

Company: San Diego Gas & Electric Company (U902M)
Proceeding: 2016 General Rate Case
Application: A.14-11-003
Exhibit: SDG&E-205

SDG&E

**REBUTTAL TESTIMONY OF BETH MUSICH
GAS TRANSMISSION OPERATIONS AND MAINTENANCE**

June 2015

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



TABLE OF CONTENTS

I. SUMMARY OF DIFFERENCES 1

II. INTRODUCTION..... 1

A. ORA..... 1

III. REBUTTAL TO PARTIES’ O&M PROPOSALS..... 2

A. Non-Shared Services O&M..... 2

1. ORA (Gas Transmission - Pipelines) 2

a. DOT - Pipeline Safety Fee – (\$61k NL) (NSE) 3

b. Knowledge Management (.5 FTE at \$55K Labor, \$5K NL)..... 3

c. Field Operations Supervisor (.2 FTE at \$17k Labor, \$0.0 NonLabor)..... 4

d. Post-PSEP – Incremental O&M (1.0 FTE at \$90k Labor, \$39k NonLabor) 4

2. ORA (Gas Transmission - Compressor Stations) 5

a. Station Mechanic (.5 FTE Lbr: \$45k, NL: \$5k 2014 - 2016) 5

b. Knowledge Management Staffing (.5 FTE Lbr: \$55k NL: \$5k 2014-2016) 6

c. RECLAIM Emission Credits (\$46k in 2014, \$123k in 2016) (NSE)..... 6

d. State Water Board Permit Fees (\$13k in 2016) (NSE) 7

e. Critical Facilities Security Enhancement (\$122k 2014 - 2016) 7

f. GHG Emissions Reduction (\$000 in 2014/2015, \$74k in 2016) (NERBA) 8

IV. CONCLUSION 8

V. WITNESS QUALIFICATIONS..... 9

SDG&E REBUTTAL TESTIMONY OF BETH MUSICH
GAS TRANSMISSION OPERATIONS AND MAINTENANCE

I. SUMMARY OF DIFFERENCES

TOTAL O&M - Constant 2013 (\$000)			
	Base Year 2013	Test Year 2016	Change
SDG&E	4,130	4,663	533
ORA	4,130	4,172	040

II. INTRODUCTION

My testimony addresses Gas Transmission O&M expenses at SDG&E, Gas Transmission capital forecasts are within the direct testimony and rebuttal of SDG&E witness Raymond Stanford (Exhibits SDG&E-06 and SDG&E-206, respectively). Only the Office of Ratepayer Advocates (ORA)¹ submitted testimony addressing SDG&E's Gas Transmission O&M expenses. In this rebuttal, I also acknowledge a reduction to the TY2016 forecast for GHG Emission Reduction expense in the amount of \$0.032 million.

A. ORA

ORA issued its report on Gas Transmission Operation and Maintenance on April 24, 2015.²

The following is a summary of ORA's positions:

- ORA proposes two (2) Gas Transmission O&M functional area reductions for TY2016. Both recommended reductions are explained by ORA as being based on ORA's use of a five-year average.³ ORA utilized SDG&E's 2010 – 2014 adjusted-recorded results for the 5-year averaging calculation. ORA states that 5-year averaging was selected because it provides a more reliable TY forecast due to its reliance on historical data.
- For Gas Transmission and Pipelines, ORA recommends reducing the requested incremental increases in SDG&E's TY2016 forecast to \$0.003 million (a \$0.185 reduction).
- For Compressor Stations, ORA recommends reducing the increase included in TY2016 forecast for Compressor Stations to \$0.039 million (a \$0.306 million reduction).
- ORA recommended adoption of SDG&E's TY2016 forecast on Field Engineering and Technical Support cost at \$0.106 million. While ORA incorporated the 2014 values in their recommendations for both Pipelines and Compressors as noted above, in the Field Engineering forecast ORA does not incorporate 2014 values. Incorporating 2014 values

¹ Ex. ORA-9, Ezekwo, Report on the Results of Operations for San Diego Gas & Electric Company and Southern California Gas Company Test Year 2016 General Rate Case, SDG&E – Gas Transmission, Underground Storage, Engineering, and Pipeline Integrity, April 24, 2015 (ORA-9).

