 904 G)  
AND SAN DIEGO GAS & ELECTRIC COMPANY (U 902 G)**

**REDACTED VERSION**

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**Dated:** December 4, 2015

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<sup>1</sup> Motion for Leave to File Under Seal pursuant to Rule 11.4 granted by Administrative Law Judge Robert Mason. *See* Tr. at 314 (ALJ Mason).

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**I. INTRODUCTION AND SUMMARY**

In accordance with the Scoping Memo in this proceeding,<sup>2</sup> Southern California Gas Company (SoCalGas) and San Diego Gas & Electric Company (SDG&E) hereby present their Reply Brief in this Application (A.) of SDG&E and SoCalGas to recover costs recorded in their Pipeline Safety and Reliability Memorandum Accounts (PSRMAs). In testimony, at hearings and in Opening Briefs, SoCalGas and SDG&E describe their efforts to comply with Commission directives to enhance the safety of their natural gas transmission system “as soon as practicable.”<sup>3</sup> In so doing, SoCalGas and SDG&E demonstrate the reasonableness of their efforts to effectively and expeditiously implement and execute PSEP projects and manage costs. SoCalGas and SDG&E provided evidence to support that their actions are consistent with those of a reasonable manager and that all costs presented for review were reasonably incurred and all actions were prudently taken. In contrast, the Office of Ratepayer Advocates (ORA), The Utility Reform Network (TURN), and Southern California Generation Coalition (SCGC) provide no

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<sup>2</sup> See A.14-12-016, April 1, 2015 Assigned Commissioner and Administrative Law Judges' Scoping Memo and Ruling at 8. Dates corrected by the April 6, 2015 Administrative Law Judge's Ruling Correcting the Schedule in the Scoping Memo and Ruling.

<sup>3</sup> See, e.g., Ex. SCG-01 (Phillips) at 5; see also D.11-06-017, mimeo., at 19, 20, 29 (Conclusion of Law 5) and 31 (Ordering Paragraph 5) and D.12-04-021, mimeo., at 2..

evidence that SoCalGas and SDG&E's actions were inconsistent with that of a reasonable manager and instead rely on a misunderstanding of the evidence and misinterpretation of the law.

## II. BACKGROUND AND APPLICATION SCOPE

Pursuant to D.12-04-021, SoCalGas and SDG&E created the PSRMAs to record PSEP-related Operations and Maintenance costs (O&M), and capital costs.<sup>4</sup> By D.14-06-007, and subject to certain disallowances therein, SoCalGas and SDG&E were authorized to file an application to justify and recover O&M costs recorded through June 12, 2014 (the effective date of D.14-06-007), and capital costs associated with projects completed prior to June 12, 2014.<sup>5</sup> SoCalGas and SDG&E filed A.14-12-016 to recover in rates reasonable and prudent revenue requirements recorded in their respective PSRMAs. Meaning, the scope of A.14-12-016 is limited to a subset of PSEP costs: costs for projects completed *prior* to the issuance of D.14-06-007 and costs for certain ongoing expenses incurred *prior* to the effective date of D.14-06-007. In addition, SoCalGas and SDG&E agreed, at the request of intervenors, to remove from the scope of this application the costs associated with in progress projects.<sup>6</sup> Per the agreement of the parties, those costs will be presented for review in a future filing, once those projects are complete.

Despite the fact that all costs and actions presented were incurred to enhance the safety of the natural gas transmission system “as soon as practicable” and were incurred and taken absent the benefit of California Public Utilities Commission (Commission) guidance from D.14-06-007; the Office of Ratepayer Advocates (ORA), The Utility Reform Network (TURN), and Southern California Generation Coalition (SCGC) argue for significant disallowances.

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<sup>4</sup> D.12-04-021, mimeo., at 12.

<sup>5</sup> D.14-06-007, mimeo., at 61.

<sup>6</sup> See July 31, 2015 Assigned Commissioner and Administrative Law Judge's Amended Scoping Memo and Ruling.

ORA argues for a \$13.202 million dollar disallowance.<sup>7</sup> This includes a \$13.086 million dollar disallowance of costs to pressure test Line 2000-A<sup>8</sup> and a \$0.116 million dollar disallowance of costs to pressure test Playa del Rey Phases 1 and 2.<sup>9</sup>

SCGC suggests slightly smaller disallowances, which SCGC indicates it was not entirely able to calculate due to lack of sufficient data.<sup>10</sup> This includes a disallowance for the portion of consulting costs that corresponds to overheads and profits for Lines 2000-A, Lines 42-66-1 and 42-66-2, Playa del Rey Phases 1 and 2, and the Program Management Office (PMO)<sup>11</sup> and [REDACTED] for Power Advocate support costs.<sup>12</sup>

TURN supports the ORA and SCGC disallowance recommendations and proposes an additional \$2.181<sup>13</sup> million disallowance of PSEP insurance costs.<sup>14</sup>

In addition to these large proposed disallowances, and despite the limited scope of this Application, ORA and, to a lesser extent TURN, also propose additional requirements be imposed on SoCalGas and SDG&E's PSEP efforts and new filing requirements be implemented for future after-the-fact reasonableness review.<sup>15</sup> As explained in Section IX, these new requirements amount to modifications to D.14-06-007, are unnecessary, would increase costs, slow down PSEP work, and are untimely, because they would require retroactive implementation

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<sup>7</sup> ORA Opening Brief at 16.

<sup>8</sup> ORA Opening Brief at 16.

<sup>9</sup> ORA Opening Brief at 16.

<sup>10</sup> SCGC Opening Brief at 10-12.

<sup>11</sup> SCGC Opening Brief at iv and 10.

<sup>12</sup> SCGC Opening Brief at 12.

<sup>13</sup> TURN correctly notes that \$2.181 million for OSEO insurance is overstated. *See* TURN Opening Brief at 29, Footnote 78. However, the total project and activity costs remain correct. The total costs and revenue requirement requested for recovery are correctly identified net of overheads charged to the in-progress projects and Line 45-120X01.

<sup>14</sup> TURN Opening Brief at 2 (“However, with single exception, TURN does not call for additional disallowances beyond those recommended in the briefs of the Office of Ratepayer Advocates (ORA) and SCGC.”).

<sup>15</sup> *See* ORA Opening Brief at 3; TURN Opening Brief at 16.

of new requirements and rules more than midway through SoCalGas and SDG&E's implementation of PSEP Phase 1A.

### **III. TURN'S AND ORA'S CHALLENGES TO THE SUFFICIENCY OF THE EVIDENCE PROVIDED IS UNPERSUASIVE AND UNSUPPORTED**

ORA and TURN argue that SoCalGas and SDG&E have not produced sufficient evidence to satisfy the reasonable manager standard and demonstrate the reasonableness of costs and prudence of their actions. ORA alleges SoCalGas and SDG&E "failed to meet their burden to show the reasonableness of costs" and that SoCalGas and SDG&E's showing "does not enable the Commission to make a finding of reasonableness regarding Applicants' project costs or related decision making in this proceeding."<sup>16</sup> TURN questions SoCalGas and SDG&E's initial showing of reasonableness, claiming: "It was not until the rebuttal testimony that the Sempra Utilities finally presented something approaching a showing of the reasonableness of their recorded amounts by individual cost category, but then only for the two projects specifically challenged by ORA."<sup>17</sup> TURN also claims SoCalGas and SDG&E "see nothing wrong with relying on the discovery process as a means of identifying areas of deficiency in their initial showing, and using their rebuttal testimony as an opportunity to fill in the gaps."<sup>18</sup> SoCalGas and SDG&E disagree.

First, SoCalGas and SDG&E do not propose to rely on discovery as a means to correct a sparse initial showing. Rather, as stated in testimony:

... SoCalGas and SDG&E will provide an initial showing of reasonableness and then, through discovery, provide additional information to facilitate a thorough review of the reasonableness of PSEP costs by interested parties and the Commission. SoCalGas and SDG&E view this as an iterative process that may be

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<sup>16</sup> ORA Opening Brief at 3.

<sup>17</sup> TURN Opening Brief at 7-8.

<sup>18</sup> TURN Opening Brief at 2 (citing Ex. SCG-04 (Phillips) at 2, lines 7-12).

refined and improved over time as the Commission and interested parties gain experience with this unique type of reasonableness review.<sup>19</sup>

In the companies' direct and supplemental showing of reasonableness, SoCalGas and SDG&E provided, among other things, evidence regarding cost categories,<sup>20</sup> costs,<sup>21</sup> PSEP standards and practices,<sup>22</sup> PSEP governance and management,<sup>23</sup> and PSEP cost management.<sup>24</sup> As such, SoCalGas and SDG&E presented for review the costs incurred and discussed PSEP practices, programs, and processes to establish the reasonableness of their activities, actions, and costs, and viewed the discovery process as a means for intervenors to question specific details or request specific support documentation.<sup>25</sup> The evidence provided in this Application supports the reasonableness of the costs and prudence of actions presented in this Application.

Second, SoCalGas and SDG&E met their burden of proving the prudence of their actions and reasonableness of the costs requested in this proceeding.<sup>26</sup> The standard of proof to be applied by the Commission in determining the prudence of SoCalGas and SDG&E's actions and reasonableness of the associated costs is the preponderance of the evidence.<sup>27</sup> Regarding this standard, the Third Edition of California Jurisprudence states:

The preponderance rule requires evidence of such weight that, when balanced against that opposed to it, it has more convincing force. That is, a party required to prove something by a preponderance of the evidence need prove only that it is

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<sup>19</sup> Ex. SCG-04 (Phillips) at 2.

<sup>20</sup> Ex. SCG-02 (Phillips) at 3-4; Ex. SCG-03 (Phillips); and Ex. SCG-08 (Mejia) at 10-11.

<sup>21</sup> Ex. SCG-02 (Phillips) at 4-14; Ex. SCG-03 (Phillips); Ex. SCG-08 (Mejia) at 18-34; Ex. SCG-11 (Austria) at 1-5.

<sup>22</sup> Ex. SCG-01 (Phillips) at 4-7 and 12-18; Ex. SCG-07 (Mejia) at 1-6; Ex. SCG-08 (Mejia) at 1-8.

<sup>23</sup> Ex. SCG-01 (Phillips) at 9-12; SCG-04 (Phillips) at 3-6.

<sup>24</sup> Ex. SCG-01 (Phillips) at 14-16; Ex. SCG-04 (Phillips) at 6-7 and 12-13; Ex. SCG-08 (Mejia) at 10-18.

<sup>25</sup> For example, ORA audited booked costs and supporting documentation (e.g., invoice, control sheet, and other source data) representing 41% of the total costs in the PSRMAs (*See* Ex. ORA-02 (Lee)), and based on that audit recommended no adjustments. Ex. ORA-02 (Lee) at 3.

<sup>26</sup> SoCalGas and SDG&E Opening Brief at 15-17.

<sup>27</sup> A standard of proof acknowledged by ORA (ORA Opening Brief at 1) and TURN (TURN Opening Brief at 3).

more likely to be true than not true or that the existence of a fact is more probable than its nonexistence.<sup>28</sup>

Meaning, SoCalGas and SDG&E must demonstrate to the Commission that, when balanced against the information provided by intervenors, SoCalGas and SDG&E's evidence has more convincing force. Specifically, that SoCalGas and SDG&E have provided more convincing evidence that their activities were prudent and the associated costs are reasonable, than intervenors have presented evidence that those actions were imprudent and the associated costs unreasonable. ORA and TURN provide no evidence of specific failures or imprudence; rather, ORA and TURN argue that SoCalGas and SDG&E have not submitted sufficient evidence to meet their burden of proof, and rely on sweeping allegations of imprudence and unreasonableness. On the other hand, as explained in greater detail below, in testimony, and in the Opening Brief, SoCalGas and SDG&E have met their burden and their Application to recover costs expended to comply with Commission directives should be granted.

**A. Line 2000-A**

ORA's argument for a \$13.086 million dollar disallowance for Line 2000-A should be rejected because it is both factually and legally wrong. First, ORA uses a 2012 estimate of a *different project scope* to compare to the actual costs incurred for Line 2000-A.<sup>29</sup> Comparing an estimate of a different project scope to Line 2000-A does not provide any probative evidence that the costs incurred for Line 2000-A were unreasonable. In fact, it provides little useful evidence for purposes of this proceeding. Second, as discussed in Section IV, ORA's proposed disallowance is based on a legally unsupportable interpretation of the reasonable manager standard.<sup>30</sup>

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<sup>28</sup> 31A Ca Jur Evidence § 95.

<sup>29</sup> Ex. SCG-09 (Mejia) at 19.

<sup>30</sup> ORA Opening Brief at 16.

SCGC argues for a \$1.18 million disallowance because SoCalGas and SDG&E chose to use contractors to augment their internal resources.<sup>31</sup> As addressed in Section VI, at the time the work was being performed, the utilities did not yet have a decision approving their PSEP and therefore, had little guidance beyond the Commission's direction to perform the work "as soon as practicable."<sup>32</sup> SoCalGas and SDG&E did not have the workforce necessary to perform that work expeditiously and therefore reasonably engaged contractors.

