BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

Application of Southern California Gas Company (U 904 G) for Authority, Among Other Things, to Update its Gas Revenue Requirement and Base Rates Effective on January 1, 2024.	Application No. 22-05-015 (Filed May 16, 2022)
And Related Matter.	Application No. 22-05-016 (Filed May 16, 2022)

SOUTHERN CALIFORNIA GAS COMPANY (U 904 G) AND SAN DIEGO GAS & ELECTRIC COMPANY's (U 902 M) OPENING BRIEF IN PSEP AREA OF TRACK 3

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November 3, 2025

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- Find reasonable the costs that form the basis of SoCalGas's requested revenue requirement: $426 million and $35 million respective capital expenditures and operations and maintenance (O&M) amounts presented for review comprising the execution of Phase 1A and Phase 1B pipeline projects and valve enhancement projects; $25 million in expenditures for the purchase of Line 306; and $13 million in expenditures for other costs incurred to execute PSEP.

- Authorize associated revenue requirement of $50 million for SDG&E's PSEP pipeline and valve enhancement projects completed from 2014-2019 and associated miscellaneous costs. This revenue requirement has been calculated as net of the amounts already recovered in rates via the 50% interim rate recovery mechanism the Commission adopted in D.16-08-003.[2] This work complies with Cal. Pub. Util. Code §§ 957 and 958.

- Find reasonable the costs that form the basis of SDG&E's requested revenue requirement: $239 million and $1.2 million respective capital expenditures and O&M amounts presented for review comprising the execution of Phase 1A pipeline projects and valve enhancement projects and associated miscellaneous costs.

[1] D.16-08-003 at 15 (Ordering Paragraph (OP) 2).

[2] *Id.*

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I. INTRODUCTION

Southern California Gas Company (SoCalGas) and San Diego Gas & Electric Company (SDG&E) (jointly, Applicants, or Utilities, or Companies), hereby submit their Opening Brief on the Pipeline Safety and Enhancement Plan (PSEP) Reasonableness Review of Costs for Track 3 of this proceeding.

The costs presented for reasonableness review here are the costs that SoCalGas and SDG&E have already incurred in carrying out important, state-mandated safety work over the last 10 years. This work has been done with the effective, efficient oversight of the PSEP organizations, groups that have prudently administered the PSEP program since 2011. In this track of the proceeding, SoCalGas and SDG&E have provided a substantial amount of evidence to support the requests. This evidence includes detailed explanations of the PSEP program, the mandates that drive the program, and the program administration that is in place to cost-effectively and expeditiously carry out the PSEP program. The evidence presented also includes workpapers supporting every single pipeline and valve project. The workpapers give details on every project, explaining the anticipated cost, the explanation for decisions made on how to carry out the projects, explanations of the challenges encountered and how they were addressed, and how the projects were carried out while seeking specific cost savings for customers. This

evidence shows that SoCalGas and SDG&E have met their burden of proof in showing that the costs incurred in administering the PSEP program for the projects presented were reasonable under the prudent manager standard. The program has been efficiently run for years, which has led to the Commission authorizing nearly all costs requested by the utilities in reasonableness reviews.

SoCalGas and SDG&E respectfully request that the Commission approve the costs sought in this proceeding. Below is a summary of SoCalGas and SDG&E's recommendations.

- Authorize associated revenue requirement of $132 million for SoCalGas's PSEP pipeline and valve enhancement projects completed from 2015-2020 and associated costs pertinent to the execution of the program. This revenue requirement has been calculated as net of the amounts already recovered in rates via the 50% interim rate recovery mechanism the Commission adopted in Decision (D.) 16-08-003.[1] This work complies with Cal. Pub. Util. Code §§ 957 and 958.
- Find reasonable the costs that form the basis of SoCalGas's requested revenue requirement: $426 million and $35 million respective capital expenditures and operations and maintenance (O&M) amounts presented for review comprising the execution of Phase 1A and Phase 1B pipeline projects and valve enhancement projects; $25 million in expenditures for the purchase of Line 306; and $13 million in expenditures for other costs incurred to execute PSEP.
- Authorize associated revenue requirement of $50 million for SDG&E's PSEP pipeline and valve enhancement projects completed from 2014-2019 and associated miscellaneous costs. This revenue requirement has been calculated as net of the amounts already recovered in rates via the 50% interim rate recovery mechanism the Commission adopted in D.16-08-003.[2] This work complies with Cal. Pub. Util. Code §§ 957 and 958.
- Find reasonable the costs that form the basis of SDG&E's requested revenue requirement: $239 million and $1.2 million respective capital expenditures and O&M amounts presented for review comprising the execution of Phase 1A pipeline projects and valve enhancement projects and associated miscellaneous costs.

II. PROCEDURAL BACKGROUND

A. Proceeding Background

Applicants filed their respective Test Year (TY) 2024 Applications (A.) 22-05-015 and A.22-05-016 on May 16, 2022. These Applications were consolidated on June 8, 2022, by a ruling issued by Administrative Law Judge (ALJ) Lakhanpal. Consideration of the issues

[1] D.16-08-003 at 15 (Ordering Paragraph (OP) 2).

[2] *Id.*

presented in the Applications ultimately became "Track 1" of this proceeding. In Track 1, SoCalGas requested forecast costs for its PSEP programs to fund PSEP work during the GRC cycle. In addition, in compliance with D.11-06-017, the Applicants requested reasonableness review of the costs of certain pipeline projects completed from approximately 2014 to 2020.

The proceeding was litigated through hearings and D.24-12-074 (Decision), which was issued on December 23, 2024. In the Decision, the Commission approved all costs requested in SoCalGas's *forecasts* for PSEP[3], with the exception of certain amounts for construction contingencies. During the course of the proceeding, several parties provided intervenor testimony on PSEP costs, including the California Public Advocates Office (Cal Advocates), the Protect Our Communities Foundation (PCF), and Indicated Shippers.

In Track 1, Applicants also presented PSEP costs for reasonableness review. In total, Applicants presented over 2,000 pages of testimony and workpapers supporting the reasonableness review requests. The evidence presented was consistent with what was provided in previous PSEP proceedings, including cost breakdowns, details on the projects, challenges that arose during construction, how those challenges were resolved, ways that the utilities avoided costs, photographs during construction, maps, and other details.

Significantly, at the briefing stage, no parties specifically[4] opposed these PSEP costs presented for reasonableness review. Moreover, not a single party argued that there was insufficient evidence for them to make a finding of reasonableness. Nor did any party complain that there was insufficient time to adequately review the testimony. In fact, Cal Advocates explicitly stated in testimony:

> Cal Advocates analyzed pipeline segment data provided by SDG&E of pressure testing history and duration of pressure tests, Specified Minimum Yield Strength (SMYS) measured for each pipe, pipe diameter, and vintage year of pipe segments to review pipeline segment hydrotest projects. Cal Advocates does not oppose SDG&E's request for recovery for hydrotest projects. Cal Advocates also analyzed quantitative parameter data provided by SDG&E for both pipeline segment and valve replacement projects and found them to be within the scope of the regulations mentioned above. Cal Advocates does not oppose SDG&E's request for

[3] There were no forecasted costs for SDG&E.

[4] Certain parties, such as Environmental Defense Fund (EDF) generally opposed all costs in the GRC. They did not specifically oppose these PSEP costs.

> recovery of […] capital expenditures associated with the aforementioned pipeline projects.[5]

In the Decision, the Commission did not approve Applicants' PSEP costs presented for reasonableness review. Instead, the Decision pushed those costs to a new track (Track 3) for separate consideration. In making this finding, the Commission stated that "In order to more fully develop the record of this proceeding, the Commission orders that the PSEP reasonableness review be continued in Track 3 of this proceeding."[6] In the original Proposed Decision, the Commission also preliminarily decided that because certain details had not been provided – information that no intervenor had complained about or even identified as missing – Applicants should not be allowed to recover interest on the costs that Applicants had been holding in balancing accounts. In the final Decision, the removal of accrued interest was eliminated from the Decision, but reasonableness review costs were still pushed into Track 3.

A Prehearing Conference for Track 3 was held on January 28, 2025. The Assigned Commissioner's Amended Scoping Memo and Ruling on Track 3 (Scoping Memo) was issued on March 12, 2025. On April 30, 2025, SoCalGas and SDG&E presented testimony for Track 3. This testimony included what was presented in Track 1, with the addition of testimony and workpapers to address the new areas of information requested in the Decision. To expedite the review of this information for the Commission and parties, Applicants also provided redlined versions of the testimony to highlight the new information.[7] In order to meet the additional evidentiary requirements in D.24-12-074, SoCalGas and SDG&E have provided supplementary evidence to the Track 1 evidence at Ex. SCG-T3-PSEP-01 at BGK-A-29-33, and summarized as follows:[8]

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5 Track 1, Ex. CA-04 (Quam) at 29-30.

6 D.24-12-074 at 233.

7 *See* Ex. SCG-T3-PSEP-01 (Redline) (Kostelnik) and accompanying workpapers Ex. SCG-T3-PSEP-01-WP1-Vol I-E (Redline), Ex. SCG-T3-PSEP-01-WP1-Vol II-E (Redline), Ex. SCG-T3-PSEP-01-WP1-Vol III-E (Redline), and SCG-T3-PSEP-01-WP1-Vol IV-E (Redline); *see also* Ex. SDG&E-T3-PSEP-01-E (Redline) (Tachiquin) and accompanying workpapers Ex. SDG&E-T3-PSEP-01-WP1-Vol I-E (Redline).

8 Ex. SCG-T3-PSEP-01 (Kostelnik) at 3-4.

Evidence to be Provided per Joint Case Management Statement[9]	Testimony / Workpaper Location
Supporting documentation of Indirect Costs related to (1) "Overheads," (2) Allowance for Funds Used During Construction (AFUDC) (including the costs these rates applied to), (3) property taxes (including the property these rates applied to).	The testimonies of Sakif Wasif (SoCalGas) and Eric Dalton (SDG&E) address overheads and the calculation of AFUDC and property tax. The testimonies explain the rationale for the primary factors that drive actuals for these cost categories, as well as why actual AFUDC and/or property tax can vary from estimated amounts.
A breakdown of Direct Costs and estimates for: (1) Company Labor (including FTEs), (2) Materials, (3) Construction Contractor, (4) Construction Management & Support, (5) Environmental, Engineering & Design, (6) Project Management & Services, (7) Right of Way (ROW) & Permits, and (8) General Administration Costs (GMA).	FTEs have been added to Section IV.C. of all project workpapers (and the calculation methodology is described Sections IV.B.1). Project workpapers include a breakdown of the requested direct cost categories identified. "Section IV.D – Cost Impacts" is also in all project workpapers, providing detailed information pertaining to notable variances for the specified direct cost categories.
An overall explanation of the variance between estimates and costs.	Workpapers include "Section IV.D. – Cost Impacts," which provides detailed information pertaining to notable variances for the specified direct cost categories. The testimonies of Bill Kostelnik and Marco Tachiquin in Section IV.B.2. address some examples of common drivers of cost variances.

On June 3, 2025, Cal Advocates requested a three-week extension of time to submit intervenor testimony, from June 30 to July 21, 2025. SoCalGas and SDG&E opposed the three-week extension, but indicated that the utilities were open to a two-week extension for intervenor testimony if the remaining dates stayed the same. This would result in Applicants having two weeks less time to prepare rebuttal testimony, but was offered to allow the proceeding to stay on schedule. On June 20, 2025, ALJ Larsen approved a two-week extension request, while keeping the remaining schedule intact. On July 14, 2025, consistent with the request for extension by Cal

[9] On January 24, 2025, SDG&E, SoCalGas, Cal Advcoates, The Utility Reform Network (TURN), Southern California Generation Coalition (SCGC), PCF, Small Business Utility Advocates, and the Coalition of California Utility Employees filed a Joint Case Management Statement (Joint Case Management Statement). The Joint Case Management Statement identified the listed information as the information required by D.24-12-074 at 3-4.

Advocates, Indicated Shippers, and PCF (Intervenors) submitted testimony. On August 29, 2025, SoCalGas and SDG&E submitted Rebuttal Testimony. A status conference was held on September 30, 2025. One day of hearings was held virtually on October 10, 2025.

B. PSEP Background

1. Origination and Focus of PSEP

The PSEP program is an important safety program that was born out of the rupture and ignition of a 30-inch diameter natural gas transmission pipeline in San Bruno, California in 2010. Following the event, the Commission issued R.11-02-019, "a forward-looking effort to establish a new model of natural gas pipeline safety regulation applicable to all California pipelines."[10] In a subsequent decision, the Commission found that "natural gas transmission pipelines in service in California must be brought into compliance with modern standards for safety," and ordered all California natural gas transmission pipeline operators "to prepare and file a comprehensive Implementation Plan to replace or pressure test all natural gas transmission pipeline in California that has not been tested or for which reliable records are not available."[11] The PSEP is focused on "replac[ing] or pressure test[ing] all natural gas transmission pipeline in California that has not been tested or for which reliable records are not available."[12] Natural gas pipelines that are "transmission pipelines" are defined by the Federal Government as follows:

> Transmission line means a pipeline or connected series of pipelines, other than a gathering line, that: (1) Transports gas from a gathering pipeline or storage facility to a distribution center, storage facility, or large volume customer that is not down-stream from a distribution center; (2) **Has an MAOP of 20 percent or more of SMYS**; (3) Transports gas within a storage field; or (4) Is voluntarily designated by the operator as a transmission pipeline. Note 1 to transmission line. A large volume customer may receive 10 similar volumes of gas as a distribution center, and includes factories, power 11 plants, and institutional users of gas.[13]

Since its inception, the four objectives of PSEP have been and continue to be: (1) enhance public safety; (2) comply with Commission directives; (3) minimize customer impacts;

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[10] R.11-02-019, Order Instituting Rulemaking (February 25, 2011) at 1.

[11] D.11-06-017 at 19.

[12] *Id.*

[13] 49 C.F.R. § 192.3 (Definitions) (emphasis added).

and (4) maximize the cost effectiveness of safety investments. Time was of the essence in completing this work, and the Commission explicitly ordered the testing or replacement of all such pipelines "as soon as practicable."[14] Aspects of this decision became statutory law, including the requirement that work be performed "as soon as practicable," being codified in California Public Utilities Code section 958.