² Ex. ORA-9 at page 22, line 4 – page 27, line 8.

³ Ex. ORA-9 at page 24, line 9-11 – page 25, line 16-18.

1 would have resulted in a 2016 value of \$0.110 million rather than the \$0.105 that ORA
2 recommended. ORA's justification for not using 2014 values is that the \$0.105 million
3 was the "same as the base year expense of 2013."⁴

4 **III. REBUTTAL TO PARTIES' O&M PROPOSALS**

5 **A. Non-Shared Services O&M**

NON-SHARED O&M - Constant 2013 (\$000)			
	Base Year 2013	Test Year 2016	Change
SDG&E	4,130	4,663	533
ORA	4,130	4,172	040

6 **1. ORA (Gas Transmission - Pipelines)**

7 ORA recommendation for reductions in Gas Transmission Pipelines is based on "the most
8 recent recorded five-year (2010 through 2014) [adjusted-recorded annual results] average" and their
9 contention that the "use of a five-year average provides a more reliable TY forecast due to its
10 reliance on historical data."⁵ In employing the five-year average, ORA did not address the merits
11 of any of the individual incremental elements, which SDG&E utilized in developing its testimony
12 for this area, relying instead on a simple arithmetic average for its recommendations. As such,
13 ORA's approach does not account for new and incremental cost increases and disregards the
14 upward pressures faced by the utility in the various individual programs, projects, and regulatory
15 requirements mandated to provide continued safe and reliable service.

16 SDG&E presented three (3) new costing elements and one (1) non-standard
17 escalation (NSE) line item expense that will affect SDG&E's costs in TY2016, of which only the
18 NSE item might reasonably be derived from historical cost analysis. The four (4) line-item cost
19 elements at issue are:

- 20 • Department Of Transportation (DOT) Safety Fee: \$0.003 million (NSE)
- 21 • Knowledge Management / Succession Planning: \$0.060 million
- 22 • Field Supervisory Staffing: \$0.017 million
- 23 • Post-PSEP Maintenance: \$0.129 million

⁴ Ex. ORA-9 at page 27, line 3-6.

⁵ Ex. ORA-9 at page 24, lines 7-11.

1 **a. DOT - Pipeline Safety Fee – (\$61k NL) (NSE)**

2 As SDG&E indicated in direct testimony and workpapers,⁶ zero-base forecasting was
3 selected for the DOT - Pipeline Safety Fee because these costs are not subject to standard escalation
4 inflation. As such, SDG&E calculated its zero-base forecast by considering the historic factors that
5 affect this expense. To arrive at its forecast, SDG&E used a 3-year (2012 – 2014) historical
6 averaging method applied to the cost factors (not historic costs) for the expense. Those factors are
7 annual reported miles of pipeline and DOT’s per-mile assessment base rate.

8 ORA, on-the-other hand, used a five-year average of the historical costs, which did not
9 adequately incorporate expected increases to this category. To illustrate, for 2015, SDG&E
10 received notification in March 2015 that the 2015 rate is \$308.55/per mile, which represents a 1-
11 year “non-standard escalation” factor of 24%.⁷ This is 21.9% higher than the per-mile rate SDG&E
12 used in forecasting the FY2015 rate and results in the 2015 fee amount being \$0.013 million greater
13 than forecasted. If this new one-year change is used in ORA’s averaging model, it results in a
14 forecast \$0.016 million higher than SDG&E’s estimate.