TURN does not propose a separate disallowance,<sup>33</sup> but alleges SoCalGas and SDG&E failed to provide sufficient evidence to demonstrate the reasonableness of Line 2000-A costs.<sup>34</sup> As explained below, the evidence supports the reasonableness of Line 2000-A costs and prudence of associated actions.

SoCalGas and SDG&E provided ample evidence of the prudence of their actions and reasonableness of the costs. For example, the evidence demonstrates the following: SoCalGas and SDG&E reasonably endeavored to comply with Commission directives and pressure test this high priority line "as soon as practicable;"<sup>35</sup> SoCalGas and SDG&E initiated this project using SoCalGas' Pipeline Construction Management (PCM) department in order to expeditiously begin work and then transferred the project to the PSEP the PSEP Organization, once that organization was sufficiently established, to enable greater oversight of this project and allow the newly-formed PSEP Organization to engage in management of this early PSEP project;<sup>36</sup>

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<sup>31</sup> SCGC Opening Brief at 11.

<sup>32</sup> D.11-06-017, mimeo., at 20.

<sup>33</sup> Although not indicated in this Section, TURN does propose separate disallowances for PSEP insurance overheads that, if accepted, would impact project and activity costs because the overhead challenged by TURN is allocated to the projects and activities.

<sup>34</sup> TURN Opening Brief at 8.

<sup>35</sup> Ex. SCG-09 (Mejia) at 19.

<sup>36</sup> Ex. SCG-10-C (Mejia) at 19.

SoCalGas and SDG&E competitively bid materials and services to manage costs and promote reasonable cost materials and services;<sup>37</sup> SoCalGas and SDG&E accurately booked and tracked costs;<sup>38</sup> and SoCalGas and SDG&E pressure tested Line 2000-A successfully and on schedule.<sup>39</sup>

SoCalGas and SDG&E's evidence of reasonable project implementation and execution has more convincing force than the ORA's reliance on preliminary estimates and misapplication of the reasonable manager standard, SCGC's hindsight and unsupported determination that contractors were inappropriate, and TURN's general challenges to the sufficiency of SoCalGas and SDG&E's evidence. As such, given the weight of evidence presented, and considering what was known at the time, that the Commission wanted the PSEP implemented "as soon as practicable," the record establishes that SoCalGas and SDG&E's actions were prudent and the associated costs were reasonably incurred to pressure test Line 2000-A.

**B. Lines 42-66-1 and 42-66-2**

SCGC argues for a disallowance of the portion of consulting costs that corresponds to overheads and profits<sup>40</sup> because SoCalGas and SDG&E chose to use contractors to augment internal resources.<sup>41</sup> As addressed above and in Section VI, at the time the work was being performed, the utilities did not yet have a decision approving their PSEP and therefore, had little guidance beyond the Commission's direction to perform the work "as soon as practicable."<sup>42</sup> SoCalGas and SDG&E did not have the

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<sup>37</sup> Ex. SCG-10-C (Mejia) at 27-29.

<sup>38</sup> Ex. ORA-02 (Lee) at 3 ("Based solely on the audit, ORA recommends no adjustment to the SCG and SDG&E request of \$9.7 million Capital costs and \$48.4 million O&M costs recorded in the PSRMA memorandum account during the period from February 24, 2011 to June 12, 2014.")

<sup>39</sup> Ex. SCG-09 (Mejia) at 21.

<sup>40</sup> SCGC Opening Brief at iv and 10.

<sup>41</sup> SCGC Opening Brief at 11.

<sup>42</sup> D.11-06-017, mimeo., at 20.

workforce necessary to perform that work expeditiously and therefore reasonably engaged contractors.

ORA and TURN do not propose additional disallowances, but allege that SoCalGas and SDG&E failed to provide sufficient evidence to demonstrate the reasonableness of Line 42-66-1 and 42-66-2 costs.<sup>43, 44, 45</sup> As explained below, the evidence establishes the reasonableness of Lines 42-66-1 and 42-66-2 costs and prudence of associated actions.

SoCalGas and SDG&E provided ample evidence that the actions they took and costs incurred were reasonable and prudent. For example, the evidence demonstrates the following: SoCalGas and SDG&E reasonably endeavored to replace Lines 42-66-1 and abandon Line 42-66-2 “as soon as practicable;”<sup>46</sup> SoCalGas and SDG&E’s competitively bid materials and services to manage costs and promote reasonable cost materials and services;<sup>47</sup> SoCalGas and SDG&E reconfigured the pipeline to lower costs by extending

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<sup>43</sup> ORA Opening Brief at 17; TURN Opening Brief at 16.

<sup>44</sup> Without proposing a disallowance, TURN questions the total indirect costs attributable to Lines 42-66-1 and 42-66-2, noting that indirect and direct costs did not increase proportionally. TURN Opening Brief at 13. The discrepancy noted by TURN is at least partially explained by the Amended Application filed by SoCalGas and SDG&E. In the Amended Application, SoCalGas and SDG&E “propose[d] reducing the costs presented for Lines 42-66-1/42-66-2 to remove non-incremental overheads, decreasing the project costs by approximately \$101,000.” See A.14-12-016, May 28, 2015, Motion of Southern California Gas Company and San Diego Gas Electric Company for Leave to Amend Application 14-12-016 at 1-2. This reduction to indirect costs was incorporated into the actual project costs requested for recovery, but SoCalGas and SDG&E did not retroactively modify earlier estimates.

<sup>45</sup> Also without proposing a disallowance, TURN questions increased costs necessitated by the need to perform a hot tie-in. TURN Opening Brief at 14. SoCalGas and SDG&E adequately described this issue to intervenors and explained why the inability of the valve to fully isolate the segment was not indicative of imprudence: the valve was subject to satisfactory inspections in compliance with 49 CFR 192.745, but those inspections did not involve assessing whether the valve could completely isolate the section. See Ex. SCGC-TURN-02-C (Yap) at Attachment F (Response 13.2.3). As such, the record indicates that SoCalGas and SDG&E were in compliance with their valve inspections and the inability of the valve to completely seal this segment of pipeline was unexpected, but not unreasonable.

<sup>46</sup> Ex. SCG-08 (Mejia) at 28 (rather than wait for the PSEP Organization to be up and running, the project was planned and executed by the SoCalGas Distribution Organization).

<sup>47</sup> Ex. SCG-10-C (Mejia) at 37.

Line 42-66-1 in order to enable abandoning Line 42-66-2;<sup>48</sup> SoCalGas Distribution Region Organization began the work, with oversight by the PSEP Organization, in order to more promptly replace Line 42-66-1 and abandon Line 42-66-2;<sup>49</sup> SoCalGas and SDG&E accurately booked and tracked costs;<sup>50</sup> SoCalGas and SDG&E experienced increased costs because of the unexpected inability of a valve to completely seal the pipeline, and the replacement work was completed as a “hot tie” by SoCalGas employees instead of contractor personnel;<sup>51</sup> and SoCalGas and SDG&E completed the project successfully.<sup>52</sup>

SoCalGas and SDG&E’s evidence of reasonable project implementation and execution has convincing force than SCGC’s hindsight and unsupported determination that contractors were inappropriate and ORA’s and TURN’s general challenges to the evidentiary record. As such, given the evidence presented, and considering what was known at the time, that the Commission wanted the PSEP implemented “as soon as practicable,” the record establishes that SoCalGas and SDG&E’s actions were prudent and the associated costs were reasonably incurred to replace Line 42-66-1 and abandon line 42-66-2.

### **C. Playa del Rey Phases 1 and 2**

ORA proposes a \$0.116 million penalty for alleged recordkeeping discrepancies.<sup>53</sup> As explained in Section V, ORA’s proposal lacks evidentiary support.

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<sup>48</sup> Ex. SCG-10-C (Mejia) at 40.

<sup>49</sup> Ex. SCG-08 (Mejia) at 28.

<sup>50</sup> Ex. ORA-02 (Lee) at 3.

<sup>51</sup> Ex. SCG-08 (Mejia) at 8.

<sup>52</sup> See Ex. SCG-08 (Mejia) at 18, 30, and 34.

<sup>53</sup> See ORA Opening Brief at 16. Although ORA couches its recommendation as a “disallowance,” ORA is recommending a \$116,000 disallowance, [REDACTED], not because any costs were unreasonable, but as a fine or penalty for alleged recordkeeping issues.

SCGC recommends a disallowance because SoCalGas and SDG&E chose to use contractors to augment our internal resources.<sup>54</sup> As addressed above and in Section VI, at the time the work was being performed, the utilities did not yet have a decision approving their PSEP and therefore, had little guidance beyond the Commission's direction to perform the work "as soon as practicable."<sup>55</sup> SoCalGas and SDG&E did not have the workforce necessary to perform that work expeditiously and therefore reasonably engaged contractors.

TURN does not propose additional disallowances, but alleges SoCalGas and SDG&E failed to provide sufficient evidence to demonstrate the reasonableness of the Playa del Rey hydrotests.<sup>56, 57</sup> As explained below, the evidence supports the reasonableness of Playa del Rey Phase 1 and 2 costs and prudence of associated actions.

SoCalGas and SDG&E provided ample evidence of the prudence of their actions and reasonableness of the costs. For example, the evidence demonstrates the following: SoCalGas and SDG&E endeavored to pressure test "as soon as practicable;"<sup>58</sup> SoCalGas and SDG&E leveraged existing, onsite resources to perform the PSEP work in an effort to reduce costs and expeditiously complete the work;<sup>59</sup> SoCalGas and SDG&E accurately

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<sup>54</sup> SCGC Opening Brief at 11.

<sup>55</sup> D.11-06-017, mimeo., at 20.

<sup>56</sup> TURN Opening Brief at 16.

<sup>57</sup> TURN also notes that less evidence of Playa del Rey was provided in rebuttal testimony because ORA did not challenge the costs associated with Playa del Rey. *See* TURN Opening Brief at 15. However, similar to rebuttal testimony regarding Line 2000-A and Lines 42-66-1 and 42-66-2, SoCalGas and SDG&E did provide evidence of the Playa Del Rey contractors, along with dollar values for the services or materials provided at Playa del Rey. *See* Ex. ORA-07-C (SCG/SDG&E Response to ORA Data Request 13, Question 10 Attachments - Confidential). And SoCalGas and SDG&E explained their efforts to competitively bid contracts in excess of \$75,000 dollars. Ex. SCG-09 (Mejia) at 17. However, for Playa del Rey, only one contractor, ██████████, exceeded the \$75,000 threshold and, as discussed in Section V, that work was single sourced.

<sup>58</sup> Ex. SCG-08 (Mejia) at 33 (using a contractor already onsite rather than initiating a separate bidding event).

<sup>59</sup> Ex. SCG-08 (Mejia) at 33

booked and tracked costs;<sup>60</sup> and Playa del Rey Phases 1 and 2 were completed successfully and on schedule.<sup>61</sup>

SoCalGas and SDG&E's evidence of reasonable project implementation and execution has more convincing force than the SCGC's hindsight and unsupported determination that the use of contractors was inappropriate, ORA's incorrect and unsupported penalty, and TURN's general challenges to the evidentiary record. As such, given the evidence presented, and considering what was known at the time, that the Commission wanted the PSEP implemented "as soon as practicable," it should be found that SoCalGas and SDG&E's actions were prudent and the associated costs were reasonably incurred to perform the Playa del Rey Phase 1 and 2 hydrotests.

#### **D. Descoped Projects**

The evidence demonstrates that SoCalGas and SDG&E undertook reasonable efforts to begin planning a number of PSEP projects that were later descoped because of ongoing record review efforts<sup>62</sup> or lowering of the line's MAOP,<sup>63</sup> and demonstrates that SoCalGas and SDG&E do not seek to recover costs related to record review or project initiation costs associated with pipelines installed prior to July 1961.<sup>64</sup>

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<sup>60</sup> Ex. ORA-02 (Lee) at 3.

<sup>61</sup> Ex. SCG-08 (Mejia) at 33.

<sup>62</sup> SoCalGas and SDG&E continued to review records in parallel with PSEP engineering and design activity. This parallel effort resulted in reducing the amount of pipe in Phase 1A from 385 miles to approximately 150 miles; reducing the overall cost of PSEP by hundreds of millions of dollars. Ex. SCG-02 (Phillips) at 11, Footnote 19.

<sup>63</sup> Ex. SCG-02 (Phillips) at 11.

<sup>64</sup> Ex. SCG-09 (Mejia) at 41-44. SoCalGas and SDG&E also acknowledge a reduction of \$1,927 attributable to pipeline segments installed after 1961. That reduction is reflected in the \$0.346.

ORA states that it does not oppose recovery of \$0.346 million,<sup>65</sup> while TURN and SCGC have not addressed these costs or activities.

As such, given the evidence presented, and considering what was known at the time, it should be found that SoCalGas and SDG&E's actions were prudent and the associated costs were reasonably incurred for the descoped projects.