2. Implementation and Prioritization

SoCalGas and SDG&E filed an implementation plan in June 2014. The implementation plan, which was termed the Pipeline Safety Enhancement Plan, proposed a Decision Tree that would guide decision-making on which segments should be hydrotested, replaced, or abandoned, and also included a proposed valve enhancement plan, technology plan, and preliminary cost forecasts.[15] In approving the plan, the Commission "adopt[ed] the concepts embodied in the Decision Tree" to guide whether specific segments should be pressure tested, replaced, or abandoned; "adopt[ed] the intended scope of work as summarized by the Decision Tree;" and "adopt[ed] the Phase 1 analytical approach for Safety Enhancement… as embodied in the Decision Tree… and related descriptive testimony."[16]

SoCalGas's and SDG&E's PSEPs involve a risk-based prioritization methodology that prioritizes pipelines located in more populated areas ahead of pipelines located in less populated areas and further prioritizes pipelines operated at higher stress levels above those operated at lower stress levels. This prioritization process is captured in the PSEP Phases, with Phase 1 and Phase 2, both sub-divided into two parts, Phases 1A and 1B, and Phases 2A and 2B. Phase 1A encompasses pipelines located in Class 3 and 4 locations and Class 1 and 2 locations in high consequence areas (HCAs) that do not have sufficient documentation of a hydrotest to at least 1.25 times the Maximum Authorized Operating Pressure (MAOP).[17] The scope of Phase 2A addresses the remaining transmission pipelines that do not have sufficient documentation of a hydrotest to at least 1.25 MAOP and are located in Class 1 and 2 non-high consequence areas. Phase 2B covers pipelines that have documentation of a hydrotest that predates the adoption of

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[14] D.11-06-017 at 19.

[15] Ex. SCG-08 (Kostelnik) at 9.

[16] D.14-06-007 at 2, 22, 59 (Ordering Paragraph (OP) 1).

[17] 49 C.F.R. § 192.5.

federal hydrotesting regulations in 1970.[18] In the TY 2019 GRC, the Commission considered whether Phase 2B was properly within PSEP, determined it was, and ordered the development of a Phase 2B implementation plan with specific directives.[19] In this reasonableness review, SoCalGas is seeking recovery of 18 Phase 1A pipeline projects, three Phase 1B pipeline projects, and 66 Phase 1A valve projects. SDG&E is seeking recovery of seven Phase 1A pipeline projects and six Phase 1A valve projects.

3. Cost Recovery

The Commission determined that reasonableness reviews were the best method of cost recovery for SoCalGas and SDG&E when the utilities presented their Pipeline Implementation Plans. The Commission acknowledged that in 2014, "We cannot estimate the true magnitude of either the testing or replacement costs or the impact on either ratepayers or shareholders at this time. Although ratepayers will bear the costs of the new and safer pipeline systems as installed, we cannot reasonably forecast and preapprove Safety Enhancement costs at this time because SDG&E and SoCalGas do not have reliable detailed cost estimates…."[20] SoCalGas and SDG&E acknowledged at the time that: "The estimates in our workpapers represent best available cost projections considering the nature and extent of projects that needed to be estimated for the PSEP, and the short timeframe available to develop them. SoCalGas and SDG&E acknowledge that these estimates are necessarily preliminary and often somewhat conceptual in nature."[21] To enable this review, the Commission ordered SoCalGas and SDG&E to create certain balancing accounts to record Capital and O&M costs and to "file an application with testimony and work papers to demonstrate the reasonableness of the costs incurred, which would justify rate recovery."[22]

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[18] *Id.*

[19] D.19-09-051 at 221-222.

[20] D.14-06-007 at 5.

[21] *Id*. at 26 (citing A.11-11-002, Ex. SCG-21 at 1-2).

[22] D.14-06-007 at 39, 60.

SoCalGas and SDG&E filed the first reasonableness review application in 2014.[23] The Commission approved the application, finding that SoCalGas and SDG&E's actions and expenses were reasonable and consistent with the reasonable manager standard, with one exception related to insurance coverage.[24] SoCalGas and SDG&E subsequently filed two additional stand-alone reasonableness review applications. In 2016, the Companies filed A.16-09-005, which concerned 26 pipeline projects, 15 valve projects, and miscellaneous costs, totaling $195.408 million.[25] The Commission excluded approximately $6.760 million in post-1955 disallowances acknowledged by SoCalGas and SDG&E,[26] reviewed the remaining $188.081 million of SoCalGas and SDG&E's costs, and determined $186.532 million of those costs to have been reasonably incurred.[27] Two years later, the Companies filed A.18-11-010, which concerned 44 pipeline projects and 39 bundled valve projects, and miscellaneous costs, totaling $940.740 million. After accounting for approximately $2.133 million in disallowances acknowledged by SoCalGas and SDG&E,[28] the Commission considered $938.607 million of SoCalGas and SDG&E's costs, and determined $934.6 million were reasonably incurred.[29]

III. EVIDENTIARY STANDARDS AND THE BURDEN OF PROOF

The standard in this GRC is the preponderance of evidence. The preponderance of evidence requires a utility to show that the evidence presented, "when weighted with that opposed to it, has more convincing force and the greater probability of truth."[30] "Costs are just

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[23] A.14-12-016, Application of SDG&E and SoCalGas to Recover Costs Recorded in their Pipeline Safety and Reliability Memorandum Accounts (December 17, 2014).

[24] D.16-12-063 at 54, 61 (OP 5) (declining to authorize recovery of costs for PSEP-specific insurance, without prejudice, after determining that SoCalGas and SDG&E did not make a sufficient factual showing in the proceeding to support the reasonableness of costs).

[25] Ex. SCG-08 (Kostelnik) at 10.

[26] The Commission determined in D.14-06-007 and D.15-12-020 that certain PSEP costs should be disallowed, including costs of hydrotesting post-1955 vintage segments.

[27] D.19-02-004 at 104-108 (OP 1-47). Of the approximately $1.5 million disallowed by the Commission, roughly $1.3 million was deemed recoverable under base business activity.

[28] In each PSEP proceeding, the utilities identify certain costs for work that was performed for which the utility did not meet the record requirements of D.14-06-007 and D.15-12-020. These are referred to as "acknowledged disallowances."

[29] D.20-08-034 at 31 (OP 4).

[30] D.21-08-036 at 9-10. The standard also applies for rate cases. *See* D.19-05-020 at 7; D.15-11-021 at 8-9; D.14-08-032 at 17.

and reasonable if 'prudently incurred by competent management exercising the best practices of the era, and using well-trained, well-informed and conscientious employees and contractors who are performing their jobs properly.'"[31] Importantly, SoCalGas's and SDG&E's costs in this GRC are not considered based on what is learned during or after construction – instead, the reasonable manager standard is based on "what a reasonable manager of sufficient education, training, experience, and skills using the tools and knowledge at his disposal would do when faced with a need to make a decision and act…. There's a range of outcomes that define reasonableness, and it's based on what the manager knew or should have known at the time that the decision was made."[32]

In past PSEP reasonableness reviews, SoCalGas and SDG&E have made substantially similar evidentiary showings to what was made in Track 1 of this proceeding. In those proceedings, SoCalGas averaged 99% recovery of its costs, and SDG&E averaged 99% recovery of its costs. "In preparing its Track 3 testimony and workpapers, SDG&E sought to satisfy the reasonable manager standard while also addressing the Commission's request in D.24-12-074 (and agreed upon by parties in the Joint Case Management Statement) […] SoCalGas and SDG&E have provided a robust level of detail – higher than what was deemed satisfactory for the Commission to make determinations of reasonableness in previous reasonableness reviews."[33] Now, in Track 3, SoCalGas and SDG&E have provided even more evidence than in the past, including explanations of cost variances from early estimates.

Contrary to what Cal Advocates suggests in testimony, the burden of proof does not require a microscopic level of detail.[34] In past reviews, the Commission has not required evidence down to the level of "internal labor logs, or journal entries," or "internal correspondence" discussing change orders.[35] Doing so would result in a massive data dump on

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[31] D.24-12-074 at 17-18 (citing D.14-06-007 at 31).

[32] Ex. SDG&E-T3-PSEP-01-E (Tachiquin) at 15-16; *see also* D.90-09-088 at 171 (Finding of Fact (FOF) 14); D.05-01-054 at 14.

[33] Ex. SCG-T3-PSEP-04 (Kostelnik) at 6.

[34] In one noteworthy example of this, Cal Advocates argues that even though "SDG&E [] submitted contractor change orders that included costs for standby time, rerouting, and traffic redirection," this was insufficient because it did not provide "internal correspondence or itemized documentation showing scope approval." Ex. CA-04-E (Banarsee) at 16.

[35] Ex. CA-04-E (Banarsee) at 16.

the Commission, amounting to at least 5,284 documents just for one project.[36] If the evidence presented for the reasonableness review projects was insufficient in Track 1, not a single party identified that as a shortcoming at the time – in fact, CalPA had no objection to SDG&E's PSEP reasonableness review projects, and the Commission did not state that the presentation was insufficient other than the specific facts identified in D.24-12-074. SoCalGas and SDG&E have supplemented their showings to meet these new standards. If the Commission again finds that more evidence is required, it would be changing the evidentiary standard again without notice.[37] This is not only legally improper, it is fundamentally arbitrary and capricious – a changing of evidentiary requirements, twice, at the end of a multi-year proceeding. Cal Advocates' arguments regarding insufficiently granular evidence should not be entertained.

In determining whether a cost is "reasonable" for PSEP in past reasonableness reviews, the Commission did not emphasize the importance of original estimates from the time a project was first proposed.[38] This is likely because an estimate can confound the analysis of whether costs were reasonable. If challenges are encountered during construction, as is typical in large construction projects, an estimate that does not consider those costs is of minimal relevance. The estimates that were used for the projects presented here are considered Class 3, which is typically used for budget authorization and is at a 10% to 40% maturity level; they lack the precision of Class 1 and 2 estimates (which still differ from actual costs).[39]

It should be noted that the purpose of estimates for reasonableness reviews is, of course, different from estimates for forecasts. Estimates are foundational to a utility's request in GRCs and other applications where costs are forecast, because an estimate is essentially a forecast of

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[36] Ex. SCG-T3-PSEP-04 (Kostelnik) at 8. To emphasize the excessiveness of Cal Advocates' request, and provide some examples of the documents requested to the Commission, SoCalGas attached to its rebuttal testimony a "portion of the total amount (>600) for the environmental and construction management cost categories, consist[ing] of 49 invoices comprising 783 pages." Even rough math would extrapolate the amount of time to prepare similar documents for all projects presented by SoCalGas, to 16,530 hours (over 2,000 work days). *Id.* at n.27.

[37] *See People v. Western Air Lines, Inc*., 42 Cal.2d 621, 632 (1954); *Railroad Commission of California v. Pacific Gas & Electric Co.*, 302 U.S. 388, 393 (1938); D.12-03-026 (ALJ allowed new evidence to be submitted after required evidence changed).

[38] *See, e.g.,* D.19-02-004 (not referencing estimates in final decision).

[39] Ex. SCG-208 (Kostelnik), Appendix B (AACE Recommended Practice 97R-18 – Cost Estimate Classification System – As Applied in Engineering, Procurement, and Construction for the Pipeline Transportation Infrastructure Industries) at 6.

what costs will be. Ultimately, although estimates were presented in Track 3 of this GRC along with variance explanations, the question in determining reasonableness is not tied whether a cost deviates from an estimate, but whether the incurred costs are reasonable.

IV. THE ISSUES TO BE DETERMINED IN THIS PROCEEDING

The Scoping Memo includes eight issues that are within scope, seven of which concern PSEP, and all of which are addressed in this Opening Brief. These are: "2. Whether amounts SoCalGas recorded in memorandum accounts for PSEP costs presented for reasonableness review for the December 2015 – December 2020 period are reasonable and prudent for recovery; 3. Whether amounts SDG&E recorded in memorandum accounts for PSEP costs presented for reasonableness review for the December 2015 – December 2020 period are reasonable and prudent for recovery; 4. Whether accrual of interest on additional amounts (or some portion thereof) should or should not be authorized for recovery in the pertinent PSEP balancing accounts; 5. Whether programs align with California's climate objectives, decarbonization goals, forecasts of future natural gas demand, and whether the expenditures result in just and reasonable rates; 6. Whether Sempra's applications align with the Commission's Environmental and Social Justice Action Plan; 7. Are there any environmental and social justice concerns?; and 8. Are there any safety concerns?"

In addition, intervenors identified several issues, as provided in the list of issues circulated prior to hearings.

V. RESOLUTION OF ISSUES

The issues in this proceeding are addressed in this brief as set forth below.

Scoping Issues:

Issue	**Where Addressed**
2. Whether amounts SoCalGas recorded in memorandum accounts for PSEP costs presented for reasonableness review for the December 2015 – December 2020 period are reasonable and prudent for recovery;	Section VI
3. Whether amounts SDG&E recorded in memorandum accounts for PSEP costs presented for reasonableness review for the December 2015 – December 2020 period are reasonable and prudent for recovery;	Section VII

4. Whether accrual of interest on additional amounts (or some portion thereof) should or should not be authorized for recovery in the pertinent PSEP balancing accounts;	Section VIII.B
5. Whether programs align with California's climate objectives, decarbonization goals, forecasts of future natural gas demand, and whether the expenditures result in just and reasonable rates;	Section IX.B
6. Whether Sempra's applications align with the Commission's Environmental and Social Justice Action Plan;	Section IX.B
7. Are there any environmental and social justice concerns?;	Section IX.B
8. Are there any safety concerns?	Section IX.A

Issues raised by Intervenors:[40]

Issue (Cal Advocates)	**Where Addressed**
Replacement Projects	Section VI.A and VII.A (SoCalGas and SDG&E, respectively)
Hydrotest Projects	Section VI.A and VII.A (SoCalGas and SDG&E, respectively)
Derate/Abandonment	Section VI.A and VII.A (SoCalGas and SDG&E, respectively)
Valve Bundle Projects	Section VI.B and VII.B (SoCalGas and SDG&E, respectively)
Line 306 Purchase	Section VI.C.1
Miscellaneous Costs	Section VI.C.2
Disallowed Costs	Section VI.A.3
Issue (PCF)	
Threshold issue of eligibility for PSEP cost recovery.	Section VII.A.5
Insufficient documentation on whether SDG&E could have hydrotested the pipelines instead.	Section VII.A.7
Costs exceeding per unit price estimates.	Section VII.A.6
Lack of documentation.	Throughout.[41]
Issue (Indicated Shippers)	

[40] These issues are those identified by the Intervenors in the September 16, 2025 Case Management Statement.

[41] It is unclear what this issue is, as it does not appear to be thoroughly discussed in testimony.