15 As such, SDG&E requests the Commission adopt SDG&E’s forecast amount of
16 \$.061 million.

17 **b. Knowledge Management (.5 FTE at \$55K Labor, \$5K NL)**

18 The Knowledge Management line item represents a .5 FTE increase, forecast to first be
19 incurred starting with FY2014, and carried forward annually through TY2016. SDG&E’s
20 justification on adding a short-term (6-month) position was to enable a less-experienced employee
21 to shadow a retiring employee in a critical operations position prior to the departure of the more-
22 experienced employee.⁸

23 This position will facilitate knowledge transfer to new personnel and is a short-term overlap
24 of existing positions now occupied by senior personnel scheduled for retirement in coming years.
25 SDG&E strongly advocates Commission adoption of this program to continue to enhance our safe
26 operating practices.

27 As stated above, ORA did not address specific incremental cost elements or activities. The
28 process applied by ORA did not take into consideration that the cost associated with this position

⁶ Ex. SDG&E-05 at page JLD-7, line 9.

⁷ See Attachment A (DOT 2015 Invoice #20158-030255). SoCalGas is not proposing a change to its forecast, but offers this information to further support the reasonableness of its forecast.

⁸ Ex. SDG&E-05 at page JLD-7, line 29.

1 were not embedded in 2014 actuals because SDG&E had not filled the position prior to the end of
2 2014. As such, ORA's reliance on historical cost averaging effectively limits SDG&E's ability to
3 fund this position.

4 SDG&E recommends the Commission adopt SDG&E's \$0.060 million proposed increase in
5 funding for this additional position in the TY2016 forecast amount.

6 c. **Field Operations Supervisor (.2 FTE at \$17k Labor, \$0.0**
7 **NonLabor)**

8 As provided in SDG&E's testimony,⁹ this position provides direct front-line supervision and
9 work direction to employees in their operations and maintenance activities. The position is
10 necessitated by increased work related to ongoing pipeline O&M retrofit and maintenance activity,
11 an area where growth is expected to continue through the TY2016 period.

12 Here again, ORA did not address specific incremental cost elements or activities. The
13 process applied did not take into consideration that the cost associated with this position were not
14 embedded in 2014 actuals because SDG&E had not filled the position prior to the end of 2014.¹⁰
15 As such, ORA's reliance on historical cost averaging effectively limits SDG&E's ability to fund
16 this position.

17 SDG&E recommends the Commission adopt SDG&E's \$0.017 million proposed increase in
18 funding for this additional position in the TY2016 forecast amount.

19 d. **Post-PSEP – Incremental O&M (1.0 FTE at \$90k Labor, \$39k**
20 **NonLabor)**

21 As provided in SDG&E's testimony,¹¹ the purpose of this increase is to support incremental
22 "Pipeline Safety Enhancement Plan" O&M cost associated with SoCalGas and SDG&E's Pipeline
23 Safety Enhancement Plan (PSEP). The O&M request in this GRC is for post-construction
24 inspection and maintenance expenses that will continue over the life of the assets. As ORA
25 correctly noted in their *SoCalGas* testimony: "It was contemplated that the PSEP cost would be
26 recovered in the 2016 GRC after 2015."¹² For SoCalGas, ORA then concludes: "ORA does not
27 oppose SCG' forecast of the post-PSEP related O&M cost in this rate case."¹³

⁹ Ex. SDG&E-05 at page JLD-8, line 10.

¹⁰ Staffing of this position is planned for FY2015.

¹¹ Ex. SDG&E-05 at page JLD-8, line 22.

¹² Ex. ORA-11 at page 4, line 15.

¹³ Ex. ORA-11 at page 6, line 2.

1 Here, ORA did not address specific incremental cost elements or activities. Rather, ORA
2 relied on historical cost averaging, which effectively limits SDG&E's ability to fund the Post-PSEP
3 incremental O&M. Consistent with the reasoning in ORA's SoCalGas testimony, SDG&E
4 recommends adoption of SDG&E's \$0.129 million proposed increase in funding for additional
5 work activity in the TY2016 forecast amount.

6 **2. ORA (Gas Transmission - Compressor Stations)**

7 ORA recommends a \$0.306 million reduction to SDG&E's TY2016 forecast for compressor
8 station expenses. ORA states its recommendation is based on "the most recent recorded five-year
9 (2010 through 2014) average" and their "use of a five-year average provides a more reliable TY
10 forecast due to its reliance on historical data."¹⁴ Again ORA did not address the incremental
11 elements in SDG&E's recommendation, instead relying on arithmetic analysis.