#### **E. Program Management Office**

SCGC recommends a disallowance because SoCalGas and SDG&E chose to use contractors to augment our internal resources.<sup>66</sup> As addressed above and in Section VI, at the time the work was being performed, the utilities did not yet have a decision approving their PSEP and therefore, had little guidance beyond the Commission's direction to perform the work "as soon as practicable."<sup>67</sup> SoCalGas and SDG&E did not have the workforce necessary to perform that work expeditiously and therefore reasonably engaged contractors.

ORA and TURN do not propose additional disallowances for the PMO.

SoCalGas and SDG&E provided ample evidence that the actions they took and costs incurred were reasonable and prudent. For example, the evidence demonstrates the following: the PMO manages and oversees PSEP activities;<sup>68</sup> the PMO is necessary given the size and complexity of the PSEP undertaking;<sup>69</sup> and PMO contractor services were competitively bid to select a qualified and cost effective PMO contractor.<sup>70</sup>

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<sup>65</sup> Ex. SCG-21 (ORA Response to SCG-SDG&E Data Response 2) at 3. This amount does reflect a reduction of \$0.002 million acknowledged by SoCalGas and SDG&E. See Ex. SCG-21 at 3 and Ex. SCG-10-C (Mejia) at 41.

<sup>66</sup> SCGC Opening Brief at 11.

<sup>67</sup> D.11-06-017, mimeo., at 20.

<sup>68</sup> Ex. SCG-10-C (Mejia) at 7.

<sup>69</sup> Ex. SCG-01 (Phillips) at 9.

<sup>70</sup> Ex. SCG-4 (Phillips) at 8-9.

SoCalGas and SDG&E's evidence of reasonable efforts to cost effectively develop and create a PMO comprised of both internal and contractor personnel to oversee PSEP implementation has more convincing force than SCGC's hindsight and unsupported determination that contractors were inappropriate. As such, given the evidence presented, and considering what was known at the time, that the Commission wanted the PSEP implemented "as soon as practicable," it should be found that SoCalGas and SDG&E's actions were prudent and the costs associated with the PMO were reasonably incurred.

#### **F. Facilities Build-Out**

In Opening Briefs, ORA, TURN, and SCGC did not address facilities build-out costs. In testimony, SCGC and TURN contested the reasonableness of the facilities build-out costs by alleging there was sufficient space absent the expansion,<sup>71</sup> that there was the potential for double charging by housing contractors at SoCalGas and SDG&E facilities,<sup>72</sup> and that the benefits of co-location did not outweigh the costs.<sup>73</sup> ORA did not provide evidence on the facilities build-out costs.

As explained in Opening Brief, SoCalGas and SDG&E provided ample evidence that the actions they took and costs incurred were reasonable and prudent.<sup>74</sup> For example, the evidence demonstrates the following: there was insufficient existing space at SoCalGas' headquarters;<sup>75</sup> facilities build-out costs were incurred to provide sufficient space for the newly-created PSEP Organization;<sup>76</sup> steps were taken to co-locate certain

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<sup>71</sup> Ex. SCGC-TURN-02-C (Yap) at 9-10.

<sup>72</sup> Ex. SCGC-TURN-02-C (Yap) at 11-12.

<sup>73</sup> Ex. SCG-TURN-02-C (Yap) at 4-5.

<sup>74</sup> SoCalGas and SDG&E Opening Brief at 52-54.

<sup>75</sup> Ex. SCG-05 (Phillips) at 11.

<sup>76</sup> Ex. SCG-02 (Phillips) at 14.

personnel;<sup>77</sup> and SoCalGas and SDG&E reasonably attempted to negotiate lower contractor rates as a result of contractors being located at SoCalGas and SDG&E facilities.<sup>78</sup>

As such, given the evidence presented, silence of intervening parties in opening briefs, and considering what was known at the time, it should be found that SoCalGas and SDG&E's actions were prudent and the associated costs were reasonably incurred for facilities build-out.

#### **G. Uncontested Activities**

ORA, TURN, and SCGC do not offer evidence or comment on SoCalGas and SDG&E's interim safety measure costs, pressure protection equipment costs, and other remediation costs.

SoCalGas and SDG&E presented evidence supporting the reasonableness of the actions taken and costs incurred for interim safety measure costs,<sup>79</sup> pressure protection equipment costs,<sup>80</sup> and other remediation costs.<sup>81</sup> As such, the evidence demonstrates that these costs are reasonable and should be approved for rate recovery.

#### **IV. ORA MISAPPLIES THE REASONABLE MANAGER STANDARD IN ASSESSING THE REASONABLENESS OF LINE 2000-A ACTIVITY AND COSTS**

ORA argues for a \$13.086 million disallowance for Line 2000-A.<sup>82</sup> ORA's disallowance is based on its position that the reasonable manager standard requires a comparison of estimated

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<sup>77</sup> Ex. SCG-06-C at Attachment C (SoCalGas and SDG&E Response to SCGC-TURN Data Request 12, Question 12.11).

<sup>78</sup> See Ex. SCG-20-C (SoCalGas and SDG&E Response to SCGC-TURN Data Request 14, Question 14.8).

<sup>79</sup> See Ex. SCG-3 (Phillips) at WP-III-94 to WP-III-98.

<sup>80</sup> Ex. SCG-02 (Phillips) at 13.

<sup>81</sup> Ex. SCG-02 (Phillips) at 13-14.

<sup>82</sup> ORA Opening Brief at 16.

costs to actual costs (or, as ORA states, “cost goals”).<sup>83</sup> Specifically, ORA’s proposed disallowance is based on ORA utilizing a preliminary estimate for a different scope of work to calculate a per-mile cost, and, based on that per-mile cost, proposing a disallowance for any amount exceeding the per-mile cost in executing the Line 2000-A work.<sup>84</sup> ORA’s proposal is not based on consideration of what was known or should have been known at the time that decisions were made or actions were taken, and therefore, does not comport with the reasonable manager standard. Indeed, ORA offers limited discussion of the project beyond the preliminary estimate, provides no evidence of specific failures or imprudence, and oversimplifies Commission precedent and SoCalGas and SDG&E’s efforts goals.

ORA provides no evidence that SoCalGas and SDG&E acted inconsistent with a reasonable manager, given the unique PSEP-circumstances SoCalGas and SDG&E were operating within and what was known or should have been known at the time. Rather, to frame their recommended disallowance, ORA states: “In the past, the Commission has used three steps in determining whether a utility has shown its decisions to be reasonable, all of which depend upon the goals articulated by the utility.”<sup>85</sup> Seemingly, ORA’s position is that application of the reasonable manager standard requires an estimate by which to compare to actual costs incurred, and that it is reasonable for ORA to choose a preliminary estimate, of a different scope, to propose a disallowance.

ORA bases its interpretation of the reasonable manager standard on a previous Commission Decision addressing Southwest Gas’ procurement practices, D.02-08-064. Therein, the Commission states:

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<sup>83</sup> ORA Opening Brief at 9-10.

<sup>84</sup> Ex. ORA-01 (Stannik) at 22.

<sup>85</sup> ORA Opening Brief at 8.

In the first step, we examine the goals that the utility hopes to achieve and evaluate whether that goal was reasonable. . . In the second step, we compare the actual outcome with the goal. . . In the third step, we consider whether a reasonable and prudent utility would have taken other steps to come close to achieving the goal.<sup>86</sup>

The basis for the process described in D.02-08-064 is noted as being a prior Commission Decision, D.89-02-074, which states:

Although different approaches may be preferable in other circumstances, for purposes of the review of amendments to existing contracts, as required in this case, we have found the following approach to be useful. We have first examined the goals that the utility hoped to achieve in the negotiations and have evaluated whether that goal was reasonable. We then compared the actual outcome with the goal. Finally, we considered whether a reasonable and prudent utility would have taken other steps to come closer to achieving the utility's goals. This approach is not always articulated in the following discussion, but it provided the background to much of our analysis of this case.<sup>87</sup>

Not addressed by ORA in their Opening Brief, but relevant to the reasonable manager standard analysis, D.02-08-064 also finds:

- “the reasonableness of a particular management action depends on what the utility knew or should have known at the time that the managerial decision was made, not how the decision holds up in light of future developments;”<sup>88</sup>
- a reasonable and prudent act includes a “spectrum of possible acts consistent with the utility system need, the interest of the ratepayers, and the requirements of governmental agencies of competent jurisdiction;”<sup>89</sup> and
- “[t]he act or decision is expected by the utility to accomplish the desired result at the lowest reasonable cost consistent with good utility practices. Good utility practices are based upon cost effectiveness, reliability, safety, and expedition.”<sup>90</sup>

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<sup>86</sup> D.02-08-064, mimeo., at 24-25.

<sup>87</sup> D.89-02-074, mimeo., at 10-11.

<sup>88</sup> D.02-08-064, mimeo., at 5.

<sup>89</sup> D.02-08-064, mimeo., at 6 (citing D.87-06-021).

As such, a complete analysis under the reasonable manager standard requires consideration of more than just costs, and should consider, for example, what was known at the time the action was taken, government and agency requirements, and the action's impact to system effectiveness, reliability, safety, and expedition. Meaning, ORA oversimplifies Commission precedent as being solely about cost estimates equaling actual costs.<sup>91</sup>

First, ORA misses the point in arguing that a preliminary project cost estimate is the goal that should be evaluated by the Commission. SoCalGas and SDG&E's goal was to safely and cost-efficiently pressure test Line 2000-A "as soon as practicable." The evidence demonstrates that this goal was accomplished.

Second, ORA does not, as required, consider what was known at the time actions were taken or factors such as the enhancement of safety, timing, or customer impacts.<sup>92</sup> These considerations are especially important here given the circumstances of PSEP: PSEP is ordered to enhance the safety of the transmission system "as soon as practicable."<sup>93</sup>

Third, sole reliance on costs is inconsistent with statements made by ORA's own witness during hearings:

**Q:** Is it ORA's position that a requirement of demonstrating reasonableness is a comparison of actuals to estimates?

**A:** Such a comparison is one factor that could help establish reasonableness.

**Q:** So it is not -- such a comparison is not a requirement, though?

**A:** For any given project I would say it's not a requirement, but it is a factor that could help establish reasonableness.<sup>94</sup>

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<sup>90</sup> D.02-08-064, mimeo., at 6 (citing D.87-06-021).

<sup>91</sup> ORA Opening Brief at 9.

<sup>92</sup> See D.02-08-064, mimeo., at 5-6.

<sup>93</sup> D.11-06-017, mimeo., at 19, 20, 29 (Conclusion of Law 5) and 31 (Ordering Paragraph 5) and D.12-04-021, mimeo., at 2.

<sup>94</sup> Tr. at 306 (ORA/Stannik).

Despite this acknowledgement, in Opening Brief, ORA attempts to impose, as a requirement of demonstrating reasonableness, that actual costs comport with preliminary cost estimates.<sup>95</sup>

Indeed, ORA proposes that such a comparison be the only aspect of the Commission's determination of reasonableness.<sup>96</sup> This is not only contrary to ORA's witness statements, but also contrary to SCGC and TURN's witness statement that competitive bidding is one means to demonstrate reasonableness:

**Q:** And is it your position that the utilization of competitive bidding practices is one means by which to demonstrate that costs are reasonable?

**A:** Yes. The use of competitive business -- I'm sorry. The use of competitive bidding practices is one way to demonstrate that things are reasonable.<sup>97</sup>

Further, the Commission, in approving PSEP, acknowledged other reasonable PSEP goals:

"...safely meeting schedules, or ensuring all work is performed to industry standards, etc."<sup>98</sup>

ORA attempts to support its interpretation of the reasonable manager standard by noting some of SoCalGas and SDG&E efforts to compare estimates to actuals and questioning the sufficiency of support provided for Line 2000-A, noting "that Applicants compare cost goals with actual project costs as a standard practice."<sup>99</sup> ORA concludes: "Applicants provide no explanation why they follow their own standard practice for [other] projects, but not for Line 2000A."<sup>100</sup> Seemingly, ORA's position is that, if SoCalGas and SDG&E deemed a comparison of actuals to estimates reasonable for some projects, it should be required for all projects. ORA is incorrect.

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<sup>95</sup> ORA Opening Brief at 19.

<sup>96</sup> ORA Opening Brief at 9.

<sup>97</sup> Tr. at 295 (SCGC/TURN/Yap).

<sup>98</sup> D.14-06-007, mimeo., 38.

<sup>99</sup> ORA Opening Brief at 11.

<sup>100</sup> ORA Opening Brief at 12.

While it is true SoCalGas and SDG&E have and do compare estimates and actuals; such a comparison is not required by SoCalGas and SDG&E in all instances, nor is this required to demonstrate reasonableness. For Line 2000-A, SoCalGas and SDG&E were unaware, indeed could not have been aware, that they would be required to file after-the-fact reasonableness reviews when estimates were created in 2012 and 2013, but were aware work was to proceed “as soon as practicable.” SoCalGas and SDG&E did explain the estimates it had developed for Line 2000-A, and where appropriate, explained differences between estimates and actuals. The estimates, however, were developed, updated, and revised reasonably and appropriately in an effort to achieve the orderly and cost effective execution of PSEP “as soon as practicable.”<sup>101</sup> For Line 2000-A, the changing scope and efforts to complete the work “as soon as practicable,” resulted in SoCalGas and SDG&E not having a detailed pre-construction estimate to compare to actuals. This was not unreasonable given what was known at the time, and does not justify disallowance of over \$13 million of this successful and on schedule hydrotest should be disallowed.