Amortization of the revenue requirement associated over a 12-month period	Section VIII.A
Whether accrual of interest on additional amounts should be authorized	Section VIII.B

VI. REASONABLENESS OF SOUTHERN CALIFORNIA GAS COSTS

SoCalGas has presented evidence showing that the costs it incurred for the projects under consideration in this reasonableness review were reasonably incurred. SoCalGas presents in Track 3 for reasonableness review projects and other miscellaneous costs primarily incurred from December 2015 to December 2020. The total capital and O&M costs presented for review are $453.860 million and $45.243 million, respectively.[42] Because of the 50% interim rate recovery mechanism the Commission adopted in D.16-08-003, SoCalGas is requesting only the remaining revenue requirement of $132 million.[43] The total cost represents work on 21 pipeline and bundled valve projects encompassing approximately 80 miles of transmission pipeline and 116 valves.[44]

Overall, these costs presented for reasonableness review are below the amounts estimated for work on SoCalGas's PSEP projects: "In aggregate, the portfolio of the 21 SoCalGas pipeline projects presented for review was approximately $37 million or 10 percent below the estimated amount ($326 million actual versus $363 million estimated). The SoCalGas valve portfolio of 66 projects was approximately $16 million or 11 percent below the estimated amount ($135 million actual versus $152 million estimated). As would be expected, while the aggregated actual costs [are] less than estimated amounts, some pipeline and valve projects exceeded estimated amounts."[45]

A. Pipelines

In this track, SoCalGas is requesting a reasonableness review of costs associated with completed PSEP projects and other miscellaneous costs primarily incurred from December 2015 to December 2020. Of the amount requested, $326 million is associated with pipeline projects.

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42 Ex. SCG-T3-PSEP-01 (Kostelnik) at 4.

43 *Id.*

44 *Id.* at 48.

45 *Id.* at 32.

This (and the associated revenue requirement) is net of the amounts already recovered in rates via the 50% interim rate recovery mechanism, which the Commission adopted in D.16-08-003.

SoCalGas has presented substantial evidence on each of the pipeline projects that it is requesting funding for in this GRC. The showing for each project makes clear that SoCalGas has met its burden of proof in showing that the costs for the pipeline projects are reasonable under the prudent manager standard. PSEP is effectively managed through its structure, processes, and controls, as presented in testimony. In addition, the workpapers provided for each project show how the evidence presented demonstrates the reasonableness of the costs. The oppositions to *specific* project costs, raised only by Cal Advocates in this Track and by not a single party in Track 1, are readily addressed in the rebuttal testimony and discussed below.

1. PSEP Oversight and Processes

SoCalGas provides extensive evidence in testimony about the rigorous PSEP processes that help SoCalGas prudently run the PSEP program. As explained thoroughly in testimony, SoCalGas manages the PSEP program in a manner that (1) promotes prudent program and project oversight, (2) enables prudent execution of PSEP projects in order to mitigate obstacles to maximize efficiencies and complete construction as soon as practicable, and (3) prudently manages PSEP costs for the benefit of SoCalGas customers.[46]

Prudent program oversight includes structures and processes that promote the effective administration of the PSEP program. Given the large and complex volume of work that needs to be completed safely and cost-effectively, and to incorporate continuous improvement, and manage a large pool of both company and contracted employees, this oversight is essential to efficient and effective program administration. In conducting this oversight, SoCalGas acted as a prudent operator by: (1) overseeing PSEP with a Program Management Office (PMO) and Project Portfolio Team that develop standards and procedures for consistent management, identify and incorporate process improvements, and oversee compliance with applicable regulatory requirements; (2) employing a seven-part Stage Gate Review Process to organize workflow and management review; (3) when evaluating whether to test or replace any particular pipeline segment, reviewing other considerations such as impacts to customers, incidental or accelerated mileage, and other means of service during construction; (4) collaborating with local

[46] Ex. SCG-T3-PSEP-01 (Kostelnik).

stakeholders; (5) coordinating with other company projects; and (6) conducting design and construction consistent with SoCalGas's standards to promote compliance, safety, and efficiency.[47]

Managing obstacles in order to efficiently and promptly complete projects is an essential aspect of the PSEP program. "Pipeline and valve projects are complex and require thoughtful orchestration."[48] The obstacles that SoCalGas can encounter during a project as numerous: permitting and temporary land right acquisitions, unforeseen pipeline or site conditions, limited material availability, and unexpected customer impacts can all create delays and cost increases.[49] SoCalGas manages these challenges in various ways, such as building in time for permit acquisition, bulk purchases, extensive pre-construction testing, and proactive community outreach.[50] These actions help these large construction projects move forward efficiently and as soon as practicable.

SoCalGas's PSEP project teams look for ways to promote affordability by avoiding costs to the benefit of customers, including "through (1) scope validation efforts; (2) sequencing PSEP projects to maximize efficiency and productivity; (3) prudent procurement of materials to achieve reasonable market-based costs for customers; and (4) use of the Performance Partnership Program to further enhance construction contractor cost-effectiveness."[51] Scope validation measures have led to a descoping of 254 miles of pipeline, leading to significant savings for ratepayers. Sequencing of projects leads to efficient project execution on a project and portfolio level. Prudent procurement by buying in bulk and for multiple projects, where feasible, and effective contractor negotiation and selection also result in savings for customers. The Performance Partnership Program vets qualified alliance contractors that are willing to partner with SoCalGas by using their unique experience and expertise to seek more efficient ways of executing projects and share in the cost savings.[52] While projects are still open to open bidding

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47 Ex. SCG-T3-PSEP-01 (Kostelnik) at 16-20.

48 *Id.* at 22.

49 *Id.* at 22-26.

50 *Id.*

51 *Id.* at 26.

52 *Id.* at 28.

and competitive bidding, this program has helped encourage contractors to work efficiently and cost-effectively, resulting in savings for customers.

These many aspects of the PSEP program help every PSEP project proceed in an efficient, cost-effective, and timely manner. This helps maintain the reasonableness of all costs presented for review in this proceeding.

2. Pipeline Workpapers

Every single project that has costs presented for reasonableness review in this proceeding is supported by a workpaper that gives a detailed explanation of the project. These workpapers are the bulk of the project specific evidentiary showings and should be reviewed to understand every project presented. In every workpaper, there is a host of information, including: (1) project background and summary; (2) engineering, design, and planning (including project scope; decision tree analysis;[53] engineering, design, and planning; and scope changes); (3) construction (covering construction contractor selection, construction schedule, changes during construction, and commissioning and site restoration); and (4) project costs (including cost avoidance actions, cost estimates, actual and indirect costs, cost impacts, and disallowances).[54]

Although the workpapers should be reviewed in full to weigh the evidence presented by SoCalGas and SDG&E, SoCalGas gives a brief overview of one PSEP pipeline project to illustrate how projects are presented. For Supply Line 36-9-21,[55] SoCalGas's workpapers demonstrate the key details of the project and why the cost for the project is reasonable. The workpaper begins with a high-level overview of the project, explaining the areas where the pipeline passes through, the length of the pipeline, and the total cost. Next, the workpaper provides a chart of key project details, including pipe measurements, construction dates, and cost

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[53] The Decision Tree Analysis is a critical component of PSEP. In A.11-11-002 SoCalGas presented its Decision Tree for PSEP. The Decision Tree is a set of factors that help SoCalGas determine in standardized fashion whether a PSEP project is more appropriate for hydrotesting or replacement. The Commission in D.14-06-007 approved SoCalGas's Decision Tree. The Decision Tree includes many data points, including: Shut-In Analysis, Customer Impacts, Community Impacts, Permitting Conditions, Piggability, Pipe Vintage, Existing Pipe Attributes, Longseam Type, Longseam Repair History, Condition of Coating, History of Leaks, Constructability and Other factors. Further details of the Decision Tree are discussed at Ex. SCG-T3-PSEP-01-WP1-Vol I-E (Kostelnik) at WP-5-6.

[54] Ex. SCG-T3-PSEP-01-WP1-Vol I-E (Kostelnik) at WP-4-13 (additional detail and discussion of these categories).

[55] This particular pipeline is included at *id.* at WP-126. For reason of reference, it is attached hereto as Attachment A.

breakdown.[56] The following pages include maps showing where the construction occurred and where new pipelines were placed.[57]

The next pages include the "Engineering, Design, and Planning" section of the workpapers. They begin by explaining that the pipeline project was identified in the 2011 PSEP filing, and at a high level, explain why the pipeline was relocated (to reduce impacts on local businesses) and why accelerated mileage was included (to facilitate the tie-in). The workpaper then includes the decision-tree analysis, explaining the many criteria that informed the decision to replace, as opposed to hydrotest, the pipeline. Among these factors, the pipeline being non-piggable and the disruption to businesses if hydrotesting were done were significant factors. The section next discusses changes that occurred during construction, and for this particular project, states that there were no notable change orders during the life of this project. Four photographs follow, showing the project during construction.[58]

The following section, "Project Costs," is a detailed explanation of the costs for the project. It explains that costs were avoided through negotiating for the use of a fire hydrant for testing, removal of a mainline valve that was no longer necessary, negotiating with the city to reduce the amount of repaving that would otherwise need to be done, and using simpler pressure control fittings than originally deemed necessary to also reduce cost.[59] The breakdown of estimated versus actual costs and the calculated FTEs for the project are also included in the following pages.[60] For this project, the estimated cost was $6,895,764, with the final cost of $5,910,631 ($985,133 less than estimated).

Every pipeline project presents costs in this manner, with robust explanations of the life and details of each pipeline project, and the costs incurred. The workpapers help support the reasonableness of the costs presented for review in this proceeding.

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[56] *Id.* at WP-126.

[57] *Id.* at WP-127-128.

[58] *Id.* at WP-134-137.

[59] *Id.* at WP-139-142.

[60] *Id.* at WP-140-141.

3. Cal Advocates' Challenges on Specific Projects

Cal Advocates makes a number of claims that certain costs are unreasonable. Each of these has been addressed in rebuttal testimony and is discussed briefly below.

Unexplained Reductions for Pipeline Projects Line 404 Section 4A, Supply Line 36-9-09 North Section 5B0-02 & 5C, SL33-120 Section 1, Supply Line 36-9-21, and Supply Line 36-1032 Section 4

Cal Advocates, through the testimony of Ms. Banarsee, recommends a reduction of $8.058 million for pipeline projects Line 404 Section 4A, Supply Line 36-9-09 North Section 5B0-02 & 5C, SL33-120 Section 1, Supply Line 36-9-21, and Supply Line 36-1032 Section 4.[61] However, Cal Advocates does not appear to provide any justification for this reduction. It appears Cal Advocates took the reductions it had specifically identified for other projects, added them up, then spread those reductions over other projects where it did not propose more specific reductions by applying a simple percentage reduction to each. Cal Advocates does not explain the basis for such a reduction methodology. Cal Advocates' apparent proposed reductions on these costs should be disregarded.[62]

Costs for Environmental Work and Construction Management for Line 45-120 Section 2

Cal Advocates proposes a reduction of $18.6 million as "excessive" costs "without supporting documentation" for "contractor" and "GMA" costs.[63] SoCalGas requested additional information from Cal Advocates via data request as to what specific costs were deemed excessive or unsupported and why, but Cal Advocates' response was simply that the costs were vague.[64] Assuming Cal Advocates takes issue with the environmental work on Line 45-120, the costs incurred for these activities were explained in workpapers. The workpapers include 38 pages specifically discussing Line 45-120. Within those pages, there is extensive discussion of

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61 Ex. CA-04-WP (Banarsee).

62 There are instances in Witness Banarsee's testimony where there are discrepancies in costs that are unexplained. These issues should lessen the credibility of the testimony. For example, Witness Banarsee offered in response to a data request new numbers for the projects that it was proposing reductions for. The new numbers amount to a recommended reduction of $24.3 million for pipeline project costs, a reduction of approximately $10 million from the numbers provided in testimony. *See* Kostelnik Rebuttal, Ex. SCG-T3-PSEP-04 at 22-23 for a further discussion of this issue.

63 Ex. SCG-T3-PSEP-04 (Kostelnik), Appendix B at 187-188.

64 *Id.*

the "complexity of construction and field design changes resulting from unknown geological features and the substantially higher than anticipated groundwater encountered, [and the] additional time and support [that] was required for Supply Line 45-120 Section 2 Replacement Project, leading to higher-than-anticipated management costs."[65] This particular project encountered significant challenges with boring and unknown geological structures, groundwater issues, permitting issues, and other challenges. Contrary to Cal Advocates' claims, there is nothing vague about the description of the work done. In addition, to address Cal Advocates' claim of insufficient documentation, SoCalGas provided extensive documentation, attached as Appendices B and C to the Rebuttal testimony of Mr. Kostelnik. The Appendices include granular information on the work done for the project.[66] Setting all of this aside, as explained below, Cal Advocates' testimony on this issue is inaccurate because the sum of the costs identified by Cal Advocates is $14.3 million, not the $18.6 million claimed.[67]

"Duplicative" costs for Supply Line 36-9-09 North Section 6B

Cal Advocates proposed in their testimony a $6.4 million reduction for the 36-9-09 North Section 36B Replacement Project: "due to overstated trench and bore quantities, conflicting GIS vs. as built maps, and major scope deviations that were never reconciled; SCG failed to justify the inflated construction footage with any documented scope alignment."[68] Cal Advocates claimed that photographs showed "an unmistakable overlap of bore and trench work that would double-count footage."[69] However, SoCalGas explained in rebuttal testimony that the portion in the photograph was using open trenching, while the majority of the work performed was with

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[65] Ex. SCG-T3-PSEP-01-WP1-Vol I-E (Kostelnik) at WP-261.

[66] As discussed above SoCalGas and SDG&E believe this Appendix shows how this level of detail for reasonableness review is excessive and burdensome on all parties and the Commission. If an intervenor has a specific question regarding a particular cost, that can be asked; however, demanding that all such information be provided as an affirmative showing for every project in a reasonableness review would be an inefficient manner of running CPUC proceedings. *See* Ex. SCG-T3-PSEP-04 (Kostelnik), Appendix B at 155 (referencing attached change orders), 159 (referencing attached scope and alignment change orders); *id.,* Appendix C at 6, 16, 25 (including invoice summary reports)).

[67] Ex. SCG-T3-PSEP-01 (Kostelnik) at 22.

[68] Ex. CA-04-E (Banarsee) at 6.

[69] Ex. SCG-T3-PSEP-04 (Kostelnik), Appendix B at 190 (Cal Advocates' Response to Question 4c).

trenchless installation techniques.[70] One image does not mean that SoCalGas was double-counting mileage – the image in question is just a snapshot of work being performed.

Similarly, Cal Advocates incorrectly suggests that where SoCalGas had a decrease in mileage, SoCalGas only made a minor reduction in its costs.[71] However, the re-route identified by Cal Advocates actually resulted in an *increase* in mileage.[72] The premise underlying the reduction is incorrect, and Cal Advocates' argument should be disregarded.