12 SDG&E recommends that the individual merits of the programs requested be considered to
13 reach a proper funding level. Some of these elements, such as RECLAIM credits are not subject to
14 the discretion of SDG&E, nor are their impacts properly reflected in historical costs.

15 SDG&E presented six line items having incremental impact on TY2016 expense
16 forecasting. Because of ORA's reliance on historical analysis, however, ORA's forecast does not
17 adequately analyze these incremental cost elements. The line-item cost elements at issue are:

- 18 • Station Mechanic Staffing: \$0.050 million
- 19 • Knowledge Management / Succession Planning: \$0.060 million
- 20 • RECLAIM Emission Credits: \$0.123 million (NSE)
- 21 • State Regional Water-Quality Control fees: \$0.013 (NSE)
- 22 • Critical Facility Security: \$0.122 million
- 23 • Greenhouse Gas Emissions Reduction (GHG): \$0.074 million (NERBA.)

24 **a. Station Mechanic (.5 FTE Lbr: \$45k, NL: \$5k 2014 - 2016)**

25 The Station Mechanic line item is for a .5 FTE increase, forecasted to first be incurred
26 starting with 2014, and carried forward annually through 2016. SDG&E's justification for this
27 incremental position was previously described in direct testimony.¹⁵

28 ORA's forecast, however, includes no analysis of the costs associated with this cost
29 category. Rather, ORA uses a five-year average historical spending methodology. ORA's five-year

¹⁴ Ex. ORA-9 at page 25, lines 16-18.

¹⁵ Ex. SDG&E-05 at p.JLD-11, line 12.

1 average forecast does not include any costs relating to this position because SDG&E did not
2 implement the staffing increase during 2014, electing instead to defer the addition. For this reason,
3 ORA's forecast does not include the future impact of this cost and effectively limits funding for this
4 position.

5 SDG&E recommends the Commission adopt SDG&E's original \$0.050 million proposed
6 increase in funding for this position.

7 **b. Knowledge Management Staffing (.5 FTE Lbr: \$55k NL: \$5k**
8 **2014-2016)**

9 The Knowledge Management line item is for a .5 FTE increase, forecast to first be incurred
10 starting in 2014, and carried forward annually through 2016.

11 SDG&E's justification on this position was previously described in the Gas Transmission
12 Pipeline area. As mentioned, SDG&E did not implement a staffing addition during 2014, electing
13 instead to defer the planned increase. For this reason, ORA's analysis does not include the future
14 impact of this cost upon TY2016. As such, ORA's reliance on historical cost averaging effectively
15 restricts SDG&E's ability to fund this position.

16 SDG&E recommends the Commission adopt SDG&E's original \$0.060 million proposed
17 increased funding for this additional position in the TY2016 forecast.

18 **c. RECLAIM Emission Credits (\$46k in 2014, \$123k in 2016)**
19 **(NSE)**

20 ORA's forecast includes no analysis of the costs associated with RECLAIM Emission
21 Credits. This is a non-standard escalation item. As stated in direct testimony,¹⁶ the trading credit
22 requirements are expected to increase over the term of the forecast period as the Moreno
23 compressor station operates at higher levels than in prior years. Additionally, the cost of the credits
24 is forecast to increase at a greater rate than in prior years resulting from the California Air
25 Resources Board's (CARB) planned reduction in the number of available RECLAIM credits.
26 Forecast expenses in this area reflect an annual escalation estimate from \$0.046 million in years
27 2014 and 2015 to \$0.123 million in TY2016.

28 Historical recorded expense reflects SDG&E incurred \$0.032 million in 2012, \$0.041
29 million in 2013, and \$0.020 million in 2014.¹⁷ The annual change reflects changes in the quantity of

¹⁶ Ex. SDG&E-05 at page JLD-12, Line 20

¹⁷ SDG&E did not need to purchase the full quantity of credits it had forecast for 2014.