A more appropriate approach is explained in SoCalGas and SDG&E’s Opening Brief:

Under the reasonable manager standard, the Commission must consider SoCalGas and SDG&E’s desired result and the facts and circumstances known at the time they began working toward that result.<sup>102</sup>

In discussing this process, SoCalGas and SDG&E stated: “Here, SoCalGas and SDG&E’s desired result was to comply with Commission directives to enhance the safety of their natural gas transmission system cost effectively and expeditiously.”<sup>103</sup> Under the reasonable manager standard, it should be considered whether SoCalGas and SDG&E’s desired result was reasonable and whether SoCalGas and SDG&E were reasonable in their efforts to manage costs (e.g.,

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<sup>101</sup> D.11-06-017, mimeo., at 20.

<sup>102</sup> SoCalGas and SDG&E Opening Brief at 12.

<sup>103</sup> SoCalGas and SDG&E Opening Brief at 12 *referencing* Ex. SCG-01 (Phillips) at 6.

competitively bid) and engage in PSEP work expeditiously. This requires considering what was known at the time SoCalGas and SDG&E were incurring costs and taking action; for example, consideration of Commission mandates that safety enhancement work proceed “as soon as practicable.”<sup>104</sup> Ultimately, the analysis must determine whether SoCalGas and SDG&E’s efforts to expeditiously (e.g., initiating the work by the PCM department) and cost effectively (e.g., engaging in competitive bidding efforts to manage costs) enhance the safety of their natural gas transmission system were within the spectrum of possible acts a reasonable manager would make given what was known at the time the act was made. ORA’s complete reliance on a preliminary estimate does not indicate imprudence or unreasonableness; while, as discussed in testimony, Opening Brief, and Section IV above, SoCalGas and SDG&E provided ample evidence that they have behaved reasonably and prudently.

**V. ORA’S PSEP DOCUMENTATION CONCERNS ARE EXAGGERATED AND DO NOT SUPPORT DISALLOWANCES OR PENALTIES**

ORA questions the accuracy of SoCalGas and SDG&E’s documentation of their PSEP efforts, arguing: “the record shows several examples that suggest Applicants have not maintained factually correct recordkeeping to meet their burden to establish reasonableness of either costs or decision-making.”<sup>105</sup> To support these allegations, ORA points to alleged documentation inaccuracies associated with work performed by two contractors: [REDACTED] [REDACTED] who performed services on Line 2000-A; and [REDACTED] who performed services on Playa del Rey Phases 1 and 2.<sup>106</sup> For [REDACTED] [REDACTED], ORA does not propose a disallowance or penalty, but notes SoCalGas and SDG&E

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<sup>104</sup> See D.11-06-017, mimeo., at 20.

<sup>105</sup> ORA Opening Brief at 3 (internal citations omitted).

<sup>106</sup> See ORA Opening Brief at 4-6.

made corrections prior to hearings.<sup>107</sup> For ██████████, based on an alleged discrepancy, ORA recommends what amounts to a penalty:

The record shows that the ██████████ services for Playa Del Rey work cost ██████████. In light of the facts revealed about the discrepancies in Applicants' showing of the ██████████, ORA now recommends that the Commission disallow ██████████ of the ██████████ work, for a total of \$116,000.<sup>108</sup>

First, there is no discrepancy warranting a \$0.116 million penalty or disallowance, but merely a misunderstanding as to how the ██████████ work was performed. Moreover, even if a discrepancy did exist, ORA's ██████████ proposal is wholly arbitrary and not supported by any evidence tying that amount to any supposed overpayment or imprudence. Indeed, although identified as a disallowance, ORA's proposal amounts to a penalty, a penalty for which ORA has not met its burden of proof.

ORA's recommendation to preclude cost recovery of \$0.116 million is not a disallowance for costs that were deemed unjust or unreasonable. Rather, it appears to be a penalty intended to punish SoCalGas and SDG&E for alleged documentation discrepancies,<sup>109</sup> discrepancies that do not actually exist. When a party proposes a penalty or disallowance, that party has the burden of proving that the penalty or disallowance is justified.<sup>110</sup> Here, ORA has not met that burden. ORA has provided no explanation for how it arrived at the percent used to calculate the dollar figure and offers no explanation for why the dollar figure or disallowance is reasonable and justified.

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<sup>107</sup> ORA Opening Brief at 6-8.

<sup>108</sup> ORA Opening Brief at 17 (citations omitted).

<sup>109</sup> ORA Opening Brief at 5.

<sup>110</sup> D.87-12-067, mimeo., at 297-98; *see also* D.96-08-033, mimeo., at 19.

**A. Line 2000-A - [REDACTED]**

The first instance cited by ORA involves an agreement for x-ray services provided by

[REDACTED] for the Line 2000-A hydrotest. Regarding these services, ORA states:

Applicants acknowledge that in rebuttal testimony they had inaccurately characterized a contract with [REDACTED] on Line 2000-A, as competitively bid rather than single sourced.

ORA concludes that SoCalGas and SDG&E “provided inaccurate cost-related information in testimony and supporting workpapers to the Commission and to ORA”<sup>112</sup> and questions whether there is a “process in place by which Applicants’ independently and of their own initiative checked the accuracy of the information they provided the Commission.”<sup>113</sup>

SoCalGas and SDG&E acknowledged that, originally, this contractor had been misidentified as being subject to a separate bidding process.<sup>114</sup> This was identified by SoCalGas and SDG&E and corrected prior to hearings.<sup>115</sup> As previously explained to ORA, the discrepancy arose based on information provided by the Line 2000-A Project Manager.<sup>116</sup> Upon review by the Supply Management Department to respond to a data request, after testimony had been served, it was discovered that while the Project Manager initially planned to issue a solicitation, the work was ultimately single-sourced.<sup>117</sup> In responding to ORA’s data request, SoCalGas and SDG&E indicated the need for correction and, soon after, SoCalGas and SDG&E

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<sup>111</sup> ORA Opening Brief at 6 (citations omitted).

<sup>112</sup> ORA Opening Brief at 8.

<sup>113</sup> ORA Opening Brief at 7.

<sup>114</sup> See Ex. ORA-10 (ORA Cross Examination Exhibit SoCalGas/SDG&E Response to ORA Data Request 21) at 2.

<sup>115</sup> See Ex. ORA-10 (ORA Cross Examination Exhibit SoCalGas/SDG&E Response to ORA Data Request 21) at 2.

<sup>116</sup> See Ex. ORA-10 (ORA Cross Examination Exhibit SoCalGas/SDG&E Response to ORA Data Request 21) at 2.

<sup>117</sup> See Ex. ORA-10 (ORA Cross Examination Exhibit SoCalGas/SDG&E Response to ORA Data Request 21) at 2.

served revised rebuttal testimony to incorporate the above correction.<sup>118</sup> SoCalGas and SDG&E's Supply Management Department reviewed the other contracts identified in the testimony and verified the accuracy of their identification as either competitively bid or single sourced.<sup>119</sup>

The record demonstrates that this was the first hydrotest project completed "as soon as practicable," and initiated prior to the development of a PSEP Organization or PMO. As noted in testimony: "Once the management of PSEP projects transitioned to the newly-formed PSEP Organization, heightened PSEP-specific recordkeeping and documentation standards and processes were developed to more rigorously track and record the progress of active projects from inception to completion."<sup>120</sup> Line 2000-A, however, was initiated by SoCalGas' PCM group and was not transitioned to PSEP until near its completion in late 2013.

**B. Playa Del Rey Phases 1 and 2 – [REDACTED]**

The second alleged instance of inaccurate documentation cited by ORA involves construction services provided by [REDACTED] for the Playa del Rey hydrotest. Regarding that agreement, ORA states:

Although ORA initially concluded that the Playa Del Rey storage field project was reasonable, Sempra's subsequent testimony and its supporting documentation show discrepancies regarding that project. On one hand, Applicants' witness stated that the [REDACTED] contract at Playa Del Rey ("[REDACTED] contract") was awarded through the competitive bidding process. The witness also confirmed Applicants' documentation provided to ORA, showing that the [REDACTED] contract was awarded via the competitive bidding process. On the other hand, Applicants' same witness provided a response to an ORA Data Request stating, in part, that for ". . .the Playa Del Rey storage facility work, it was determined that it would be appropriate to sole-source the work on a Time-and-Material basis." Applicants' same witness parroted this quote in his written rebuttal testimony. Moreover, Applicants' witness acknowledged on the

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<sup>118</sup> Ex. SCG-09 (Mejia) at 28.

<sup>119</sup> See Ex. ORA-10 (ORA Cross Examination Exhibit SoCalGas/SDG&E Response to ORA Data Request 21) at 3.

<sup>120</sup> Ex. SCG-10-C (Mejia) at 8.

stand mislabeling the [REDACTED] contract as bid. The Applicants' witness also stated that this same [REDACTED] contract was the most expensive sole sourced contract in the Pipeline Safety and Reliability Memorandum Account ("PSRMA") application.<sup>121</sup>

As explained during hearings, the work performed by [REDACTED] was single sourced for the PSEP work, but performed under a previously competitively bid master services agreement.<sup>122</sup> This is the purpose of a master services agreement and, as explained below, engaging in work under a master services agreement is a normal practice that leverages previous efforts to obtain reasonably priced services, enables work to begin expeditiously, and achieves efficiencies in contracting by avoiding separate costly and time consuming bidding events.<sup>123</sup>

SoCalGas and SDG&E entered into a master services agreement with [REDACTED] through a competitive solicitation process.<sup>124</sup> At a later date, that master services agreement was amended to update the hourly rates to primarily account for increases in union wages. For the Playa del Rey PSEP work, because PSEP work needed to be performed "as soon as practicable," a contractor, [REDACTED] already on site was selected to perform the work. The PSEP work was performed pursuant to the rates in the Amendment.<sup>125</sup> As such, the selection of the contractor is considered single sourced, but the master services agreement terms were established through a competitive solicitation process. This situation was described to ORA in a data response:

Please note, in the attached, there are instances where work was performed under an agreement that was previously competitively bid, but not separately competitively bid for the individual work addressed herein. In instances where work was performed pursuant to an agreement that was previously competitively

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<sup>121</sup> ORA Opening Brief at 4 (citations omitted).

<sup>122</sup> Tr. at 210-212 (SoCalGas/SDG&E/Mejia) (sealed).

<sup>123</sup> See, e.g., Ex. SCG-10-C (Mejia) at 26 ([REDACTED]); Ex. SCG-10-C (Mejia) at 29 ([REDACTED] and Ex. SCG-10-C (Mejia) at 32 ([REDACTED]).

Tr. at 210 (SoCalGas/SDG&E/Mejia) (sealed).

<sup>125</sup> Tr. at 210 (SoCalGas/SDG&E/Mejia) (sealed).

bid (e.g., performed under an existing competitively bid master services agreement) a single-source justification may be provided, but is not required.<sup>126</sup>

As such, ORA was made aware of the situation described herein. Indeed, the agreements themselves (the Master Services Agreement and Amendment) were previously provided to ORA for their review.<sup>127</sup>

Related to the situation described for [REDACTED], ORA challenges SoCalGas and SDG&E to identify where in the record it identified where “Applicants indicate that any specific sole source contracts were part of competitively bid MSA’s.”<sup>128</sup> It is not atypical for specific work to be single sourced—not separately bid for that specific work—under a competitively bid master services agreement. This situation or a similar situation was identified by SoCalGas and SDG&E in numerous areas. For example, for Line 2000-A, SoCalGas and SDG&E indicated that a land services support vendor, [REDACTED], was “engaged under a previously-approved purchase order established by SoCalGas’ Land & Right of Way Department” because it “leveraged previous SoCalGas efforts to obtain reasonably-priced contractor services and allowed SoCalGas and SDG&E to begin this high priority work as soon as practicable.”<sup>129</sup> Similarly, SoCalGas and SDG&E acquired construction support services from [REDACTED] using an existing agreement because doing so “leveraged existing resources, previous SoCalGas efforts to obtain reasonably priced services, and allowed SoCalGas and SDG&E to begin this high priority work as soon as practicable.”<sup>130</sup> As a last, non-exhaustive example, [REDACTED] were engaged for environmental services using rates “previously established through existing Master

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<sup>126</sup> Ex. SCG-18 (Response to ORA DR 18, Q12) at 3-4 (Response 12.e).

<sup>127</sup> See Ex. SCG-19-C (Response to ORA DR 4 Q10).

<sup>128</sup> ORA Opening Brief at 6.

<sup>129</sup> Ex. SCG-10-C (Mejia) at 26.

<sup>130</sup> Ex. SCG-10-C (Mejia) at 29.