Costs for "Market Research"

Cal Advocates also argues that SoCalGas's recovery should be reduced by $1.056 million for market research. However, SoCalGas did not request any recovery of costs for market research.[73]

Reductions for 37-18-K; 30-18 Section 2, 2006 PIA Replacement Project; 38-101 Wheeler Ridge Project are misplaced

Cal Advocates also challenges several costs with little explanation beyond a sentence or two. SoCalGas requested further details from Cal Advocates in order to understand the arguments. These challenges were addressed directly in rebuttal testimony as follows.

For Project 37-18-K, and several other projects, Cal Advocates argues that SoCalGas "lacks internal justification" for costs[74] and this "underscore[s] the absence of internal cost governance…."[75] These arguments fail because they are based on a narrow and inapt data request. The Data Request that Cal Advocates refers to asks SoCalGas to provide information "For projects in Table BK-48 where actual cost exceeded the preliminary estimate…."[76] However, because the actual costs for Project 37-18-K did not exceed the estimate, but in fact cost approximately 39% less than the estimate, the project was outside the scope of the data

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70 Ex. SCG-T3-PSEP-04 (Kostelnik) at 25.

71 *Id.*

72 *Id.*

73 Ex. CA-04-E (Banarsee) at 12; Ex. SCG-T3-PSEP-04 (Kostelnik) at 23; Transcript (Tr.) V27:4651:9-4652:4 (Kostelnik).

74 Ex. SCG-T3-PSEP-04 (Kostelnik) at 28.

75 *Id.*

76 *Id*., Appendix B at 135.

request.[77] The request therefore does not apply to this project. In addition, the documentation Cal Advocates specifically asks for in this data request is "internal reconciliation or root cause assessments."[78] SoCalGas explains that it does not prepare an internal reconciliation or root cause analysis for changes during construction – that is not the process for addressing changes in costs from estimates. As SoCalGas explains: root cause analyses on such costs "are not necessary for project completion. … SoCalGas implements procedures to verify the accuracy of costs. This includes verifying that billing rates are correct, reviewing time sheets for hours worked, and reviewing other supporting documentation for accuracy. Once the information on invoices is verified, the invoice reviewer forwards the invoices to the project managers to confirm that the correct labor hours, billed labor rates, and any additional expenses are within the terms of the contract."[79] Cal Advocates' assumption that because a root cause analysis or reconciliation to an estimate was not performed means that there is no documentation, or that there is insufficient governance, is incorrect. In fact, the Commission has recognized the strength of the PSEP program governance:

> We find that Applicants have satisfied the reasonable manager standards in the establishment of their PSEP program. Generally, the evidence supports the following findings: […]
>
> Through the project execution process, Applicants exercised prudence in their governance and oversight. Applicants created a PSEP organization to oversee PSEP project execution to provide project and process controls during the lifecycle of each project, assess each project's budget and schedule, and to communicate progress to stakeholders; [...]
>
> Tracking controls were in place to manage costs, including general management and administrative costs and overhead costs; Project-specific costs were tracked by a Work Order Authorization in which cost categories were assigned unique internal order numbers. Costs tracked included, by way of example, those for the project manager, project engineers, project designers, business analysts, permitting and land services representatives, environmental representatives,

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[77] Ex. SCG-T3-PSEP-01-WP1-Vol I-E (Kostelnik) at WP-160. This is also the case for project 30-18 Section 2 (SCG-T3-PSEP-04 (Kostelnik) at 30), and Project 2006-P1A (Ex. SCG-T3-PSEP-04 (Kostelnik) at 31).

[78] Ex. SCG-T3-PSEP-04 (Kostelnik), Appendix B at 137.

[79] *Id*. Cal Advocates makes the same argument with respect to project 2006-P1A (Ex. SCG-T3-PSEP-04 (Kostelnik) at 31).

> material coordinators, construction teams, community outreach liaisons, and project and document control personnel[.][80]

The argument that there is insufficient governance because of a lack of root cause analyses and reconciliations to estimates is without merit for this project and others.[81] Recommended disallowances for this project should be denied.

For Project 30-18 Section 2, Cal Advocates claims that "trench work may have been billed twice" because "Figures 4–8 on WP-34 through WP-37 show both HDD pull-backs and open-trench installation…."[82] SoCalGas explained how this assumption is without merit: "The HDDs were executed within a single construction window as part of a coordinated scope of work. Any suggestion of 'double billing' is unfounded, as separating the HDDs into distinct construction efforts would have been operationally inefficient, cost-prohibitive, and inconsistent with standard construction practices for pipeline installation."[83] Cal Advocates also argues that for this project "the bore pit was relocated, deepened, and lengthened to avoid overhead wires, freeway pillars, and electrical conflicts, yet no engineering addendum or updated drawings were issued."[84] However, "Updated drawings are issued throughout the design phase to reflect ongoing changes and to capture the final approved design, ensuring alignment across engineering, construction, and project documentation."[85] Similarly, Cal Advocates argues that plan and satellite maps were never revised to show project changes. SoCalGas explains in rebuttal, "baseline plan and satellite maps represent a high-level overview of the final project

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[80] D.19-02-004 at 11-12 (citations omitted); *see also* D.16-12-063 at 33 (recognizing the value of the PMO because it "assists other departments in procurement and contract administration, performance monitoring and reporting, quality assurance and quality control, communications and governance, customer communications and outreach, information technology, financial controls, and corporate and regulatory compliance.")

[81] Cal Advocates expressly relies on this argument for Project 2006-P1A (*see* Ex. SCG-T3-PSEP-04 (Kostelnik) at 31) and Project 38-101Wheeler Ridge (*see id.* at 33).

[82] Ex. SCG-T3-PSEP-04 (Kostelnik) at 28.

[83] *Id.*

[84] *Id.* at 28-29. Cal Advocates makes a similar argument that "SCG provides no evidence that trench or bore quantities were validated, no scope log to justify change orders." *Id.* at 31. SoCalGas explains in response, "Scope changes are documented through formal change orders, which serve as the scope log." *Id.*

[85] *Id.* at 28-29. *See also id.* at 26 ("SoCalGas is able to provide engineering drawings from different project stages.")

scope," and "Section D on WP-32 appropriately reflects the absence of notable scope changes during detailed design as these changes were identified and incorporated into the design prior to the development of the final estimate, consistent with standard project management practices."[86] Cal Advocates also suggests an issue with some costs for engineering increasing, while other costs decreased. SoCalGas explains this in the workpapers: "Engineering and Design firms completed activities originally identified as Project Management & Services in the initial estimate, while the actual costs were recognized under Engineering and Design."[87] Cal Advocates argues that a disallowed cost was billed because "the same trench/HDD activity appears in the photos."[88] The statement suggests a misunderstanding of disallowances. A disallowance does not mean that work is not performed – only that SoCalGas cannot recover the cost for the work.[89] The costs were appropriately removed from this request.[90] Cal Advocates also claims a "recurring practice of altering field scope post-design without proper validation or documentation" because "a buried vault and slurry conditions forced mid-construction tie-in relocations and manual excavations [] were simply billed as change orders."[91] SoCalGas explains the handling of this issue in rebuttal testimony: "Any adjustments made in response to these discoveries are documented through redlines and incorporated into the final as-built drawings to ensure accurate project records and future reference. Addressing these issues in the field through coordinated adjustments [(i.e., change orders)] is commonplace in construction and significantly more cost-effective than initiating a full redesign at this stage of construction."[92] Recommended disallowances for Project 30-18 Section 2 should be denied.

Cal Advocates also makes several arguments regarding Project 2006-P1A. Cal Advocates argues that there are "layered" costs for "overlapping cost categories" for the project,

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86 *Id.* at 29.

87 *Id.*

88 *Id.*

89 Ex. SCG-T3-PSEP-01 (Kostelnik) at 7, n.14.

90 Ex. SCG-T3-PSEP-01-WP1-Vol I-E (Kostelnik) at WP-43 ("Of the pipeline that was replaced, 404 feet of Phase 1A pipe is disallowed. Therefore, a $130,758 reduction to ratebase was calculated….").

91 Ex. SCG-T3-PSEP-04 (Kostelnik) at 30.

92 *Id.*

and that certain charges are "undocumented" and "unvalidated."[93] However, far from being overlapping, these activities "are standard in SoCalGas's accounting system and include essential project management support, key project deliverables, and oversight functions."[94] As discussed above, "project costs are supported by documentation and verified through invoice reviews, timesheet checks, and contract compliance. All costs are reviewed and approved internally."[95] Recommended disallowances for Project 2006-P1A should be denied.

Finally, for Project 38-101 Wheeler Ridge, Cal Advocates opposes costs because SoCalGas booked "contractor work without timecards, reconciliations, or defined unit quantities."[96] The information that Cal Advocates relies on does not directly tie into unit-based quantities, and regardless, the costs "are supported by verified project documentation and internal controls…. [consistent with] with industry standard practices."[97] Recommended disallowances for the project should be denied.

4. Cal Advocates' Challenge on Straight-Time Labor, Employee Benefits, and Indirect Costs

Cal Advocates claims that SoCalGas's costs incurred in executing the PSEP projects under consideration in this Track should be reduced by $47.2 million because labor costs were allegedly already accounted for in base rates.[98] This argument presumes that *every single employee* who worked on PSEP did not spend a single incremental hour[99] on PSEP work separate from the Commission's approval of SoCalGas's GRCs – essentially, the PSEP program did not result in any additional employee time. Thus, the massive program was performed without the need for a single additional hour of employee time. Cal Advocates' argument should be disregarded because (1) it relies on inapt Data Request responses; (2) evidence shows that the PSEP program resulted in a massive increase in incremental resources and the need to execute projects quickly; and (3) SoCalGas's PSEP expenditures were tracked using business controls

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93 *Id.* at 31.

94 *Id.*

95 *Id.* at 28.

96 Ex. CA-04-E (Banarsee) at 6.

97 Ex. SCG-T3-PSEP-04 (Kostelnik) at 32.

98 *Id.* at 1.

99 Not including overtime. *See* Ex. CA-04-E (Banarsee) at 2-3.

and were authorized, recorded, and recovered through separate balancing accounts, which isolate activities and costs from base GRC funding.

First, Cal Advocates' argument should be disregarded outright because the basis for the argument is SoCalGas's data request response that: "SoCalGas does not generally track whether employees were hired specifically for a given program and SoCalGas's data related to employee hirings does not specify if they were hired to support a specific program."[100] SoCalGas's response to this data request also provided a list of employees who charged any time at all to the PSEP projects included in this Application who were hired between 2011 and 2019. The simple fact that employees were not *hired* exclusively to work on the PSEP program is not a reason to disallow cost recovery for labor costs, benefits, and indirect costs for these employees – especially where all the time they spent working on PSEP projects was specifically recorded (as discussed below).

To meet Cal Advocates' apparent requirement, SoCalGas should have only been permitted to use new employees hired solely for the PSEP program. To execute the PSEP in such a manner, SoCalGas and its ratepayers would have incurred significant costs to bring on new resources, slowing down the PSEP program and abandoning the statutory and Commission mandate to complete work "as soon as practicable."[101] Furthermore, the inefficiency would be compounded by the fact that these employees would then need to find other work once the PSEP program concludes or changes. This approach would be unreasonable, as the Commission has noted in other PSEP proceedings.[102] In fact, the Commission previously considered arguments raised by intervenors that SoCalGas should have hired *fewer* contractors and more full-time employees: "SoCalGas and SDG&E argue that workforce limitations were and remained a concern and that they attempted to recruit personnel in all project work activities with limited

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[100] *See* Ex. SCG-T3-PSEP-04 (Kostelnik) at 9.

[101] D.11-06-017 at 19, 20, 29 (COL 5), 31 (OP 5); Pub. Util Code § 958.

[102] D.16-12-063 at 48 ('"SoCalGas and SDG&E acted prudently and reasonably in their hiring efforts for the PSEP. There is no dispute that PSEP was created as a result of a catastrophic event (i.e. the 2009 San Bruno Pipeline explosion), and the Commission directed that the PSEP be completed 'as soon as practicable'. SoCalGas and SDG&E engaged contractors and managed the cost of hiring them through competitive bidding services. Since the staffing for the PSEP was not meant to be permanent, it was reasonable for SoCalGas and SDG&E to seek to fill employment positions through the use of contractors. […] Taken together, we conclude that SoCalGas and SDG&E acted reasonably when they engaged in their hiring efforts."' (citations omitted)).

success. Even if there were hundreds of qualified personnel available for hire, SCGC's argument [that the program should be staffed with new hires] does not consider the long-term implications of hiring hundreds of employees without sufficient work to do."

Second, a wealth of evidence supports the fact that SoCalGas's request here is based on incremental labor costs. On this issue, D.23-02-017, which concerns the incrementality of PG&E's reasonableness review of wildfire costs, is particularly instructive. The decision states that "Generally, costs are incremental if, in addition to completing the planned work that underlies the authorized costs, the utility had to procure additional resources, be they in labor or materials, to complete the new activity."[103] The evidence shows that "additional resources" were procured that supported the PSEP program.

There was a significant and immediate increase in resources needed to execute the PSEP because of the Commission's directive and the statutory mandate to complete the PSEP work "as soon as practicable."[104] "SoCalGas and SDG&E commenced work even prior to the approval of their PSEP. […] [T]he work required to implement PSEP was extensive, given that PSEP was a new compliance program unprecedented in size and scope. To meet this incremental workload, new Company employees were hired, and existing resources were utilized to support executing PSEP. A PSEP labor force was thus created through a combination of hiring new employees from outside the company, transferring existing employees over to work on PSEP, and then backfilling the vacancies as needed (or adding PSEP work to the existing responsibilities of operating support teams)."[105]

Evidence of the SoCalGas workforce during the time of these projects shows that the increase in resources needed for PSEP coincided with an increase in headcount. SoCalGas's "headcount increased from 7,800 in 2012 to a peak of 8,472 in 2016. During this same time frame, the number of employees charging cost centers mapped to the PSEP organization followed the same trend."[106] There is a clear correlation between the PSEP work and the

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[103] D.23-02-017 at 27.

[104] Ex. SCG-T3-PSEP-04 (Kostelnik) at 12; D.11-06-017 at 19, 20, 29 (COL 5), 31 (OP 5); Pub. Util Code § 958.

[105] Ex. SCG-T3-PSEP-04 (Kostelnik) at 12-13.