1 emission credits required and projected increases in bid-market pricing due to the reduction in
2 available credits in the RECLAIM program. SDG&E's TY2016 forecast was developed utilizing
3 the then best available sources of information available. Compliance with the RECLAIM program
4 and the costs to purchase credits will require additional funding.

5 For these reasons, SDG&E recommends the Commission adopt SDG&E's original \$0.123
6 million proposed increase in funding for this expense.

7 **d. State Water Board Permit Fees (\$13k in 2016) (NSE)**

8 ORA's forecast includes no analysis of the costs associated with this state agency assessed
9 fee. This is a non-standard escalation cost item. As stated in direct testimony,¹⁸ The California
10 State Water Resources Control Board publishes a fee schedule applicable to the assessment of
11 annual fees for wastewater permitting and water quality certifications. A revised fee schedule is
12 normally adopted by the agency each September, with the revised fees becoming effective from the
13 previous July 1 to the following June 30. Fee schedules are published in the California Code of
14 Regulations.¹⁹ A TY2016 fee forecast of \$13,000 was developed based on a four-year (2010
15 through 2013) average methodology, resulting in an annual fee increase equal to 14.8% throughout
16 the forecast period.

17 For these reasons, SDG&E recommends the Commission adopt SDG&E's original \$0.013
18 million proposed increase in funding for this expense.

19 **e. Critical Facilities Security Enhancement (\$122k 2014 - 2016)**

20 As described in direct testimony,²⁰ incremental Critical Facilities Security expense was
21 driven by new requirements issued by the Pipeline Security Division of the Department of
22 Homeland Security's Transportation Security Administration.

23 ORA's forecast, however, includes no analysis of the costs associated with Critical Facilities
24 Security. This is likely because of ORA's reliance on historical costs in developing its cost
25 forecast. This item, however, was a new expense for SDG&E in 2014 and a full year's impact of
26 the cost associated with this line-item was not realized by SDG&E in 2014 and therefore could not
27 have been adequately considered by ORA in rendering its recommended cost forecast.

¹⁸ Ex. SDG&E-05 at page JLD-12, line 20.

¹⁹ See 23 Cal. Code Reg. 9, Div. 3, Art. 1.

²⁰ Ex. SDG&E-05 at p. JLD-13, line 4.

1 SDG&E did not incur any cost related to this item in years prior to FY2014. The level of
2 expense incurred during 2014 was approximately \$0.029 million and reflects only a partial five (5)
3 month period in 2014 (August through December) which is the time when security staffing was first
4 being set into place.

5 SDG&E recommends the Commission adopt SDG&E's original \$0.122 million proposed
6 increase in funding for this expense.

7 **f. GHG Emissions Reduction (\$000 in 2014/2015, \$74k in 2016)**
8 **(NERBA)**

9 As stated in direct testimony,²¹ the justifications for this expense are attributable to a new
10 regulatory requirement, Senate Bill 1371. The new rule requires the CPUC to adopt rules and
11 procedures to reduce methane emissions.

12 ORA's forecast, however, includes no analysis of the costs associated with this cost
13 category. Rather, ORA uses a five-year average historical spending methodology. SDG&E,
14 however, did not incur any expense impacts for this program in interim years 2014 or 2015, since
15 the expected program funding would not go into effect until 2016. As such, ORA's forecast does
16 not adequately account for this cost category because no historical costs had been incurred.

17 SDG&E acknowledges, however, a reduction to the TY2016 forecast for this expense in the
18 amount of \$0.032 million. SDG&E's revised TY2016 forecast for this expense is \$0.042 million.
19 SDG&E recommends adoption of SDG&E's revised TY2016 forecast of \$0.042 million.

20 **IV. CONCLUSION**

21 To summarize, the TY2016 forecast cost associated with the operation and maintenance of
22 SDG&E's gas transmission system should be adopted by the Commission. These costs are
23 reasonable and in alignment with SDG&E's commitment toward sustaining safe and reliable
24 service to customers while also striving to control operating expenses without compromising safety
25 or regulatory compliance.