Services Agreements with the Environmental Services department.”<sup>131</sup> These are reasonable and prudent managerial actions because they leverage earlier efforts to competitively bid services, lowering administrative costs by avoiding a second bidding event. SoCalGas and SDG&E behaved consistent with a reasonable manager with regard to engaging [REDACTED] to perform construction services at Playa del Rey and no penalty or disallowance is warranted.

**VI. SCGC’S RECOMMENDED DISALLOWANCE FOR THE USE OF CONTRACTORS SHOULD BE REJECTED**

SCGC argues that the Commission should “disallow the Applicants' recovery of the portion of consulting costs that corresponds to overheads and profits so that the cost of using consultants is reduced to the level of the fully burdened cost of using the Applicants' employees to do Pipeline Safety Enhancement Plan (‘PSEP’ or ‘Safety Enhancement’) work.”<sup>132</sup> The basis for SCGC’s disallowance is that SCGC believes PSEP work should and could be done by SoCalGas and SDG&E employees and that the use of contractors unreasonably increases costs.<sup>133</sup> SoCalGas and SDG&E address the reasonableness of their contractor engagement activities in their Opening Brief,<sup>134</sup> but certain aspects warrant additional discussion in response to SCGC.

SCGC first questions the need to hire contractor personnel: “The Applicants do not offer any convincing rationale for the Applicants' heavy reliance on external employees rather than substantially less expensive internal personnel.”<sup>135</sup> This is incorrect and indicates a misunderstanding by SCGC of the availability of qualified personnel and the need to proceed as

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<sup>131</sup> Ex. SCG-10-C (Mejia) at 32.

<sup>132</sup> SCGC Opening Brief at iv.

<sup>133</sup> SCGC Opening Brief at 3.

<sup>134</sup> SoCalGas and SDG&E Opening Brief at Section V.A. and 19-26.

<sup>135</sup> SCGC Opening Brief at 5.

“soon as practicable.”<sup>136</sup> As explained to SCGC and the Commission throughout the development of the PSEP: workforce limitations were and remain a concern.<sup>137</sup> Significant, hiring has occurred, but as SoCalGas and SDG&E explained:

The PSEP organization has retained both Company and external personnel needed to perform a wide range of project work activities, including project management, project engineering, logistics, purchasing, contracting, project cost and schedule controls, environmental monitoring, and land acquisition. SoCalGas and SDG&E attempted to recruit Company personnel in all of these areas with limited success.<sup>138</sup>

SoCalGas and SDG&E provided evidence demonstrating that, over the past three years, they have expressed concerns about their ability to hire sufficient workers and the need for contractor personnel.<sup>139</sup> In contrast, SCGC relies on speculation that hundreds of qualified personnel could be hired and PSEP work could still proceed “as soon as practicable.”

Even if there were hundreds of qualified personnel available to be hired at the wages SoCalGas and SDG&E were offering, SCGC is focused on the increased incremental cost of using contractors in the short term, without considering the long term implications of having hundreds of employees without sufficient work to do. Indeed, SCGC ignores the fact that PSEP is an extremely large program of finite duration. Meaning, when PSEP is done, SoCalGas and SDG&E employees will need to be moved to other departments, while contractor personnel can simply be released per prior agreement. SoCalGas and SDG&E cannot reasonably be expected

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<sup>136</sup> D.11-06-017, mimeo., at 19, 20, 29 (Conclusion of Law 5) and 31 (Ordering Paragraph 5) and D.12-04-021, mimeo., at 2.

<sup>137</sup> See Ex. SCG-05 (Phillips) at 5-6.

<sup>138</sup> Ex. SCG-06-C (Phillips) at 8.

<sup>139</sup> See Ex. SCG-05 (Phillips) at 5-6 and 8.

to hire 700 new, qualified employees in a matter of months and then fire those 700 employees when the work is done or, as is likely the case now, delayed.<sup>140</sup>

The flexibility allowed by retaining contractors is an important benefit that allowed SoCalGas and SDG&E to ramp up initial efforts to start PSEP work and allows SoCalGas and SDG&E to reasonably respond to PSEP complications, schedule uncertainty, and PSEP completion.<sup>141</sup> For example, PSEP scheduling complications have potentially delayed PSEP Phase 1B and Phase 2, requiring SoCalGas and SDG&E to begin considering releasing contractor personnel, a proposition that would have certainly been more complicated and costly if employees, instead of contractors were involved:

**Q:** You see [employee workforce] getting up to what? Fifty percent? Seventy-five percent? A hundred percent?

**A:** It certainly won't be 100 percent. There's always a need for some contractors because of their specialized knowledge and skill. And, you know, the way -- I'm concerned that the work will drop away because of various reasons. We need to get a Phase 2 approved. We haven't got it even approved to start working on it yet.

So I'm concerned that it will be a gap between when our Phase 1A ends -- and now it could even be the Phase 1B work could also be delayed -- and when it will start for things we've been talking about. And so I'm quite concerned that as we complete Phase 1A mostly next year and the year after, that there won't be work for those skilled resources of people who have been trained to do.

...

**Q:** And that will increase the need to use non-Sempra employees, i.e. use contracted employees or decrease the need?

**A:** It makes me as the manager who is responsible for worrying about having the right resources -- it inhibits me from hiring even more company resources. Contract resources we can let go at any time. I prefer not to let go some of those contract resources who have become experienced with what our needs are and in

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<sup>140</sup> Tr. at 30 (SoCalGas/SDG&E/Phillips) (“But when I look at where we are in those proceedings, I see I think there's a high probability there's going to be a gap between when those other proceedings allow us to start our work and when we finish with Phase 1A.”)

<sup>141</sup> See Ex. SCGC-TURN-02-C at Attachment C (SoCalGas and SDG&E Response to SCGC Data Request 4, Question 4.4.1).

our own procedures, in our own documentation requirements. So I prefer not to lose them.

So there will be some contractors that I would like to keep. I don't want to hire company people and then have them have nothing to do.<sup>142</sup>

If SoCalGas and SDG&E had hired employees instead of retaining contractors, employees would have no work to do and SoCalGas and SDG&E would be stuck with the proposition of releasing employees or overstaffing departments; neither an ideal solution. Given the uncertainty surrounding early PSEP work and delayed guidance on PSEP scope, the flexibility provided by contractor resources has always been viewed as a benefit to be reasonably pursued. For example, in a presentation to the SoCalGas Board of Directors in December of 2012, it was specifically identified that steps were taken to maintain such flexibility and that “All contracts contain ‘out clauses’ due to Commission uncertainty with regard to scope of PSEP.”<sup>143</sup> SCGC has offered no evidence as to why flexibility should not reasonably be sought given the finite duration of PSEP and the uncertainty surrounding PSEP schedule and scope.

Again, PSEP is not business as usual. PSEP is an unprecedented undertaking spurred on by a catastrophic event that was, on numerous occasions, directed to be completed “as soon as practicable.”<sup>144</sup> To do that, SoCalGas and SDG&E supplemented internal personnel with external contractors. In so doing, SoCalGas and SDG&E took reasonable steps to engage contractors and manage the costs of engaging contractors. This included competitive bidding services; for example, PMO services,<sup>145</sup> engineering support,<sup>146</sup> environmental support,<sup>147</sup> land

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<sup>142</sup> Tr. at 29-31 (SoCalGas/SDG&E/Phillips).

<sup>143</sup> Ex. SCGC-TURN-o2-C (Yap) at Attachment C (Confidential Board of Directors Presentation attached to Response 4.4.5).

<sup>144</sup> See, e.g., D.11-06-017, mimeo., at 20.

<sup>145</sup> Ex. SCG-04 (Phillips) at 8-9.

<sup>146</sup> SoCalGas and SDG&E met with 14 engineering firms to assess their capabilities to provide this service to PSEP. Negotiated agreements were reached with 11 of the 14 firms. SoCalGas and SDG&E validated the reasonableness of the negotiated rates by using an RFP for non-PSEP related engineering

services support,<sup>148</sup> and survey and mapping support.<sup>149</sup> The solicitation processes are rigorous and designed to validate that SoCalGas, SDG&E, and their customers are receiving the best value. SCGC has not offered evidence as to why these efforts do not demonstrate the reasonableness of SoCalGas and SDG&E's engagement of contractors. To the contrary, SCGC's witness has indicated that competitive bidding is one means by which to demonstrate reasonableness of costs.<sup>150</sup>

SCGC also recommends the Commission "make it clear" that it is better to rely on employees and put SoCalGas and SDG&E on notice that "the extent to which the Applicants have diligently sought qualified and experienced employees to manage and execute the PSEP projects will be an issue in future reasonableness reviews."<sup>151</sup>

The record demonstrates that SoCalGas and SDG&E undertook reasonable efforts to hire additional employees. These efforts included posting the positions on websites, using a Local Job Network Program,<sup>152</sup> having Community and Diversity Outreach Partners share the positions with the appropriate members of their organizations, attending engineering events, and used three recruiting firms.<sup>153</sup> Through these efforts, SoCalGas and SDG&E hired additional employees, and continue to hire additional employees, but there will always be a need for

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services issued by the SoCalGas Gas Engineering Department as a benchmark. The rates for PSEP engineering support were validated as being within range of existing non-PSEP awarded contracts and are consistent across the firms selected. *See* Ex. SCG-04 (Phillips) at 10.

<sup>147</sup> Ex. SCG-04 (Phillips) at 10-11.

<sup>148</sup> Ex. SCG-04 (Phillips) at 11.

<sup>149</sup> Ex. SCG-04 (Phillips) at 11-12.

<sup>150</sup> Tr. at 295 (SCGC/TURN/Yap).

<sup>151</sup> SCGC Opening Brief at 12.

<sup>152</sup> program in which SoCalGas jobs that are posted on [socalgas.com/careers](http://socalgas.com/careers) are sent daily by email through the Community and Diversity Outreach Program, connecting employers with active and passive job seekers in targeted organizations. *See* Ex. SCGC-TURN-03-C (SCGC/TURN Cross-Examination Exhibit No. 1) at 16.

<sup>153</sup> *See* Ex. SCGC-TURN-03-C (SCGC/TURN Cross-Examination Exhibit No. 1) at 16-19.

external resources.<sup>154</sup> As such, SoCalGas and SDG&E have reasonably and prudently engaged in hiring efforts and the Commission need not require additional reporting on the same.

**VII. TURN MISCONSTRUES D.14-06-007’S PRIOR IMPRUDENT MANAGEMENT LANGUAGE**

TURN requests that the Commission “direct the Sempra Utilities to abandon their unduly narrow reading of D.14-06-007, and to have their next PSEP application reflect and report on reasonable efforts to assess whether any of the costs included therein have any nexus to ‘prior imprudent management.’”<sup>155</sup> Meaning, TURN reads D.14-06-007 as requiring SoCalGas and SDG&E to investigate PSEP work to determine if there is any nexus to prior imprudent management. This interpretation is incorrect and unsupported by the plain language of D.14-06-007.

TURN’s interpretation is based on reference to two sections of D.14-06-007. First, in discussing ratemaking principles, D.14-06-007 states:

This decision does not propose or adopt any penalty for SDG&E or SoCalGas. We do however identify certain costs that should be absorbed by shareholders instead of ratepayers. Consistent with long-standing ratemaking principles, ratepayers will generally bear the reasonable costs for a safe and reliable natural gas transmission system. However, where imprudent actions by the gas system operator have led to unreasonable costs, we will assign those costs to shareholders.<sup>156</sup>

Here, D.14-06-007 was summarizing the traditional “Ratemaking Principles to be Applied in Reasonableness Applications” and “identify[ing] certain costs that should be absorbed by shareholders instead of ratepayers.” Next, the Commission, in identifying certain imprudent costs, stated:

It is reasonable for SDG&E and SoCalGas’ shareholders to absorb the portion of the Safety Enhancement costs that were caused by any prior imprudent

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<sup>154</sup> Ex. SCG-06-C (Phillips) at 9-10.

<sup>155</sup> TURN Opening Brief at 18.

<sup>156</sup> D.14-06-007, mimeo., at 31.

management. SDG&E and SoCalGas should absorb the costs of pressure testing where the company cannot produce records that provide the minimum information to demonstrate compliance with the industry or regulatory strength testing and records keeping requirements of industry standards beginning with the adoption of General Order 112 and its revisions, as well as the requirements of 49 CFR, Part 192 and its revisions beyond the effective date of Part 192.<sup>157</sup>

In these areas, D.14-06-007 was not stating a new requirement for PSEP after-the-fact reasonableness reviews, but merely stating traditional ratemaking principles and identifying certain categories of costs as per se disallowed. That is not to say other costs could not be disallowed through an after-the-fact reasonableness review, but D.14-06-007 did not impose an additional requirement that would have SoCalGas and SDG&E investigate the history of each and every pipeline segment addressed in PSEP for “any nexus” to “prior imprudent management.”<sup>158</sup>

Indeed, in denying TURN and ORA’s first application for rehearing of D.14-06-007, the Commission explained to TURN and ORA that the Commission has disallowed costs where “the facts showed that the costs we disallowed were directly attributable to clear and identifiable utility failures or errors,” and that ratemaking principles do not require a disallowance based on “only sweeping allegations of imprudence.”<sup>159</sup> In this Application, TURN requests the Commission require SoCalGas and SDG&E to demonstrate a negative—that they were not imprudent in any way whatsoever at any time. This appears to be an improper effort to shift its burden to justify its proposed disallowances with evidence, as opposed to sweeping allegations of imprudence.