[106] *Id*. at 11-12 (including a graphic on head count (Figure 1: SoCalGas Company Headcount Increased as PSEP Efforts Were Ramping Up)).

increases. "SoCalGas did not undertake incremental work comparable to the size and scope of PSEP during this time frame. The hiring was directly related to the need to obtain the support needed to begin planning, engineering, and executing PSEP projects."[107] Moreover, the significant increase in headcount occurred at a time when SoCalGas was only authorized a 6.2% increase in rates.[108]

The increases in hiring should be found to be the consequence of the PSEP program, similar to how the Commission found labor increases to be tied to incremental work in PG&E's wildfire request in D.23-02-017. In D.23-02-017, the Commission recognized:

> Traditionally, memorandum accounts are for matters that are not included in GRC forecasts, like emergency events or new and costly regulatory obligations that arose between GRC proceedings. Consistent with this approach, in 2019 the Legislature recognized the need to track and recover costs for wildfire mitigation, **given the urgency** of the need to undertake extensive work quickly to reduce the risk of wildfire ignitions and with the understanding that WMP and GRC review timelines do not necessarily sync up.[109]

Just like in the wildfire proceeding, the legislature passed a law for utilities to complete work "as soon as practicable."[110] And, just like the wildfire proceeding, the Commission allowed the creation of cost tracking accounts, and utilities have tracked costs in those accounts. Those accounts were opened because of the urgency to complete the work, and not to wait for fully developed estimates for the work. Thus, the very nature of the PSEP program, given its similarities to the wildfire work under consideration in D.23-02-017, is one that should be treated as incremental for purposes of recovery of labor costs.

Finally, it must be emphasized that all of the costs presented in this reasonableness review were incurred in performing PSEP work, and were tracked using "project management, governance, and business controls" to confirm that "employees charge their time accurately […] [in] performing [] incremental PSEP work."[111] Thus, the issue is not whether these costs were actually incurred for the PSEP projects. As explained in testimony:

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[107] *Id.* at 11.

[108] *Id.*

[109] D.23-02-017 at 22-23 (emphasis added).

[110] Pub. Util. Code § 958.

[111] Ex. SCG-T3-PSEP-04 (Kostelnik) at 14.

> Adhering to SoCalGas accounting practices, specific work orders and internal orders (IOs) were set up to track time for PSEP projects. Employees charge their time using these specific PSEP IOs and track labor hours in the SoCalGas timesheet system (MyTime). Each month, the PSEP Project Management Office (PMO) team and/or department financial analysts review the labor charged to PSEP IOs and flag any potentially questionable entries for detailed review and/or correction. To complete this step, a monthly labor file is compiled by the PSEP PMO with the names and hours of employees charging PSEP IOs. The labor file is then issued to the project managers, charging employees, and their respective directors for review and confirmation. […] This process was in place as a project and business control during the execution period for the projects included in Track 3. In addition to the monthly labor review, PSEP reviewed and validated costs tracked in the regulatory balancing accounts. This provides a reasonable level of assurance that the Regulatory Accounts comply with the CPUC decisions authorizing such activities for refundable (balanced) versus non-refundable dollars. In D.19-02-004, the Commission found that "SoCalGas and SDG&E implemented reasonable processes to track and verify PSEP costs."[112]

These processes and controls confirm that the utilities' labor costs sought for recovery in this proceeding were correctly tracked and should be approved for recovery here.[113]

B. Valves

In this Track, SoCalGas is requesting a reasonableness review of costs associated with completed PSEP projects and other miscellaneous costs primarily incurred from December 2015 to December 2020. Of the amount requested, $135 million in costs is associated with valve projects. The total revenue requirement requested is net of the amounts already recovered in rates via the 50% interim rate recovery mechanism the Commission adopted in D.16-08-003.

As with the pipeline projects, SoCalGas has presented substantial evidence on each of the valve projects that it is requesting funding for in this GRC. The showing for each project makes

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[112] *Id.* at 14 (citing D.19-02-004 at 98 (FOF 18)).

[113] SoCalGas notes that Witness Chow also recommends a $1.67 million reduction in indirect costs for the miscellaneous cost category because the costs are purportedly tied to underlying labor that is not incremental. As discussed, the labor used for PSEP was incremental to SoCalGas's requests. However, it should be noted that Witness Chow mistakenly included non-labor indirect costs instead of the 38 labor loading cost elements used by the other witnesses, resulting in this reduction being overstated by $1.07 million. Ex. SCG-T3-PSEP-04 (Kostelnik) at 16.

clear that SoCalGas has met its burden of proof in showing that the costs for the pipeline projects are reasonable under the prudent manager standard. PSEP is effectively managed through its structure, processes, and controls, as presented in testimony. In addition, the workpapers provided for each project show how the evidence presented demonstrates the reasonableness of the costs.

1. PSEP Oversight and Processes

The processes discussed above regarding the rigorous PSEP oversight and processes for pipeline projects was similarly implemented over the valve projects. The PSEP structure reinforces the reasonableness of the valve costs presented for recovery here.

2. Valve Workpapers

Similar to pipeline projects, the workpapers give an overview of how valve projects are explained in detail in the workpapers. A further discussion on valve project workpapers is in Section VII.B.1, below.

3. Cal Advocates Challenges on Specific Projects

Costs for Site Restoration for Santa Barbara County Valve Enhancement Project - Lions

Cal Advocates' witness Monica Weaver argued that there should be disallowances for the Santa Barbara County Valve Enhancement Project – Lyons with respect to a $140,000 cost incurred for the addition of concrete stairs and a handrail. Ms. Weaver argues that the cost for the stairs and handrail should have been shared by Southern California Edison (SCE) because SCE required the additions. However, these access requirements are required by SCE's Electrical Service Requirements (ESR), and the requirements stipulate that modifications will be made at the customer's expense.[114]

Ms. Weaver opposes the costs for "the planting of 15 trees during site restoration and… two years of environmental oversight and ongoing tree maintenance, which resulted in additional permitting and environmental costs of approximately $94,000,"[115] that were required by Santa Barbara County as permitting requirements. As explained in Mr. Kostelnik's rebuttal testimony,

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[114] *Id*. (citing SCE's ESR (April 25, 2024) at Table 5-2: Prohibited Metering and Service Equipment Locations, Item 14, *available at:* https://www.sce.com/regulatory/distribution-manuals/electrical-service-requirements).

[115] Ex. SCG-T3-PSEP-01-WP1-Vol IV-E (Kostelnik) at WP-1517.

‘“The project site falls within the jurisdiction of the County of Santa Barbara, which requires a Coastal Development Permit (‘CDP’) as part of its regulatory process. This permit included specific ‘Conditions of Approval,’ one of which mandated tree replacement. Compliance with these conditions was essential for securing the permit, without which the valve enhancement project… could not have proceeded.”’[116] SoCalGas collaborates and negotiates with permitting authorities, but while SoCalGas could oppose, challenge, and litigate requirements when they are not particularly favorable, doing so can have an uncertain end, and, regardless, it would conflict with the Commission’s directive to complete PSEP “as soon as practicable.”[117] SoCalGas would not have been able to secure an alternative location where such requirements would not have applied, since the valve to be automated was within the coastal zone and the County of Santa Barbara.[118] The cost of $94,000 for the environmental requirements should not be disallowed, as SoCalGas acted as a reasonable manager in fulfilling the permit requirements, which were required for implementation of the valve project.

During hearings, ALJ Larsen inquired about the capitalization of staircase work and tree planting addressed in the testimony of Ms. Weaver, Ex. CA-02.[119] Given that the project could not proceed without the approvals from SCE and the County of Santa Barbara, the changes were directly related to the pipeline safety project. The costs were included in the overall project costs and thus capitalized in accordance with accepted accounting procedures.

Ms. Weaver also takes issue with easement and land repair work that SoCalGas had to perform on another property. A “landowner was concerned about slope erosion next to the driveway due to the boring activity necessary to install the conduit; therefore, as a condition of granting the easement, the landowner required SoCalGas to move the alignment and associated boring location.”[120] In order to secure easements for temporary workspace and permanent easements for project execution, SoCalGas incurred approximately $134,000 in costs. Cal Advocates apparently believed that these costs were solely incurred to pay a property owner for the easement, and that SoCalGas should have just exercised the power of eminent domain to

[116] Ex. SCG-T3-PSEP-04 (Kostelnik) at 18.

[117] D.11-06-017 at 19.

[118] Ex. SCG-T3-PSEP-04 (Kostelnik) at 18.

[119] Tr. V27:4678:19-23.

[120] Ex. CA-02 (Weaver) at 10-11.

install the valve. However, SoCalGas explained in rebuttal testimony that the $134,000 in costs were not a payment to the landowner. The costs were related to several different aspects of SoCalGas's access to several properties during construction:

Owner	Purpose	Associated Cost (millions)
#1	Permanent, exclusive easement for the radio repeater site with access and temporary workspace	$0.025
#1	Temporary workspace extensions	$0.077
#2	Permanent non-exclusive easement for SCG pipeline and exclusive rights for the valve station and temporary right of entry and workspace	$0.010
#2	Temporary right of entry extension	$0.006
#3	Construction Agreement – to modify valve station and construct new valve automation equipment.	$0.014
#4	Construction Road Agreement – request for use of access road to transport equipment to the radio repeater site (on Owner #1 property)	$0.002
Total		$0.134

[121]

Most importantly, performing the required work for the easement was a more cost-effective means of procuring the land rights over eminent domain. As explained in testimony, "[e]minent domain is generally a difficult, time-consuming, contentious, and costly practice… [that] can take anywhere from six to 18 months or longer to finalize… which generally leads to increased overall costs."[122] In addition, eminent domain does not allow a utility to acquire property for free – a landowner must still be compensated.[123] Pursuing eminent domain could have been more costly, and would have taken more time, which would have been contrary to California law that directs utilities to complete the PSEP "as soon as practicable."[124]

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[121] Ex. SCG-T3-PSEP-04 (Kostelnik) at 19.

[122] Ex. SCG-T3-PSEP-04 (Kostelnik) at 19.

[123] Cal. Const. Art. I § 19 (" Private property may be taken or damaged for a public use and only when just compensation, ascertained by a jury unless waived, has first been paid to, or into court for, the owner."); Cal. Civ. Proc. Code § 1263.010(a) ("The owner of property acquired by eminent domain is entitled to compensation as provided in this chapter.").

[124] Pub. Util. Code § 958.

C. Other

In this Track, SoCalGas is requesting a reasonableness review of certain other miscellaneous costs as well. Specifically, SoCalGas is requesting recovery of $25.040 million for the cost of the purchase of Line 306, and $12.615 million for other costs incurred to execute PSEP.

1. Line 306 Purchase

SoCalGas is seeking recovery of the purchase price of Line 306 from PG&E. The pipeline was purchased in lieu of an extensive replacement project that would have been required otherwise, ultimately saving ratepayers approximately $30 million. The purchase should be found to be reasonable.

SoCalGas originally submitted a forecast for replacement of its Supply Line (SL) 44-1008 in the 2019 GRC (A.17-10-008). This 51-mile pipeline was installed in 1937 and fell within PSEP. SoCalGas stated in its 2019 GRC that, given the costs and permitting challenges, an alternative to the replacement of SL44-1008 was being considered. This alternative materialized with the purchase and interconnection of PG&E's Line 306. SoCalGas engaged in a file and pipeline review to determine whether the pipeline was an appropriate alternative to SL44-1008.[125] On April 30, 2021, SoCalGas finalized the purchase of Line 306 from PG&E following Commission approval of the sale pursuant to Pub. Util. Code § 851.[126] The acquisition cost is a necessary expenditure to achieve significant cost savings for ratepayers.

Cal Advocates' Witness Chow contends that SoCalGas should not recover $40 thousand paid to a title company as part of the escrow payment for the acquisition of PG&E's Line 306. However, escrow payments are part and parcel of purchase prices for a large purchase. Suggesting such costs are "unauthorized" is without merit. This is supported by the IRS and standard GAAP accounting.[127]

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[125] Ex. SCG-T3-PSEP-01 (Kostelnik) at 39-40.

[126] D.20-03-018.

[127] Ex. SCG-T3-PSEP-04 (Kostelnik) at 16-17 (citing GAAP standard ASC-360-10-30-1 that states that "cost of acquiring an asset includes the costs necessarily incurred;" and IRS Publication 551, Basis of Assets (Revised December 2024), stating that real property cost basis includes "settlement fees and closing costs for buying property.").

2. Miscellaneous Costs

SoCalGas has also incurred various miscellaneous costs that were necessary to execute PSEP, which it seeks recovery of here. These are costs that are not specifically project costs, but have been reasonably incurred during the execution of PSEP.

Cost Type	Capital	O&M	Total
Phase 2 Memorandum Account	$ -	$ 4,542	$ 4,542
Post-Completion Construction	$ 2,517	$ 1,283	$ 3,801
Facilities Lease	$ -	$ 2,470	$ 2,470
Descoped Projects	$ -	$ 694	$ 694
Delcon Migration Project	$ -	$ 1,110	$ 1,110
Total	**$ 2,517**	**$ 10,098**	**$ 12,615**

PSEP-Phase 2 Memorandum Account

D.16-08-003 authorized SoCalGas to create a Phase 2 Memorandum account (the PSEP-P2MA) to record planning and engineering design costs associated with Phase 2A projects included in the TY 2019 GRC. The PSEP-P2MA was necessary to record costs because treatment of PSEP Phase 2 costs had not yet been approved by the Commission. SoCalGas includes these costs for recovery in this filing, and the memorandum account will be closed.

Post Completion Construction

Post-completion cost adjustments in the amount of $3,800,531 associated with lines presented for review (including descoped projects) in A.16-09-005 and A.18-11-010 are included for recovery in this section. As explained in testimony, post-completion adjustments occur when invoices or accounting adjustments are processed after filing an application for an after-the-fact reasonableness review. The costs presented herein are primarily contractor invoices, accrual reversals, company labor, and journal entry adjustments.

Facilities Lease

The costs included in the Facilities Lease Expense consist of the remaining lease expenses associated with two floors in SoCalGas's headquarters in Los Angeles. PSEP was responsible for the costs for these floors prior to these floors being incorporated into the overall lease, effective with the TY 2019 GRC. These costs are for the time period between May 2018 and March 2019.

Descoped Projects

During the course of Phase 1A, work began on a number of projects that were later descoped or canceled through either scope validation activities or the reduction of the MAOP for the existing line to a level sufficient to bring the line outside the scope of PSEP. SoCalGas seeks recovery of $693,706 for the cost of descoped projects for pipelines from prior to 1956.

Delcon Migration to Open Text

SoCalGas is seeking recovery of costs to transition from the prior document management system to the current one. Prior to May 2019, SoCalGas used Delcon as "the document management system […] to track and manage the process and documents necessary for PSEP's construction activities."[128] In May 2019, a new document system, Open Text, became available. During the transition, SoCalGas incurred costs amounting to $1,109,580 for this transition. These costs included costs for "developing and configuring the Delcon application to prevent the loss of functionality when moving to a new system and the costs of developing scripts to ingest data from Delcon."[129]

VII. REASONABLENESS OF SAN DIEGO GAS & ELECTRIC COSTS

SDG&E has presented evidence showing that the costs it incurred for the projects under consideration in this reasonableness review were reasonably incurred. SDG&E presents in Track 3 for reasonableness review projects and other miscellaneous costs primarily incurred from August 2014 to July 2019. The total capital and O&M costs presented for review are $239.196 million and $1.213 million, respectively.[130] Because of the 50% interim rate recovery mechanism the Commission adopted in D.16-08-003, SDG&E is requesting only the remaining revenue requirement of approximately $50 million.[131] These costs represent 7 pipeline projects encompassing approximately 21 miles of transmission pipeline and 6 bundled valves.[132]

No party has specifically challenged[133] the reasonableness of the following costs presented by SDG&E. In addition, as stated elsewhere, in Track 1, Cal Advocates even stated

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128 Ex. SCG-T3-PSEP-01 (Kostelnik) at 42.