26 As noted in this rebuttal, I recommend the TY2016 forecast of \$4,663,000 for Non-Shared
27 operating cost be reduced by \$0.032 million in the area of Greenhouse Gas Emissions Reduction -
28 NERBA.

29 This concludes my prepared rebuttal testimony.

²¹ Ex. SDG&E-05 at p. JLD-13, line 19.

1 **V. WITNESS QUALIFICATIONS**

2 My name is Beth Musich. I presently hold the position of Director of Gas Transmission for
3 SoCalGas and SDG&E. I have a Bachelor of Science degree in Mechanical Engineering from
4 Colorado School of Mines in Golden Colorado.

5 I was originally employed by Pacific Enterprises in 1993 and moved to SoCalGas in 1996. I
6 have held positions of increasing responsibilities in the Marketing, Regulatory and Operations
7 departments. I have held my current position as the Director of Gas Transmission since January of
8 2015.

9 I have previously testified before the Commission on behalf of Southern California Gas
10 Company and San Diego Gas and Electric.

11 I am replacing the previous SDG&E witness John Dagg, whose name appears on these filed
12 testimonies and workpapers for SDG&E in this proceeding:

- 13 • SDG&E-05 Gas Transmission Operations and Maintenance
- 14 • SDG&E-05-WP Workpapers to Gas Transmission Operations and Maintenance

ATTACHMENT A



U.S. Department
of Transportation
**Pipeline and Hazardous
Materials Safety
Administration**

1200 New Jersey Ave., S.E.
Washington, D.C. 20590

CERTIFIED MAIL - RETURN RECEIPT REQUESTED

FY 2015 PIPELINE SAFETY USER FEE ASSESSMENT

Operator ID #: 18112
SAN DIEGO GAS & ELECTRIC CO
Deanna Haines
Director of Gas Engineering
555 W. FIFTH STREET
LOS ANGELES, CA 90013

BILL NUMBER: 20158-030255
BILL DATE : 3/30/2015
DUE DATE : 4/30/2015
ASSESSMENT : \$72,200.70
Fed Tax ID: 80-0216967

The U.S. Department of Transportation, through the Pipeline and Hazardous Materials Safety Administration (PHMSA), is authorized to assess and collect user fees to fund its pipeline safety program activities. (See §60301, Title 49, U.S. Code - formerly §7005 of the Consolidated Omnibus Budget Reconciliation Act of 1985). Accordingly, your company's assessment is **\$72,200.70** based on **\$308.55** per mile of the **234** miles of natural gas transmission pipeline reported on the Annual Report for Gas Transmission and Gathering Systems for calendar year 2013 (Form PHMSA F 7100.2-1).

The Department of Transportation is committed to moving towards paperless processing of collections. You are encouraged to submit payment via <https://pay.gov>, where our secure website can be used to make payments by credit/debit card, or Automatic Clearing House Payment (ACH Direct Debit). Follow the website instructions to make your annual pipeline user fee payment.

In the event that you must make payment by check, please pay the full amount, with check payable to "US Department of Transportation." To ensure proper crediting, please include the bill number on your check or return a copy of the bill with your payment. For late payments, you will be charged 1% annual interest, 6% annual penalty charge, and a \$12.00 per month administrative fee. (See §3717, Title 31, U.S. Code).

Mail Payments to:

Regular Mail

DOT/PHMSA
c/o ESC, AMK-325
PO BOX 269039
OKLAHOMA CITY, OK 73125

Overnight Mail

DOT/PHMSA
c/o ESC, AMK-325
6500 S. MACARTHUR BLVD
HQS BLDG RM 181
OKLAHOMA CITY, OK 73169

You may request adjustments in writing submitted to User Fee Administrator, Office of Pipeline Safety, PHP-4, 1200 New Jersey Ave., SE, East Bldg, 2nd Floor, Room E22-321, Washington, DC 20590. If you have any questions, please contact us by e-mail at userfeemngr@dot.gov or call 1.866.262.4430.