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<sup>157</sup> D.14-06-007, mimeo., at 56-57 (Conclusion of Law 13).

<sup>158</sup> TURN Opening Brief at 18.

<sup>159</sup> D.14-11-021, mimeo., at 5.

**VIII. TURN AND SCGC’S CHALLENGES TO SOCIALGAS AND SDG&E PSEP SUPPORT COSTS SHOULD BE REJECTED**

TURN argues that: “[t]he utilities’ showing in support of the GMA amounts assigned to each of their projects is inadequate.”<sup>160</sup> Based on this argument, TURN requests that “[i]n future reasonableness review applications and the associated direct showing, the Sempra Utilities need to include a more complete presentation of overhead costs associated with or assigned to PSEP projects.”<sup>161</sup> And TURN requests the Commission “direct the utilities to demonstrate the reasonableness of the total amount included in the GMA ‘pool,’ and their proposed allocation of those costs among PSEP projects.”<sup>162</sup> Other than the insurance overheads addressed below, however, TURN does not separately seek disallowances for PSEP GMA, PMO, or incremental overhead costs. TURN does, however, argue that modifications are necessary for how SoCalGas and SDG&E account for Executive Incentive Compensation Plan (ICP) disallowances.

SCGC challenges certain PSEP GMA costs associated with Power Advocate, a provider of PSEP support services as not directly contributing PSEP.<sup>163</sup>

The evidence establishes that, PSEP GMA costs are project support costs directly related to PSEP, not attributable to a specific project, but incurred in support of PSEP projects.<sup>164</sup>

Overhead costs are costs that indirectly support the business operations of SoCalGas and SDG&E and are included for cost recovery. Here, SoCalGas and SDG&E include overheads associated with incremental labor and additional procurement activities because they proportionately increase as a result of PSEP activities.<sup>165</sup> The PMO is a type of PSEP support cost that was separately identified and discussed because it is the department within the PSEP

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<sup>160</sup> TURN Opening Brief at 25

<sup>161</sup> TURN Opening Brief at 24.

<sup>162</sup> TURN Opening Brief at 25.

<sup>163</sup> SCGC Opening Brief at 12-14.

<sup>164</sup> Ex. SCG-02 (Phillips) at 4-5.

<sup>165</sup> Ex. SCG-11 (Austria) at 3.

Organization that oversees PSEP implementation and provides governance for the execution of PSEP projects and activities.<sup>166</sup> While SoCalGas and SDG&E’s evidence regarding these costs was not inadequate or insufficient to demonstrate the reasonableness of costs in this proceeding, SoCalGas and SDG&E acknowledge intervenors’ requests for additional information on these costs and agrees to provide additional information in future reasonableness reviews.

**A. PSEP Insurance costs are Reasonable and Supported**

TURN recommends that the Commission “disallow rate recovery of the \$2.181 million associated with the PSEP-specific insurance”<sup>167</sup> because the “utilities failed to meet their burden of proof or persuasion regarding this insurance cost.”<sup>168</sup> TURN, however, understates the weight of the record evidence supporting this PSEP insurance overhead loader.

The record establishes that, for a variety of reasons, primarily to mitigate risk, optimize costs and increase competition, SoCalGas and SDG&E procured an Owner Controlled Insurance Policy (OCIP) for PSEP: “Additional PSEP insurance was obtained for PSEP work performed by third party contractors and allocated to PSEP capital and O&M projects through a separate insurance overhead loader.”<sup>169</sup> As explained elsewhere, in an effort to increase screening of suppliers on this higher risk work, contractor certification and enrollment in the OCIP program is required before contractors can commence work: “Contractors are not to commence any work until the enrollment in the Owner Control Insurance Program (OCIP) is completed. All required forms are received, approved and a Certificate of Insurance is provided.”<sup>170</sup>

As noted in California Real Estate Law and Practice, the use of an OCIP is an understood, accepted, and increasingly used means to insure larger projects at a reasonable cost:

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<sup>166</sup> Ex. SCG-01 (Phillips) at 9.

<sup>167</sup> TURN Opening Brief at 29.

<sup>168</sup> TURN Opening Brief at 29.

<sup>169</sup> Ex. SCG-11 (Austria) at 4.

<sup>170</sup> Ex. SCG-08 (Mejia) at 5, Footnote 5.

On more and more large projects, the owner, construction manager, or prime contractor will arrange for participant insurance coverage using an "Owner Controlled Insurance Program," commonly referred to as an OCIP, or a "Contractor Controlled Insurance Program," the CCIP. These programs are arranged by knowledgeable insurance brokers and consultants and have the potential to save significant amounts for all the participants, especially where there are few, if any, claims.<sup>171</sup>

Similarly, SoCalGas and SDG&E, in implementing an OCIP, intended to create a more cost effective means to insure the multitude of contractors and subcontractors working on PSEP projects. In so doing, to manage costs, the program itself was competitively solicited, and consistent with SoCalGas and SDG&E's policy to generally bid agreements worth in excess of \$75,000,<sup>172</sup> requests for proposals were requested from several insurance brokers. SoCalGas and SDG&E described this bidding effort to the Commission in one of their monthly PSEP reports:<sup>173</sup>

Request for Proposals for an Owner Controlled Insurance Program (OCIP) were requested by several insurance brokers to cover activities that will be executed for the PSEP. A successful broker was selected to assist with the implementation of the OCIP for insurance coverage during the bridging period and Phase 1A.<sup>174</sup>

Further, SoCalGas and SDG&E did provide additional explanation to TURN and SCGC in data responses, which were not made part of the record.<sup>175</sup> Specifically, in order to explain why insurance needs would be considered a specific cost associated with PSEP and not generally a part of the SoCalGas and SDG&E's need to insure their operational activities, SoCalGas and SDG&E explained:

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<sup>171</sup> See 12-415 California Real Estate Law & Practice § 415.03.

<sup>172</sup> Ex. SCG-09 (Mejia) at 17.

<sup>173</sup> D.12-04-021 directs Southern California Gas (SoCalGas) and San Diego Gas & Electric (SDG&E) to provide monthly Pipeline Safety Enhancement Plan (PSEP) updates to the Commission's Energy Division and Consumer Protection and Safety Division (now Safety and Enforcement Division) as the plan is implemented. D.12-04-021, mimeo., at 7 and 12 (Ordering Paragraph No. 4).

<sup>174</sup> See September 2012, Southern California Gas Company and San Diego Gas & Electric Monthly Pipeline Safety Enhancement Plan Status Report. Available at: <https://www.socalgas.com/regulatory/documents/r-11-02-019/2012-september-psep-update.pdf>.

<sup>175</sup> If deemed necessary for the Commission's purposes, SoCalGas and SDG&E are able to take steps to submit that response as a late-filed exhibit or in some other appropriate manner.

In order to mitigate risks associated with work performed under PSEP, SoCalGas and SDG&E directly procured a separate insurance program covering PSEP risks and liabilities arising from third party and professional liability claims.

Specifically, SoCalGas & SDG&E put a PSEP Owner Controlled Insurance Program (OCIP) in place. The PSEP OCIP is an owner purchased and owner controlled master insurance, safety and claims management program that provides specific coverages for SoCalGas and SDG&E and enrolled contractors, while they are performing work at the project site within the scope of PSEP. Traditionally, these coverages are procured by each individual contractor working within the scope of PSEP and expensed to SoCalGas and SDG&E through its contract price. Contractors enrolled in the program do not include these insurance coverages in its contract price. The OCIP structure provides all stakeholders with insurance coverage, safety, and cost benefits.<sup>176</sup>

Procuring insurance in this way is a reasonable means to enable SoCalGas and SDG&E to better control and manage insurance of this large infrastructure undertaking and potentially “save significant amounts for all the participants.”<sup>177</sup>

Further, if SoCalGas and SDG&E were not using OCIP, contractors would be required to procure their own insurance and such costs would simply become part of any bid to perform to PSEP work; the converse is also true, as Contractors would be expected to reduce pricing in a commensurate level with offsetting Commercial General Liability costs.<sup>178</sup> Additionally, OCIP also enables smaller contractors and suppliers to procure elevated limits.<sup>179</sup> SoCalGas and SDG&E explained their efforts to procure PSP Insurance in an effort to promote the safe execution of its PSEP projects at reasonable costs. In contrast, TURN offers no evidence that the

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<sup>176</sup> SoCalGas and SDG&E Response to SCGC and TURN’s 11<sup>th</sup> set of Data Requests, Response 11.1.6. Available at: [https://www.socalgas.com/regulatory/documents/a-14-12-016/SCGC-TURN%20DR%2011%20Final\\_Redacted.pdf](https://www.socalgas.com/regulatory/documents/a-14-12-016/SCGC-TURN%20DR%2011%20Final_Redacted.pdf)

<sup>177</sup> 12-415 California Real Estate Law & Practice § 415.03.

<sup>178</sup> The Commission has previously recognized that bidders to a service will take into account market variables, and the cost of insurance would be one such variable considered when issuing a bid. *See* D.14-01-009, mimeo., at 15.

<sup>179</sup> As explained in a presentation to the SoCalGas and SDG&E Board of Directors in December 4, 2012 regarding OCIP, it “[p]rovides greater control of insurance and claims; higher levels of coverage.” *See* Ex. SCGC-TURN-02-C (Yap) at Attachment C (Confidential Board of Directors Presentation attached to Response 4.4.5).

costs were unreasonable or that a reasonable manager would have managed or procured insurance in some other fashion. The costs of the OCIP should be approved.

As an alternative, TURN suggests the “Commission could permit the utility to seek recovery of the amount associated with otherwise-approved PSRMA projects in a future reasonableness review application, subject to a demonstration of the reasonableness of all aspects of that policy and associated costs.”<sup>180</sup> SoCalGas and SDG&E provided adequate support for the PSEP insurance costs to meet the preponderance of the evidence burden. If, however, the intervenors would find it useful for SoCalGas and SDG&E to provide additional information in support of these costs in subsequent filings, SoCalGas and SDG&E agree to present additional information with respect to these costs in future after-the-fact reasonableness reviews.

**B. Executive Incentive Compensation was Reasonably Removed**

TURN challenges the means by which SoCalGas and SDG&E complied with the Commission’s order to remove “Executive incentive compensation for Safety Enhancement.”<sup>181</sup> TURN’s position is that because SoCalGas and SDG&E’s company-wide pools of incentive compensation include Executive ICP costs, it is irrelevant that no executive salaries are charged to PSEP because some Executive ICP will be included in PSRMA cost recovery because the costs of the pools themselves are being collected.<sup>182</sup> TURN then requests the Commission “direct the utilities to develop a modification of their use of a general overhead loader for incentive compensation in order to identify and remove an appropriate amount of costs associated with executive incentive compensation.”<sup>183</sup>

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<sup>180</sup> TURN Opening Brief at 29-30.

<sup>181</sup> D.14-06-007, mimeo., at 14.

<sup>182</sup> TURN Opening Brief at 27.

<sup>183</sup> TURN Opening Brief at 28.

In order to comply with the Commission’s direction to exclude executive incentive compensation costs, SoCalGas and SDG&E do not include any executive compensation costs for recovery. In the event executive compensation is included for recovery in future reasonableness review proceedings, SoCalGas and SDG&E would manually remove the component of the executive compensation associated with ICP. TURN’s requests, on the other hand, would entail creating new system functionality to separately track and allocate any Executive ICP separate and distinct from other ICP amounts. Such a modification would be administratively burdensome and potentially costly.

**C. SCGC too narrowly interprets D.14-06-007’s Direct Contribution to Safety Enhancement Requirement language**

SCGC recommends the Commission disallow [REDACTED] associated with SoCalGas and SDG&E’s use of Power Advocate.<sup>184</sup> SCGC recommends this disallowance on the basis that the “Power Advocate costs are not tied to any particular PSEP project”<sup>185</sup> and do not “meet the ‘directly contribute’ standard for recovery of PSEP costs that the Commission established in D.14-06-007.”<sup>186</sup>

In D.14-06-007, the Commission stated: “In addition to the other requirements to demonstrate reasonableness, SDG&E and SoCalGas are limited to the recovery of only those costs that directly contribute to the implementation of Safety Enhancement.”<sup>187</sup> Notably, the Commission used “Safety Enhancement,” not “safety enhancement.” Earlier in D.14-06-007, the Commission defined “Safety Enhancement” as SoCalGas and SDG&E’s “plan to enhance the

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<sup>184</sup> As SCGC indicates in its Opening Brief, these are not the only Power Advocates costs and SCGC is requesting that future Power Advocate costs be similarly disallowed. *See* SCGC Opening Brief at 12.

<sup>185</sup> SCGC Opening Brief at 13.

<sup>186</sup> SCGC Opening Brief at 14.