129 *Id.*

130 Ex. SDG&E-T3-PSEP-01-E (Tachiquin) at iv, 4.

131 *Id.*

132 *Id.* at 38.

133 PCF makes general statements in testimony that none of the costs sought in this Track are reasonable. *See* Ex. PCF-48 (Powers) at 2, 10.

that it "does not oppose SDG&E's request for recovery of … capital expenditures associated with the aforementioned pipeline projects."[134] In aggregate, the portfolio of seven SDG&E pipeline projects presented for review was approximately $47 million or 26 percent above the estimated amount ($229 million actual versus $182 million estimated). The SDG&E valve portfolio of six projects was approximately $7 million or 37 percent below the estimated amount ($11 million actual versus $18 million estimated). Overall, the costs were $40 million over estimated (approximately 20%). This amount is within the -20 - +30% variance expected from Class 3 estimates.

A. Pipelines

In this track, SDG&E is requesting a reasonableness review of costs associated with completed PSEP projects and other miscellaneous costs primarily incurred from August 2014 to July 2019. Of the amount requested, $229 million in costs is associated with pipeline projects. The revenue requirement that would be required is net of the amounts already recovered in rates via the 50% interim rate recovery mechanism the Commission adopted in D.16-08-003.

SDG&E has presented substantial evidence on each of the pipeline projects that it is requesting funding for in this GRC. The showing for each project makes clear that SDG&E has met its burden of proof by showing that the costs for the pipeline projects are reasonable under the prudent manager standard. PSEP is effectively managed through its structure, processes, and controls, as presented in testimony. In addition, the workpapers provided for each project show how the evidence presented demonstrates the reasonableness of the costs.

1. PSEP Oversight and Processes

The governance and oversight for SDG&E's PSEP program are the same as for SoCalGas. To avoid duplication, SDG&E incorporates the above section by reference here.

2. Pipeline Workpapers

The presentation of workpapers for SDG&E is the same as for SoCalGas. To avoid duplication, SDG&E incorporates the above section by reference here.

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[134] Track 1, Ex. CA-04 (Quam) at 29-30. *See also* Track 1, Cal Advocates Opening Brief at 74-75 (explicitly not opposing SDG&E's PSEP request).

3. Cal Advocates' Challenges on Specific Costs

Cal Advocates Proposed Disallowance of Employee Benefit Costs Is Inaccurate

Cal Advocates argues in testimony that the entire $5.3 million in "Employee Benefits" should be disallowed. However, Cal Advocates is incorrect on several assumptions in making its recommendation.

Witness Banarsee incorrectly includes "Miscellaneous Materials" as part of employee benefits, totaling $3.06 million. "As stated in SoCalGas's response to data request PubAdv-SCG-405-MW5 (supplemental) question 7a-u, which is applicable to both SoCalGas and SDG&E, this cost category is defined as 'project materials.' This category includes the physical pipe and other appurtenances purchased for replacement projects and, therefore, should not be characterized as 'employee benefits.'"[135]

In addition, Witness Banarsee opposes lodging and meal costs because SDG&E did not provide "records or travel logs. SDG&E did not submit any cost center detail or policy documentation showing how these expenses were approved or how they relate to pipeline replacement activities."[136] Banarsee is incorrect that SDG&E has not provided evidence on internal accounting processes. As discussed in Sections VI.A.1 and VI.C.3, there is rigorous oversight of PSEP costs and costs are confirmed for each project. If Cal Advocates is claiming a lack of travel-specific internal policies and travel logs, then that is the type of documentation that goes well beyond what is typically required in reasonableness reviews of this magnitude. As discussed above, the amount of evidence that CalPA claims must be shown for costs to be deemed reasonable is impractical and would be overwhelming for both parties and the Commission. If there are specific costs that a party wants to challenge, they can request further documentation for them, but it cannot be deemed part of the required showing for recovery.

Cal Advocates Proposed Disallowance for Alleged Duplicative Charges, Scope Inconsistencies, and Cost Estimation Errors Sets Unreasonable Standards and Is Unfounded

Cal Advocates proposes $1.3 million to be disallowed from SDG&E's replacement projects due to "duplicative charges, scope inconsistencies, and cost estimation errors…." Similar to other disallowance claims, Cal Advocates takes issue with the amount of

[135] Ex. SDG&E-T3-PSEP-04 (Tachiquin) at 14.

[136] Ex. CA-04-E (Banarsee) at 18.

documentation provided in support of SDG&E's request. This issue is explained well in the rebuttal testimony of Mr. Tachiquin:

> SDG&E provided substantial supporting documentation in response to data request PubAdv-SDGE-409-ABK. Question 1a of this data request states: "For each cost category where actual costs exceeded the estimate, provide a detailed justification. Include supporting documentation such as internal emails, revised scope documents, engineering memos, or contractor change orders." Given the thousands of documents that would have to be provided to be fully responsive, SDG&E objected to this request and pointed Cal Advocates to the detailed cost impacts section that was added to the revised supplemental workpapers for Track 3. […] SDG&E still provided change order summaries from the construction phase, which typically constitute the highest impact cost drivers for pipeline projects[.] […] SDG&E also provided Cal Trans permitting documentation […]; contractor schedules […]; stage gate presentations that explain project design evolution […]; and project-specific bottom-up estimates that provided the basis for cost tracking and management[.] Taken as a whole, the attachments submitted in response to this data request […] support a thorough understanding of cost variances.[137]

In addition, as in other instances for Witness Banarsee's testimony, Cal Advocates recommends a reduction in SDG&E's request that is simply a flat reduction in SDG&E's request. Cal Advocates uses a flat 0.69% reduction to the amounts requested by SDG&E for its Track 3 replacement projects, which is the percentage of the total disallowed amount for this cost category, $1.3 million, divided by the total amount of the replacement projects SDG&E included in its request ($188 million). How Cal Advocates derived this number is unclear. Without evidentiary support for such a reduction, it should be disregarded.

4. Cal Advocates' Challenge on Straight-Time Labor, Employee Benefits, and Indirect Costs

Cal Advocates also challenges SDG&E's labor costs for not being incremental to SDG&E's GRC recovery. SDG&E's response to this argument is included in Section VI.A.4, above.

Specifically for SDG&E, Cal Advocates makes certain reductions based on straight-time labor that are unsupported. Witness Banarsee recommends "Removal of $6.06 million for

[137] Ex. SDG&E-T3-PSEP-04 (Tachiquin) at 18-19.

unsupported contingency spending, contractor labor costs embedded in non-labor line items, and costs untraceable to project scope."[138] However, SDG&E does not recognize contingency in actual costs. In addition, "contractor labor costs are recognized under the respective function that the contractor falls under, not in any company labor cost elements that are synonymous with straight time labor[.]".[139] It appears that Witness Banarsee once again applies an unexplained percentage (of 3.22%) to reduce SDG&E's request – SDG&E was unable to uncover the basis for this percentage reduction.

5. PCF's Argument That No Costs Should Be Recovered Because SDG&E Is Seeking Recovery of Distribution Line Work

SDG&E's (and SoCalGas's) PSEP program has only been implemented on transmission pipelines. Any instance where that was not the case was where incidental or accelerated pipeline work[140] was done, which is noted in workpapers for PSEP projects.[141] PCF has made the claim that SDG&E should not be able to recover costs for any of the costs presented in this reasonableness review because PSEP work was done on distribution pipelines. This argument appears entirely founded on the fact that certain SDG&E maps that provide overviews of the gas system in the territory only identify a limited number of pipelines as "transmission" pipelines.

The pipeline work under review here was only done on transmission pipelines, as defined by the Department of Transportation. What SDG&E happens to put on broad overview maps of its system do not dictate what has already been legally defined at the federal level. As stated above, what qualifies as a transmission pipeline is determined by the Code of Federal Regulations. The CFR states that a transmission pipeline includes pipelines that "Ha[ve] an MAOP of 20 percent or more of SMYS…."[142] There is no real dispute that the pipeline costs

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[138] Ex. CA-04-E (Banarsee) at 15.

[139] Ex. SDG&E-T3-PSEP-04 (Tachiquin) at 15.

[140] Incidental work (or Incidental miles) refers to pipeline miles that do not fall within the scope of the Commission's directives in D.11-06-017 or Pub. Util. Code § 958 but are addressed as part of a PSEP project where their inclusion is determined to improve cost and program efficiency, address constructability, or facilitate continuity of testing. Accelerated work (or Accelerated miles) refers to miles that would otherwise be addressed in a later phase of PSEP under the approved prioritization process but are advanced to Phase 1A to realize operating and cost efficiencies. *See* Ex. SDG&E-T3-PSEP-01-E (Tachiquin) at 14.

[141] *See* SDG&E-T3-PSEP-01-WP1-Vol I-E (Tachiquin) at WP-60, 85, 112-113, 135, 169.

[142] 49 C.F.R. § 192.3 (Definitions) (emphasis added).

that SDG&E seeks recovery for were operated over 20% SMYS.[143] What appears on an SDG&E map is not controlling on this issue. In fact, PCF's counsel[144] and its expert[145] appear to acknowledge that the percent SMYS controls this determination. PCF also acknowledges the importance of the SMYS percentage in its September 22, 2025, Motion to Publish Confidential Versions of PSEP Testimony: "The information related to the pipeline specifications is […] directly relevant to the question of whether these pipelines are transmission pipelines."[146]

There is no legitimate question that the pipelines at issue here were transmission pipelines and appropriately within PSEP.[147]

6. PCF's Argument that Distribution Pipeline Averages Limit Recovery Should Be Disregarded

SDG&E's request in this proceeding is for the specific, actual, reasonable costs for completing work in the PSEP program. However, PCF argues that instead of these reasonable costs, SDG&E should only be allowed to recover costs based on certain unit-cost averages. PCF's argument is not only fundamentally unsound because it treats averages as more important than specifically derived costs, but the costs it uses to create an average are for un-comparable pipeline projects.

In general, average costs should not be relied on over project-specific amounts. In the 2019 GRC, the Commission explicitly found this in the context of PSEP projects. Cal Advocates had proposed average costs for PSEP projects that SoCalGas was proposing. The Commission found that the utility's methodology for specific project costs was more appropriate than using averages:

> SoCalGas['s] method for developing its project estimates included planning, engineering design, input from subject matter experts

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143 Tr. V27:4599:6-9 (Tachiquin); Ex. PCF-51.

144 Tr. V27:4604:12-4606:15 (White) (Acknowledging that the federal definition for transmission pipeline includes a cutoff point for determining whether or not a pipeline is a transmission).

145 Tr. V27:4607:22-4608:6 (Powers) ("One, leaving aside for the moment whether any of these pipes should have qualified as transmission pipes with SMYS above 20 percent[.]").

146 *See* PCF Motion for Order Requiring the Filing of Unredacted Versions of SDG&E and SoCalGas PSEP Testimony (September 22, 2025) at 7.

147 Mr. Powers credibility or expertise is questionable where he acknowledges that the pipelines could fall under the federal definition of transmission lines, despite the fact that previously, unequivocally, he stated in his direct testimony ("Q. Are any of the costs SDGE seeks to recover related to natural gas transmission pipelines? A. No."). *See* Tr. V27:4624:13-18 (Powers).

> regarding project cost estimates, analysis of environmental impacts, inputs regarding construction, determination of required permits, analysis regarding natural gas loads, and supply management. The above activities are more project-specific and take into account specific circumstances regarding each project. This level of detail allows us to better evaluate and review costs requested consistent with D.14-06-007, where the Commission stated that ratepayers should have the benefit of detailed plans for the Commission to consider before authorizing or pre-approving expenditures for PSEP projects.
>
> Cost estimates were developed using a zero-based method, which we find reasonable in this instance, as specific needs for each project are better taken into account and incorporated into the forecast as opposed to basing costs on budget history.
>
> Based on all of the above, we find SoCalGas's method and cost estimates to be reasonable, appropriate for the proposed projects, and supported by the testimony submitted.[148]

In the present case, the appropriateness of specific costs compared to averages is even more compelling because these are actual costs that SDG&E paid – not just estimates that were under consideration in the 2019 GRC. The costs are based on a host of complexities and project specific costs, that "include[] the specific pipeline size, length, material type, location, geotechnical information such as soil type and rock, groundwater considerations, allowable work hours, available workspace and traffic control requirements, foreign utilities that must be safely worked around, freeway and stream crossings, environmental restrictions, inspection requirements, and street repair and site restoration requirements. This results in a much more accurate and reliable estimate than a generic cost per mile."[149] The costs presented for reasonableness review are costs that SDG&E has already incurred and paid. PCF argues that the Commission should ignore the specific costs, not consider whether they are appropriate, even where SDG&E has already incurred them.

Setting aside the shortcomings of using an average over specific costs, the average proposed by PCF is inapt. There are a host of differences between the costs used to create its cost-per-mile average that, as Mr. Tachiquin explained, make it a comparison that is not "apples

[148] D.19-09-051 at 203-204.

[149] Ex. SDG&E-T3-PSEP-04 (Tachiquin) at 23.

and oranges, but [] really more like grapes and watermelons."[150] The averages derived by PCF are for distribution work – not transmission pipelines. Also, the PSEP "projects are large-diameter steel pipeline that have to be welded by professionals that are certified to do welding, they have to be inspected by certified inspectors, they have to be X-rayed, they have to be surveyed, they have to be coated; and just the workspace to install a high-pressure pipeline is different than two-inch plastic main replacement costs."[151] In fact, "the majority… [of the] pipeline, reflected on here are 2-inch replacement or smaller of Aldyl-A vintage plastic pipe that gets replaced with modern 2-inch or smaller diameter polyethylene pipe."[152] The projects included in PCF's table "are primarily two-inch plastic replacement projects or smaller in diameter…."[153] The averages also do not take into consideration the "complexities for each project…."[154,155]

PCF attempts to handwave some of this away, stating that their average proposal does away with specific challenges because an average takes into consideration, and that 2-inch projects require the same work as larger pipeline projects.[156] First, taking an average of work that is not comparable is still not comparable. To emphasize the irrationality of the argument

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150 Tr. V27:4592:11-13 (Tachiquin).