<sup>187</sup> D.14-06-007, mimeo., at 61 (Ordering Paragraph 6).

safety of their natural gas pipeline system.”<sup>188</sup> Therefore, the Commission is requiring that costs directly contribute to PSEP.

Power Advocate is a contractor retained because of their expertise in assisting in the structuring of competitive sourcing events.”<sup>189</sup> They “help set up bid events and then advise on issues like the norms for profit, overheads, bill rates, etc.” and, during bidding events, “they advise on negotiation strategies.”<sup>190</sup> Meaning, Power Advocate, among other things, assists in engaging contractors and analyzing the reasonableness of contractor bids.<sup>191</sup>

As part of this, Power Advocate assists in assessing the cost effectiveness, experience, and ability of contractors to contribute to SoCalGas and SDG&E’s Safety Enhancement efforts.<sup>192</sup> For example, Power Advocate assisted in assessing the costs and capabilities of the PMO contractor and bidders<sup>193</sup> and performed analysis of the bidders’ proposed approach, resources, and price.<sup>194</sup> In other words, SoCalGas and SDG&E contracted with Power Advocates to help ensure that contractors’ services are procured at the lowest reasonable cost. To hold that such efforts do not directly contribute to PSEP would have a perverse result: SoCalGas and SDG&E would be unable to recover for costs incurred to promote the cost effectiveness of their PSEP efforts and assess the capabilities of contractors brought onto assist with PSEP.<sup>195</sup> The analysis performed by Power Advocate is relevant to assessing the

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<sup>188</sup> D.14-06-007, mimeo., at 3.

<sup>189</sup> Ex. SCG-06-C (Phillips) at 18.

<sup>190</sup> Ex. SCG-06-C (Phillips) at 18.

<sup>191</sup> Ex. SCG-06-C (Phillips) at 18.

<sup>192</sup> See, e.g., SCGC-TURN-02-C (Yap) at Attachment C (Power Advocate Assessment Documentation Attached to Response 4.4.5).

<sup>193</sup> SCGC-TURN-02-C (Yap) at Attachment C (Power Advocate Assessment Documentation Attached to Response 4.4.5).

<sup>194</sup> See, e.g., SCGC-TURN-02-C (Yap) at Attachment C (Power Advocate Assessment Documentation Attached to Response 4.4.5).

<sup>195</sup> Notably, the Power Advocate analysis performed to assess the PMO contractor bid and qualifications forms the basis for SCGC’s other recommended contractor disallowance. Indeed, SCGC relies on Power Advocate’s presentation to support its determination of the Jacobs’ hourly cost, the Jacobs overheads,

reasonableness of contractor costs and in helping choose the best value contractors and directly contributes to the cost effective implementation of PSEP. Indeed, SoCalGas and SDG&E's use of Power Advocate's expertise and services demonstrates that SoCalGas and SDG&E are using available tools to promote reasonable cost services for customers.

If the Commission were to adopt SCGC's narrow reading of what directly contributes to Safety Enhancement, a significant portion of SoCalGas and SDG&E's reasonable efforts to support PSEP and implement and execute PSEP effectively, cost effectively, and "as soon as practicable" would be at risk. It is not reasonable to disallow costs incurred to promote reasonable and cost effective implementation of this Commission-mandated program. Further, if the Commission were to rule these costs unreasonable, this ruling would be received months or years after such costs were incurred to create the PSEP Organization and begin PSEP work "as soon as practicable." Such a result would punish SoCalGas and SDG&E for their reasonable efforts to comply with Commission directives to enhance system safety "as soon as practicable."

As an alternative, SCGC indicates that Power Advocate costs could be recovered through SoCalGas and SDG&E's existing overhead loaders: "Denial of the recovery of Power Advocate costs in this reasonableness review proceeding would not necessarily result in Power Advocate costs being unrecovered by the Applicants. The Power Advocate costs might still be recovered through overhead loaders."<sup>196</sup> It seems SCGC is suggesting that PSEP support costs could or should be booked to SoCalGas and SDG&E traditional overhead pools and collected through those overhead pools, instead of directly through PSEP reasonableness review. These PSEP support activities, however, are not general activities in support of SoCalGas and SDG&E day-to-day operations, but rather, are PSEP-specific costs that are booked to PSEP-specific accounts.

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fees, and profits *See* Ex. SCGC-TURN-02-C (Yap) at 15, Footnote 44 (Supporting Figure 5); 16, Footnote 45 (Supporting Figure 6) and 46; and 17, Footnotes 47 and 48.

<sup>196</sup> SCGC Opening Brief at 15.

Therefore, these costs should be recovered through PSEP proceedings. If the Commission does adopt SCGC's overly narrow interpretation of "direct contribution" to "Safety Enhancement," however, it should be clarified that SoCalGas and SDG&E may nevertheless recover such PSEP support costs through traditional overhead pools so as not to strand these reasonably incurred costs.

**IX. ORA'S AND TURN'S SUGGESTIONS FOR ADDITIONAL PSEP REQUIREMENTS ARE UNNECESSARY, BURDENSOME, UNTIMELY, COSTLY, AND LARGELY UNIMPLEMENTABLE**

For the first time in briefs, ORA and TURN suggests numerous and substantial new requirements be imposed on PSEP and on future PSEP after-the-fact reasonableness reviews.<sup>197</sup> ORA proposes new cost estimate requirements, new variable and contingency factor requirements, and the creation of a universal decision tree.<sup>198</sup> TURN requests the Commission order specific enhancements to what SoCalGas and SDG&E present by SoCalGas and SDG&E regarding the decision to test or replace<sup>199</sup> and customer service alternatives.<sup>200</sup> These new proposals are presented for the first time in briefs and therefore, SoCalGas and SDG&E were not provided an opportunity to introduce additional relevant evidence into the record to demonstrate why these proposals are unnecessary, burdensome, costly, untimely and largely implementable.

The projects presented for review in this application are the earliest PSEP project, projects initiated and completed prior to the issuance of D.14-06-007. It does not make sense to

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<sup>197</sup> ORA Opening Brief at 17 (ORA recommends "that the Commission supplement the D.14-06-007 minimum filing requirements applicable to Applicants' future pipeline safety enhancement filings with those identified in this section.")

<sup>198</sup> ORA Opening Brief at 23.

<sup>199</sup> TURN Opening Brief at 20-22.

<sup>200</sup> TURN Opening Brief at 20-22.

now, after most Phase 1A projects have been initiated,<sup>201</sup> and before any projects having the benefit of D.14-06-007 have been presented for review, to again change or modify requirements. Indeed, doing so is unfair to SoCalGas and SDG&E as they have been operating, first, absent Commission guidance other than to proceed with work “as soon as practicable,” and, second, under the guidance recently provided in D.14-06-007. As such, the Commission should reject the imposition of these new requirements.

Further, these new requirements will likely increase costs, delay safety enhancement work, and further complicate later applications by changing the requirements under which SoCalGas and SDG&E are engaging in safety enhancement efforts midstream. If the Commission deems these requirements worthwhile, however, the Commission should be aware that the vast majority of PSEP Phase 1A projects have been initiated.<sup>202</sup> As such, if new requirements are adopted, any new requirements should be made prospective and only apply to projects that have not yet progressed through the engineering design and scoping phase as of the date the next Decision is issued. As of the time of filing this brief, there are only 5 pipeline projects and 33 valve projects, out of approximately 230 total Phase 1A projects, that have not yet progressed beyond this point. By the time a final decision is issued on this matter, there may be few if any pipeline projects at all that have not proceeded beyond the design and scoping phase. Further, because of the potential delay associated with the new requirements, the Commission should explicitly find that SoCalGas and SDG&E need no longer initiate and complete PSEP projects “as soon as practicable.” Lastly, to avoid allegations that the requested

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<sup>201</sup> In SoCalGas and SDG&E’s October 2015 PSEP Report for Phase 1A, all but two project have reached Stage 2 (Selection of Replacement or Hydrostatic Testing). *See* October 2015 PSEP update available at: <https://www.socalgas.com/regulatory/R11-02-019.shtml>.

<sup>202</sup> In SoCalGas and SDG&E’s October 2015 PSEP Report for Phase 1A, all but two project have reached Stage 2 (Selection of Replacement or Hydrostatic Testing). *See* October 2015 PSEP update available at: <https://www.socalgas.com/regulatory/R11-02-019.shtml>.

forecasting and analysis efforts and associated costs do not “directly contribute to Safety Enhancement,” the Commission should clarify that such PSEP forecasting and analysis, which SoCalGas and SDG&E anticipate to be costly, “directly contributes to Safety Enhancement and is recoverable through the reasonableness review process.”

Although SoCalGas and SDG&E oppose the new requirements proposed by ORA and TURN, SoCalGas and SDG&E are exploring opportunities to enhance data and data presentation for future reasonableness reviews. Again, for the projects presented in this Application, what was known at the time of initiating and completing these projects was that the safety work should be completed “as soon as practicable.” SoCalGas and SDG&E could not possibly have known that the Commission would impose an after-the-fact reasonableness review requirement, could not have predicted the requirements of D.14-06-007, nor could SoCalGas and SDG&E have known of the additional requests, questions, or suggestions presented by intervenors in this proceeding. SoCalGas and SDG&E are cognizant of intervenor concerns and suggestions and are looking for means by which they can best address these concerns in a reasonable manner. For example, TURN requests that the Commission order SoCalGas and SDG&E to explain their assignment of post-July 61 project costs for projects that have both post-July 1961 sections and pre-July 1961 sections.<sup>203</sup> SoCalGas and SDG&E agree that such a breakdown will help clarify how costs were included or disallowed in the future and will include such information in future applications. However, imposing additional requirements at this point will slow down work, increase costs, and would be especially inappropriate given the fact that SoCalGas and SDG&E have not had an opportunity to present any SEEBA or SECCBA costs under the framework provided for by D.14-06-007

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<sup>203</sup> TURN Opening Brief at 18.

and most of Phase 1A has already been initiated.<sup>204</sup> PSEP is a substantial and costly undertaking, and to change requirements midstream will only increase costs, delay safety enhancement, and would not be in the best interest of customers.

**A. ORA’s Proposed Cost Estimate Requirements Should be Rejected**

ORA requests that the Commission require Applicants to provide early project cost estimates and trace any changes from initial PSEP estimates through to actuals presented in future after-the-fact reasonableness reviews.<sup>205</sup>

The imposition of new requirements related to cost estimates being compared to actuals<sup>206</sup> is intertwined with ORA’s misinterpretation of the reasonable manager standard. For all the reasons explained in Section IV above, the Commission should not reinterpret the reasonable manager standard in this proceeding and impose these new requirements. While SoCalGas and SDG&E acknowledge that comparing actuals to estimates may assist in determining reasonableness for projects initiated more recently, and will include additional comparison analysis, such a comparison is not a requirement of the reasonable manager standard and should not be made a retroactive requirement here. If the Commission were to adopt ORA’s proposal, SoCalGas and SDG&E would be forced to retroactively attempt to perform this analysis for scores of projects that have already completed construction, which would be a costly and time consuming undertaking.

**B. ORA’s Proposed Variable and Contingency Forecasting should be Rejected**

ORA requests that the Commission require SoCalGas and SDG&E to identify “each of the variabilities they anticipate will apply for upcoming pipeline safety enhancement projects,

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<sup>204</sup> In SoCalGas and SDG&E’s October 2015 PSEP Report for Phase 1A, all but two project have reached Stage 2 (Selection of Replacement or Hydrostatic Testing). *See* October 2015 PSEP update available at: <https://www.socalgas.com/regulatory/R11-02-019.shtml>.

<sup>205</sup> ORA Opening Brief at 19.

<sup>206</sup> ORA Opening Brief at 19-20.

including those to come in future Applications.”<sup>207</sup> SoCalGas and SDG&E are then to quantify all variables, determine variable frequency, analyze factors affecting variable costs, and look for means to account for and reduce the cost uncertainty of each variable.<sup>208</sup> If variable forecasts cannot be developed, SoCalGas and SDG&E are to explain why and present a plan to for dealing with variable uncertainty.<sup>209</sup> Any variables that were unexpected at the time the original PSEP was filed, should be explained.<sup>210</sup> Finally, ORA suggests SoCalGas and SDG&E address uncertainty in a contingency factor<sup>211</sup> and requests the Commission require that the contingency factor be demonstrated to be reasonable.<sup>212</sup> It is not clear what this is intended to accomplish and it is not clear if ORA is aware that this would be, quite simply, a monumental undertaking.<sup>213</sup> Indeed, this proposal should be expected to significantly increase costs for all PSEP projects without contributing to the quality of the work performed or enhancing the safety of the system

ORA’s suggested new requirements would seem to do away with the standards imposed by D.14-06-007 (*e.g.*, reasonable manager standard) and impose a hybrid after-the-fact reasonableness review and forecast proceeding. It is far from clear how such a proceeding would progress, but certainly it would complicate future proceedings. For example, SoCalGas and SDG&E have explained at length that, in Phase 1A alone, SoCalGas and SDG&E expect to

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<sup>207</sup> ORA Opening Brief at 21.