151 *Id.* at 4592:2-10 (Tachiquin). While being examined, Mr. Powers demonstrated a profound lack of familiarity with the construction process for large pipeline projects. When asked whether he believed there would be any cost difference if a project was for low pressure, 2-inch plastic pipe versus a large diameter pipe, he answered "no." Tr. V27:4622:16-22 (Powers). Although Mr. Powers was initially evasive in answering whether he had done any analysis at all of whether there are any cost differences between such pipeline projects, he ultimately confessed "I did not do the analysis."

152 Tr. V27:4632:5-19 (Tachiquin).

153 *Id.* at 4591:12-14 (Tachiquin).

154 *Id*. at 4593:3 (Tachiquin).

155 It appeared at the hearings that ALJ Larsen was beginning to appreciate the incomparability of the averages presented by PCF, as Judge Larsen asked whether an average could be derived specific to PSEP projects. Although such a number could certainly be more appropriate, a customized, project specific number is the most appropriate because of the individual nature of each project, as Mr. Tachiquin explained. Tr. V27:4592:20-4593:18 (Tachiquin).

156 It should also be noted that Mr. Powers repeatedly tried to negate the shortcomings of his own work and analysis by stating that he "relied on SDG&E." Tr. V27:4624:17-18 (Powers). To be clear, SDG&E did not provide the data in this particular proceeding or in any way indicate that it would be appropriate to use it for PSEP. And, this "average" cost presented by PCF was Mr. Powers' creation. He could have submitted data requests or done other analysis to determine whether the average he was proposing actually had any relevance to the work SDG&E performed.

that the projects are the same regardless of pipe size, below are images of 2-inch and 16-inch pipe for comparison:

Figure 1: 2-inch Pipe

Figure 2: 16-inch Steel Pipe

Finally, it cannot be overstated the importance of the fact that PCF has not identified a single specific cost that it believes is unreasonable. Mr. Powers admitted exactly that: "[I] Identify my testimony that as a group the costs were unreasonable, but I did not look at individual elements to say this is unreasonable and others are not."[157] Instead of challenging any specific cost as unreasonable, PCF has decided instead to put together an incomparable average cost-per-mile, and claim the actually incurred costs should be ignored. By providing specific costs, explaining the in-depth processes used when those costs were incurred, and applying the prudent manager standard, SDG&E has met its burden with respect to the reasonableness of its PSEP costs.

7. PCF's Undeveloped Argument Regarding Pressure Testing Is Unfounded

SDG&E and SoCalGas have Decision Tree analyses that were approved by the Commission and that inform the decision of whether to hydrotest or replace a pipeline under the PSEP. PCF, however, implies that SDG&E's determinations were incorrect because SDG&E did not "provide an assessment" of temporary gas supply options.[158] PCF's argument is lacking,

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[157] Tr. V27:4626:8-14 (Powers).

[158] Ex. PCF-48 (Powers) at 9. Mr. Powers' claim in his testimony is fairly disjointed – he does not actually say that the incorrect decision of whether to hydrotest was made, just that SDG&E did not "provide any assessment… of [] temporary gas supply options or [] why [gas supply options] could not have been used to manage customer impacts[.]"

primarily because it presumes that the decision to replace or hydrotest hinges solely on customer impacts, but also because SDG&E explains why it decided to replace or hydrotest any given pipeline segment.

As explained in direct testimony, SDG&E employs a Commission-approved Decision Tree in determining whether to test or replace a pipeline.[159] The testimony includes the Decision Tree itself.[160] As shown by the Decision Tree and the accompanying explanation, customer impact is not the sole determining factor on whether a pipeline is replaced or hydrotested. After determining whether the transmission pipeline is in a class 3 or 4 or High Consequence Area, if a pipeline segment is over 1,000 feet, that is when SDG&E determines whether the line can "be taken out of service" with manageable customer impact.[161] Even after making that determination, as explained in testimony, the "pipeline categories are then further analyzed to determine other factors impacting whether to pressure test or replace the segment."[162] The testimony explains a number of other considerations, and ends by saying, "It is important to note that there can be deviations from the Decision Tree because no industry-wide standard definitively controls whether to test or replace a segment in all instances. Because SDG&E will exercise its engineering expertise and knowledge of its pipelines, they are in the best position to make the final determination on a project-by-project basis."[163] Thus, the question of whether customers are impacted is not the sole determining factor for whether a pipeline is tested or replaced.

SDG&E explains in workpapers the considerations for each particular pipeline that were used in determining whether to test or replace. PCF has not identified in testimony the basis for an argument that any specific pipeline project was incorrectly replaced instead of hydrotested.

B. Valves

In this Track, SDG&E is requesting a reasonableness review of costs associated with completed PSEP projects and other miscellaneous costs primarily incurred from December 2015

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159 Ex. SDG&E-T3-PSEP-01-E (Tachiquin) at 10-12.

160 *Id.* at 11.

161 *Id.* at 12.

162 *Id.* at 11.

163 *Id.* at 12.

to December 2020. Of the amount requested, $11.3 million in costs is associated with valve projects. The total revenue requirement will be net of the amounts already recovered in rates via the 50% interim rate recovery mechanism the Commission adopted in D.16-08-003.

1. Valve Workpapers

Similar to pipeline projects, the workpapers discuss how the workpapers are broken into "Project Introduction; B) Engineering, Design and Planning C) Construction; D) Project Costs; and E) Conclusion."[164] Project Introduction includes how valve projects were bundled, the location of valves, and photographs and schematics. Engineering, Design, and Planning includes a number of details for the project prior to construction, including valve details, how the valve was introduced in the 2011 PSEP filing, scope, and constructability factors. Sections on Site Evaluation and Planning and Scope Changes explain how further information was gathered on the site and project and what changes led to in the scope of the project. Construction includes extensive information on contractor selection, construction schedule, changes during construction, and commissioning and site restoration. The Project Costs section explains steps taken to avoid costs, cost estimates (and how costs are based on different levels of estimation), actual and indirect costs, and cost impacts (explaining the variance between estimated costs and actual costs).

Although the workpapers should be reviewed in full to weigh the evidence presented by SDG&E and SoCalGas, SDG&E gives a brief overview of one PSEP valve project to illustrate how projects are presented in the workpapers. For valve project 49-11,[165] SDG&E's workpapers demonstrate the key details of the project and why the cost for the project is reasonable. The workpaper begins with a high-level overview of the project, explaining how it consisted of "install[ing] a new actuator, new power equipment, new communications equipment, and the necessary automation equipment" which would allow the rapid detection and isolation of a section of pipeline 49-11.[166] It also notes that it is located on SDG&E property and in an urban area with high powered electrical lines.[167] Next, the workpaper provides a chart of key project

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[164] Ex. CA-05 (Chow) at 18.

[165] This particular valve project is included at Ex. SDG&E-T3-PSEP-01-WP1-Vol I-E at WP-213. For ease of reference, it is attached hereto as Attachment B.

[166] *Id.*

[167] *Id.*

details, including valve details, construction dates, site upgrades, and cost breakdown.[168] The following pages include maps showing where the construction occurred and where new pipelines were placed.[169]

The next section is the Engineering, Design, and Planning section. It mentions that the project was presented in the 2011 PSEP filing, and that SDG&E reviewed information on the valve and performed a detailed system flow analysis in preparing for the project. It explains that the valve would have to be re-positioned and that the final scope included "the installation of a new actuator, the installation of power equipment, the installation of communications equipment, and the installation of necessary automation equipment."[170] The section discusses that the terrain is sloped, but that there were no land issues, and the existing power and communications information on the site.[171] The workpaper then identifies ten "key factors" that influenced the design of the project, noting that there were no notable impacts to customers or the community, no special permitting issues, no substructures, and no traffic control was needed.[172] It noted the line would have to be shut-in, and that an environmental monitor performed routine site visits during construction to confirm there were no environmental issues.[173] The next page includes a schematic of the valve replacement.[174] Finally, the Engineering, Design, and Planning section explains the several scope changes to the project, including the need to utilize a different power source and to add a retaining wall to protect automation equipment.[175]

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[168] *Id.* at WP-214.

[169] *Id.* at WP-215.

[170] *Id.* at WP-216.

[171] *Id.* at WP-217.

[172] *Id.* at WP-218.

[173] *Id.*

[174] *Id.* at WP-219.

[175] *Id.* at WP-220.

The following major section is the Construction section. It begins with identifying the overall costs and how they varied from estimates.[176] There were no notable change orders that occurred during construction.[177] The next page is a photograph of the site with the valve.[178]

The next major section, Project Costs explained that SDG&E "reviewed existing records, communicated with external stakeholders, and conducted a site walk to incorporate known site conditions in the project plan and design," and also reused the existing valve instead of installing a new valve.[179] Tables of costs following, including breakdowns of costs between direct and indirect costs, further broken down into company labor (also presented in FTEs), materials, construction contractor, electric contractor, construction management, environmental, engineering & design, project management and services, right-of-way and permits, GMA, overheads, AFUDC, and property taxes – all of which include estimated and actual costs.[180] The following page includes an explanation of variance of the actual costs:

> This variance can be attributed to several factors including: the installation of the communications equipment extended the project schedule, with construction management remaining actively involved until the upgrades were completed; the Project Team updated the design to include solar power as utility power was not feasible due to the location of the nearest utility power source; the Project Team identified during detailed design that the installation of a retaining wall to protect the new automation equipment would be required; and the Engineering and Design firms completed activities originally identified as Project Management & Services in the initial estimate while the actual costs were recognized under Engineering and Design.[181]

These variances explain just why the identified actual costs in the previous table were different from the estimates.

Every valve project presents costs in this manner, with robust explanations of the life and details of each project, and the costs incurred. These detailed workpapers provide extensive

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[176] *Id.* at WP-221.

[177] *Id.* at WP-222.

[178] *Id.* at WP-223.

[179] *Id.* at WP-225.

[180] *Id.* at WP-226.

[181] *Id.* at WP-227.

information about the development of the projects, the scope of work completed and associated costs, and support the reasonableness of the costs presented for review in this proceeding.

C. Other

1. Line 1600 Audit

Cal Advocates recommends that the costs for the audit be denied because of SDG&E's alleged "poor availability of its Line 1600 data."[182] However, SDG&E was expressly permitted to track the costs of the audit for potential future recovery and SDG&E's data was found to be in order. "The audit was completed at the direction of the Commission, with the Commission's Safety and Enforcement Division (SED) selecting the independent auditor, overseeing the audit, and having the final audit delivered to the Commission."[183] The findings of the audit emphasize the reasonableness of the cost recovery:

> When compared to other companies in the industry, SDG&E has an advantage due to [its] well-organized records library. All historical work orders and affiliated documentation were collected to create an in-house hard copy Data Book and were scanned into an electronic library. This was very helpful and reduced the time and effort usually involved with MAOP record collection and data gathering. This is highly recommended as a standard record-keeping practice for future MAOP analysis projects.[184]

Given the results of the audit, SDG&E should be permitted to recover the costs.

VIII. COST RECOVERY

A. Cost Recovery Period

For the recovery of regulatory account balance outstanding, SoCalGas and SDG&E propose a 12-month amortization period. The ongoing capital-related revenue requirements, associated with the reasonably incurred capital expenditures approved in this proceeding, will continue to be recorded in SoCalGas and SDG&E's SECCBAs and SoCalGas's PSEPMA. SoCalGas and SDG&E proposes to continue filing annual Tier 2 Advice Letters to incorporate these ongoing capital-related revenue requirements into rates until the corresponding costs are

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[182] Ex. SDG&E-T3-PSEP-04 (Tachiquin) at 16 (citing Ex. CA-05 (Chow) at 18).

[183] Ex. SDG&E-T3-PSEP-04 (Tachiquin) at 16.

[184] *Id.* at 17 (citing RCP, Line 1600 MAOP Audit, Final Report (October 17, 2019) at 10, *available at:* https://docs.cpuc.ca.gov/PublishedDocs/Published/G000/M323/K170/323170376.pdf).

incorporated in base rates in connection with SoCalGas and SDGE's next GRC proceeding. A 12-month period recovery is consistent with the amortization of other regulatory balancing accounts filed in connection with SoCalGas and SDG&E's annual regulatory account balance update filing, and what has been done for past PSEP reasonableness reviews and other filings. For example, the Commission's approval of SoCalGas's Tier 3 advice letter filings for its Transmission Integrity Management Program (TIMP), Distribution Integrity Management Program (DIMP),[185] and 2018 PSEP reasonableness review application all used 12-month amortization periods.[186] This recovery period also avoids needless compounding of regulatory account interest charged to customers. The 12-month amortization period for the recovery of regulatory account balance should be adopted.

B. Recovery of Accrual of Interest

An issue in scope of this proceeding is "Whether accrual of interest on additional amounts (or some portion thereof) should or should not be authorized for recovery in the pertinent PSEP balancing accounts…."[187] The apparent basis for this disallowance is that SoCalGas and SDG&E did not make a sufficient evidentiary showing in Track 1 of this proceeding, and therefore ratepayers should not have to pay for the interest that has accrued since that track. Although the Commission determined that additional evidence was needed for Track 1 of this proceeding, SoCalGas and SDG&E respectfully disagree, and strongly oppose disallowing any interest on tracked costs during this track.

First and foremost, SoCalGas and SDG&E made a significant evidentiary showing in Track 1, and had no reason to believe that the evidence presented was insufficient. As discussed above, SoCalGas and SDG&E have had several PSEP reasonableness reviews over the last eight years. In each of those, the utilities have made similar evidentiary showings.[188] And overall, SoCalGas and SDG&E recovered around 99% of their requests. In the decisions approving

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[185] SoCalGas TIMP Advice Letter Nos. 6325-G and 6493-G; SoCalGas DIMP Advice Letter No. 6224-G. SoCalGas advice letters are available at: https://tariffsprd.socalgas.com/scg/filings/content/?utilId=SCG&bookId=GAS&flngStatusCd=Approved.

[186] A.16-09-005, approved by D.19-02-004 and A.18-11-010, approved by D.20-08-034.

[187] Amended Scoping Memo at 3.

[188] Section III.

those results, the Commission did not find that there was insufficient evidence, such as FTEs, to require (essentially) a re-filing and supplement of testimony. Separate from that, the utilities also had no reason to believe the evidence was insufficient in the present proceeding until the proposed decision. No intervenors opposed the reasonableness of the costs in Track 1 of this proceeding. Nor did any intervenor claim that the utilities had presented insufficient evidence, or mention a lack of AFUDC details, FTEs, etc. as a shortcoming in the evidentiary showing. No intervenor apparently complained that there was insufficient time to review the evidence to determine if there were any shortcomings. In fact, Cal Advocates expressly stated that it had analyzed evidence and "does not oppose SDG&E's request."[189] Even if the Commission believes that the evidentiary showing was insufficient here, that is inconsistent with past findings, the utilities had no reason to believe that, and no party apparently believed that either at the time.