<sup>208</sup> ORA Opening Brief at 21.

<sup>209</sup> ORA Opening Brief at 21.

<sup>210</sup> ORA Opening Brief at 21 (“Any variabilities that occur during a project, but were unforeseeable at the time Applicants provided a cost estimate as part of A.11-11-002, should be explained.”)

<sup>211</sup> ORA Opening Brief at 20.

<sup>212</sup> ORA Opening Brief at 20.

<sup>213</sup> ORA argues that this would not be a difficult undertaking and references prior ORA testimony filed in the original PSEP Application and other company’s data or industry benchmarks. *See* ORA Opening Brief at 14-15. As SoCalGas and SDG&E explained in the original PSEP application and again here: it is more appropriate to detail and justify costs based on specific project characteristics. *See, e.g.*, A.11-11-002, SoCalGas and SDG&E Rebuttal Testimony of David Buczkowski at 6. Further, regarding other company cost data or benchmarks, specific project characteristics and costs are more relevant than cost data from unrelated regions, vendors, or companies and SoCalGas and SDG&E does not have access to the detailed project information from other companies which would be necessary to compare projects and costs. *See* Ex. SCG-09 (Mejia) at 15-16.

address approximately 270 miles of pipeline through approximately 230 projects.<sup>214</sup> These projects span SoCalGas and SDG&E's 24,000 square mile service territory; including 13 counties and 82 cities.<sup>215</sup> Further, SoCalGas and SDG&E have explained that variables are project-specific.<sup>216</sup> Meaning, there would need to be specific and unique variable forecasting efforts for each PSEP project. This is why the undertaking would be monumental and the costs significant.

To illustrate the complexities and limited utility of this effort, in this small Application, SoCalGas and SDG&E had to procure permits from approximately ten entities.<sup>217</sup> The agencies ranged from cities (Corona) to counties (Riverside) to federal agencies (US Army Corps of Engineers) to Railroads (Union Pacific Railroad).<sup>218</sup> Additionally, the length of the permitting process and cost of the permit varies by time-of-year, agency, the work to be done, etc. How and why SoCalGas and SDG&E should be asked to forecast the permitting habits and costs of every agency in their service territories is not clear: It will not lead to valuable information, it will not enhance the safety of the system, it will increase costs, and it will slow down safety enhancement work. Finally, given the uncertainty related to each variable, developing a reasonably accurate contingency to account for project variability is equally difficult.

If the Commission wanted this level of forecasting to be done, it would not have ordered SoCalGas and SDG&E to proceed with their PSEP work "as soon as practicable,"<sup>219</sup> it would not

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<sup>214</sup> Ex. SCG-05 (Phillips) at 2-3.

<sup>215</sup> Ex. SCG-09 (Mejia) at 1.

<sup>216</sup> Ex. SCG-09 (Mejia) at 1.

<sup>217</sup> Ex. SCG-08 (Mejia) at 3-4 (these permits were procured for Line 2000-A and Lines 42-66-1 and 42-66-2. No permits were required for Playa del Rey because the work was done on SoCalGas and SDG&E's property.)

<sup>218</sup> See Ex. ORA-07-C (SCG/SDG&E Response to ORA Data Request 13, Question 10 Attachments - Confidential).

<sup>219</sup> D.11-06-017, mimeo., at 19, 20, 29 (Conclusion of Law 5) and 31 (Ordering Paragraph 5) and D.12-04-021, mimeo., at 2.

have approved the Phase 1 scope of work in D.14-06-007,<sup>220</sup> and it would not have ordered work to proceed subject to after-the-fact reasonableness reviews.<sup>221</sup> Rather, it would have ordered SoCalGas and SDG&E to develop more detailed estimates than those developed in the two months SoCalGas and SDG&E were allowed in 2011 to prepare and file their PSEP and to return to the Commission, after perhaps years of detailed analysis, with a forecast for each PSEP pipeline.

**C. ORA's and TURN's Proposed Changes to SoCalGas and SDG&E Demonstration of Decisionmaking Should be Rejected**

Both ORA and TURN request the Commission order SoCalGas and SDG&E to prepare and provide additional information regarding decisions made during PSEP project execution.

ORA suggests that the Commission require SoCalGas and SDG&E develop a new universal decision tree:

Applicants should provide a universal decision tree that applies to all of its pipeline safety enhancement projects. Applicants should also provide an explanation of each point in the decision tree that lead to the final outcome of each set of project costs. At any point in the decision tree, if Applicants actions for a project differ from what the decision tree prescribes, Applicants should explain why.<sup>222</sup>

TURN requests the Commission order specific enhancements to what is presented by SoCalGas and SDG&E in their initial showing on (1) the decision to test or replace,<sup>223</sup> and (2) consideration of customer service alternatives.<sup>224</sup> Essentially, both ORA and TURN, are requesting that, now, after nearly every PSEP Phase 1A project has progressed beyond the test or replacement scoping phase, the Commission should impose new, essentially retroactive, requirements to govern the decisions that were previously made in reliance on the Commission-

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<sup>220</sup> D.14-06-007, mimeo., at 22 and 59 (Ordering Paragraphs 1 and 2).

<sup>221</sup> .14-06-007, mimeo., at 59 (Ordering Paragraph 2).

<sup>222</sup> ORA Opening Brief at 22.

<sup>223</sup> TURN Opening Brief at 20-22.

<sup>224</sup> TURN Opening Brief at 20-23.

approved Decision Tree in order to comply with Commission mandates to engage in safety enhancement work “as soon as practicable” and D.14-06-007.

Regarding the universal decision tree, it is unclear to SoCalGas and SDG&E what exactly ORA is proposing. PSEP work can be complex and complex work cannot always be divided into a binary system. Sometimes there are multiple factors that should be considered before reaching a decision. As such, SoCalGas and SDG&E do, where appropriate rely on the professional judgment and expertise of qualified and experienced employees, with input from qualified and experienced contractor personnel.<sup>225</sup> This is not an unreasonable practice when engaging in complex work and it is not clear how every project, cost, and activity could be incorporated into a universal decision tree. Substituting professional judgment of a reasonable manager for a decision tree is unreasonable and ORA has provided no evidence to support adoption of such an approach. In fact, this is the first SoCalGas and SDG&E have heard of this universal decision tree and have not had an opportunity to conduct discovery in an effort to better understand the proposal or enter testimony regarding how such a decision tree would work. If ORA had concerns with SoCalGas and SDG&E managers exercising their professional judgment, an appropriate solution would have been the one proposed by SoCalGas and SDG&E in 2012, not the creation of a new decision tree after most of Phase 1A has been initiated.<sup>226</sup>

In A.11-11-002, SoCalGas and SDG&E proposed the creation of an Engineering Advisory Board to provide an extra level of comfort that certain engineering decisions—that is, to test or replace a pipeline segment or include accelerated miles in a project— are sound.<sup>227</sup> The Board, as proposed by SoCalGas and SDG&E prior to the commencement of evidentiary

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<sup>225</sup> Ex. SCG-06-C (Phillips) at 6.

<sup>226</sup> In SoCalGas and SDG&E’s October 2015 PSEP Report, for Phase 1A, all but two project have reached Stage 2 (Selection of Replacement or Hydrostatic Testing). *See* October 2015 PSEP update available at: <https://www.socalgas.com/regulatory/R11-02-019.shtml>.

<sup>227</sup> A.11-11-002, Ex. SCG-20 (Phillips) at 14.

hearings, would have been comprised of four members: a company representative, a representative of the Commission's Consumer Protection and Safety Division, a representative of the Commission's Energy Division, and an outside pipeline integrity expert to be mutually agreed upon by the first three.<sup>228</sup> ORA opposed creation of such a board as ineffectual and no substitute for commission review.<sup>229</sup> Now, ORA appears to have inexplicitly reversed course, years after it is too late to incorporate such a review process in a timely and prospective fashion, and recommends new requirements be created to curb SoCalGas and SDG&E's exercise of professional judgment.<sup>230</sup>

TURN argues that additional information is necessary with regard to the decisions to test or replace and customer service alternatives are considered.<sup>231</sup> As mentioned, SoCalGas and SDG&E have been expeditiously working to enhance the safety of their natural gas transmission system based on guidance already provided by the Commission. That includes the previously approved Decision Tree,<sup>232</sup> which governs the decision to test or replace and includes consideration of customer impacts.

SoCalGas and SDG&E's test versus replace decision-making is governed by the Commission-approved Decision Tree.<sup>233</sup> Generally, as indicated by the Decision Tree, segments 1,000 feet or less in length will be replaced; segments greater than 1,000 feet in length that can be removed from service for pressure testing are pressure tested; and pipeline segments greater

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<sup>228</sup> A.11-11-002, Ex. SCG-20 (Phillips) at 15.

<sup>229</sup> A.11-11-002, ORA Opening Brief at 52-53.

<sup>230</sup> ORA Opening Brief at 22 ("The record shows that such a decision tree was lacking in this proceeding, and that certain projects within the proceeding scope were handled and tracked differently from the others. Demonstrating compliance with a Commission-approved decision tree would not only help provide a consistent approach among Applicants' future projects that are subject to reasonableness review, it will help assure the Commission that a reasonable and prudent utility in Applicants' position would have taken similar steps to achieve Applicants' cost goals.")

<sup>231</sup> TURN Opening Brief at 20-23.

<sup>232</sup> D.14-06-007, mimeo., at 16.

<sup>233</sup> D.14-06-007, mimeo., at 16.

than 1,000 feet in length that cannot be removed from service for pressure testing without significantly impacting customers are replaced.<sup>234</sup> However, as deemed necessary based on professional judgment, SoCalGas and SDG&E do engage in additional analysis to assess the most appropriate option.<sup>235</sup> Ultimately, the appropriate hydrotest or replace decision is based on customer impact and engineering and cost analysis; analysis aimed at minimizing customer impacts and maximizing safety and cost-effectiveness.<sup>236</sup> This process was approved by the Commission and has been utilized by SoCalGas and SDG&E in deciding whether to test or replace. For example, for the projects presented in this Application, the mileage was processed through the Commission-approved Decision Tree and the Decision Tree results were included in the workpapers of Witness Phillips.<sup>237</sup> To now change that process or implement new requirements, after nearly all Phase 1A projects have progressed beyond the test versus replace decision-making stage, unfairly disadvantages SoCalGas and SDG&E and amounts to a collateral attack on the process approved in D.14-06-007.

SoCalGas and SDG&E's decisions regarding alternatives have been largely guided by impacts to customers.<sup>238</sup> In some cases, this requires subjective analysis and exercise of professional judgment on the part of SoCalGas and SDG&E—and their noncore customers—to “determine if an extended outage is possible” and whether PSEP work can reasonably be rescheduled—given the requirement work proceed “as soon as practicable”—to coincide with “scheduled maintenance, down time or off peak seasons.”<sup>239</sup> Because of this subjectivity, in addressing customer impacts, SoCalGas and SDG&E have engaged in additional analysis of

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<sup>234</sup> See Decision Tree at Ex. SCG-07 (Mejia) at 2-3.

<sup>235</sup> Ex. SCG-07 (Mejia) at 5.

<sup>236</sup> Ex. SCG-07 (Mejia) at 5.

<sup>237</sup> See Ex. SCG-03 (Phillips).

<sup>238</sup> Ex. SCG-07 (Mejia) at 4.

<sup>239</sup> Ex. SCG-07 (Mejia) at 4.

alternative service options, as appropriate.<sup>240</sup> While quantifying all alternatives is not required by D.14-06-007, SoCalGas and SDG&E do, where appropriate, engage in additional analysis. SoCalGas and SDG&E will include that analysis in future applications as available. However, to now impose new retroactive requirements, after nearly all Phase 1A projects have progressed beyond the test-versus-replace decision-making stage, would unfairly disadvantage SoCalGas and SDG&E by requiring them to first fit actions into a process not in existence at the time the actions were taken in order to seek recovery of reasonably-incurred costs. This is contrary to the reasonable manager standard, which requires analysis to be based on what a manager knew or should have known at the time a decision was made or an action was taken, and would burden customers with the costs of performing these after-the-fact retroactive analyses.

SoCalGas and SDG&E began Phase 1A absent guidance from the Commission. Now, guidance and requirements have been issued in the form of D.14-06-007. The Commission should not now, after it is too late to prospectively implement any new requirements, issue new retroactive requirements or change existing requirements.

## **X. CONCLUSION**

In the record of this proceeding SoCalGas and SDG&E explain the purpose for and demonstrate the reasonableness of their PSEP activities, explain the efforts undertaken to manage and control costs, and demonstrate the reasonableness of the costs presented for review. In contrast, intervenors offered little evidence to challenge the costs and activities undertaken by SoCalGas and SDG&E. As such, SoCalGas and SDG&E have met their burden of establishing the reasonableness of all costs presented for review in this Application. SoCalGas and SDG&E respectfully request that the Commission find that pipeline safety enhancement costs presented for review (\$35.53

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<sup>240</sup> Ex. SCG-07 (Mejia) at 4-5.