Second, SoCalGas and SDG&E have worked expeditiously to resolve the issues in this Track. SoCalGas and SDG&E began reaching out to intervenors early in the proceeding to attempt to settle this Track of the proceeding. The utilities again reached out to several of the participating intervenors prior to hearings to explore settlement. When scheduling changes arose in the proceeding, SoCalGas and SDG&E proposed shorter timelines, both when Cal Advocates requested an extension for testimony and when the briefing schedule had to be adjusted for the change in hearing date. To assist the Commission and parties in reviewing the evidence presented, SoCalGas and SDG&E created redlined versions of testimony to show the changes from Track 1 to Track 3. The Companies have endeavored to move this hearing along expeditiously in this Track.

Third, the Decision strongly suggests that at least one reason to move the reasonableness review costs to Track 3 is that intervenors did not more actively oppose the costs. The Decision states that "Due to the level of participation by intervenors, this application has not received as thorough a review as previous applications," and "Unlike the last three PSEP reasonableness review applications, which included active participation from intervenors, including Cal Advocates, TURN, and SCGC, only Cal Advocates filed testimony in this proceeding regarding

[189] Track 1, Ex. CA-04 (Quam) at 29-30.

PSEP reasonableness."[190] Thus, if SoCalGas and SDG&E are not allowed recovery of accrued interest, it would be at least in part because intervenors were not actively involved in opposing the utilities' requests. This would be arbitrary and capricious, and wholly inequitable. A party simply cannot be found to have not met its burden of proof because *other* parties did not oppose the request strongly enough. This also should not be a basis for denying SoCalGas and SDG&E the interest that has accrued on the costs it has incurred in executing this important safety program.

Finally, as stated in the testimony of Mr. Sakif Wasif, "the Preliminary Statements approved by the CPUC for SEEBA, SECCBA, PSEP-P2MA, and PSEPMA each state that each account is interest-bearing, and SoCalGas will record an entry at the end of each month for interest. … Disallowing or suspending interest accrued on under-collected balances associated with reasonably incurred expenditures would contradict long-standing authorization by the CPUC,"[191] and the Commission's approval of the preliminary statements. The Applicants' costs should be approved in this proceeding, and any associated accrued interest should be allowed.

IX. OTHER ISSUES FROM SCOPING MEMORANDUM

A. Safety Issues

Clearly, safety is at the forefront of PSEP work. The program was born of a significant safety event, which resulted in the state creating a statutory requirement that gas utilities confirm that their transmission pipelines are up to applicable safety standards and have records to verify that. The first of the four objectives of the PSEP is "enhancing public safety."[192] In testimony, SoCalGas and SDG&E explain how "PSEP adheres to SoCalGas Gas Standards and applicable laws and regulations to prudently implement compliant safety enhancement work. … The Gas Standards have dual objectives: to drive compliance with applicable laws and regulations and to promote safety and operational efficiency." In addition to its own internal and industry best practices, SoCalGas and SDG&E also partner with the Commission's Safety Enforcement Division (SED). This was specifically ordered in D.14-06-007, which requires SED to provide oversight on various aspects of PSEP implementation, with emphasis on construction activities

[190] D.24-12-074 at 231, 233.

[191] Ex. SCG-T3-PSEP-05 (Wasif) at 3.

[192] Ex. SCG-T3-PSEP-01 (Kostelnik) at 5; *see also* D.14-06-007.

and recordkeeping. In fact, "SED personnel routinely are onsite at PSEP construction projects and monitor compliance with applicable regulations."[193] Safety is critical to the PSEP and it is important that this mandatory, safety-related work be funded.

B. Alignment with other objectives (climate objectives, decarbonization goals, forecasts of future natural gas demand, Commission's Environmental and Social Justice Action Plan)

As explained in testimony, SoCalGas and SDG&E's PSEPs align with state climate goals and the Commission's Environmental and Social Justice Action Plan. For example, "Through the pressure-testing of existing pipes, and the installation of new, state-of-the-art pipelines, the PSEP program contributes to this goal by enhancing the ability to reduce fugitive emissions associated with the day-to-day operation of these pipelines."[194] The PSEP program also helps mitigate the risk of pipeline ruptures and associated emissions by installing remote shut-off valves (RSVs). PSEP has also contributed emissions reductions through "gas capture technology, which has been employed extensively in recent years to reduce the burden of vented gas."[195] These efforts to reduce emissions comport with the Commission's ESJ Action Plan (Action Plan), which includes improvements to local air quality. PSEP also aligns with Action Plan Goal 5, to "[e]nhance Outreach and Public Participation Opportunities for ESJ Communities to Meaningfully Participate in the CPUC's Decision-Making Process and Benefit from CPUC Programs." PSEP's capital outreach team performs community engagement activities to promote awareness of current and upcoming PSEP construction activities.[196] This outreach serves to better inform members of the communities in which PSEP projects take place and educate them about the safety and reliability enhancements that will come to their community.[197] PSEP equitably manages impacts to the environment in the communities it serves by appropriately accounting for environmental concerns as an integral part of its project implementation efforts across all project locations—regardless of whether it is in an ESJ

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193 Ex. SCG-T3-PSEP-01 (Kostelnik) at 20.

194 *Id.* at 20.

195 *Id.* at 21.

196 *Id.*

197 *Id.* at 21-22.

Community or not.[198] SoCalGas and SDG&E also engage in pipeline analysis through PSEP to determine if pipelines should be abandoned or de-rated based on energy needs. This activity helps match the gas system to the demand of ratepayers.

X. CONCLUSION

For all the reasons set forth above, SoCalGas and SDG&E respectfully request full recovery of the requested costs.

Respectfully submitted,

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November 3, 2025

[198] *Id.* at 22.

ATTACHMENT A

I. SUPPLY LINE 36-9-21 REPLACEMENT PROJECT

A. Background and Summary

Supply Line 36-9-21 is a predominantly [redacted] diameter transmission line that runs approximately 0.464 miles from Paso Robles to Templeton along Vine Street, crossing Highway 101, through commercial areas in Paso Robles. The pipeline is primarily routed across a Class 3 location. This report describes the activities associated with Supply Line 36-9-21 Replacement Project which consists of the replacement and reroute of 0.463 miles of pipeline that includes a horizontal directional drill (HDD) under Highway 101. The specific attributes of this Project are detailed in Table 1 below. The total loaded cost of the Project is $6,796,200.

Table 1: General Project Information

Project Name	**Supply Line 36-9-21**		
Project Type	Replacement		
Length	0.464 miles		
Location	Paso Robles		
Class	3		
MAOP *(confidential)*	[redacted]		
Pipe Vintage	1950		
Construction Start	08/21/2017		
Construction Finish	11/15/2017		
Original Pipe Diameter *(confidential)*	[redacted]		
New Diameter *(confidential)*	[redacted]		
Original SMYS[1] *(confidential)*	[redacted]		
New SMYS *(confidential)*	[redacted]		
Project Costs ($)	**Capital**	**O&M**	**Total**
Loaded Project Costs	6,796,200	0	6,796,200
Disallowed Costs	-	-	-

[1] Highest percentage of Specified Minimum Yield Strength (SMYS) of Category 4 Criteria pipe.

B. Maps and Images

Figure 1: Satellite Image of Supply Line 36-9-21 Replacement Project

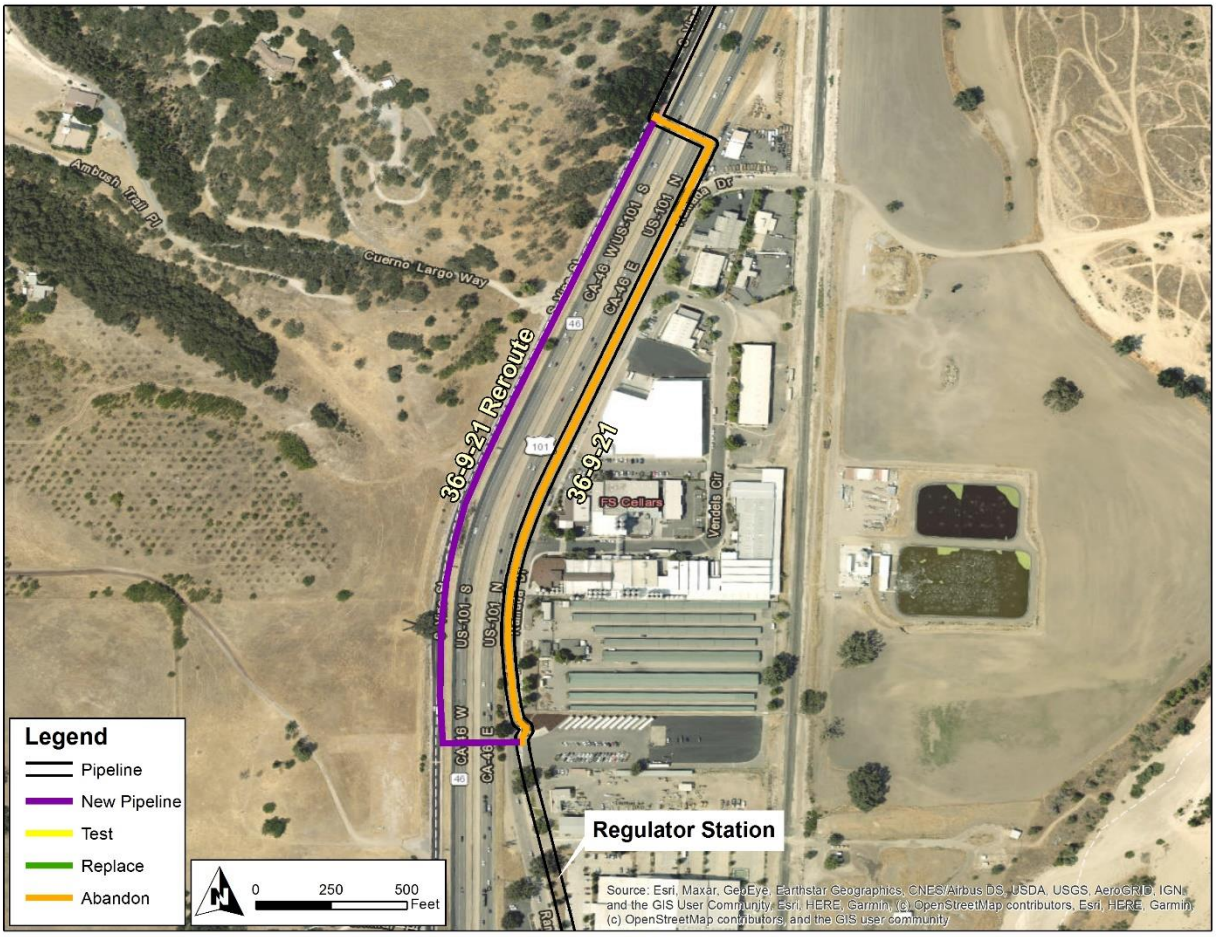
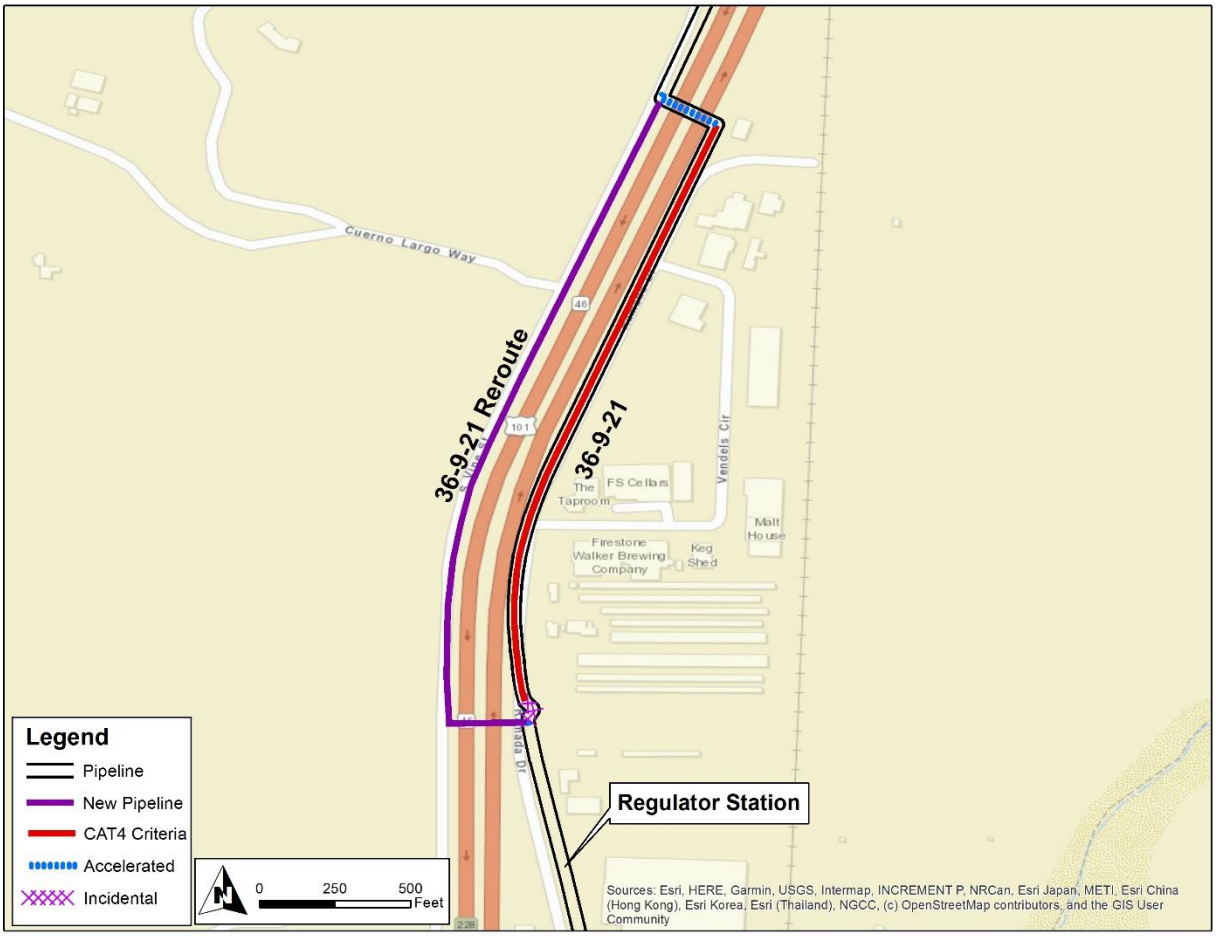


Figure 2: Overview Map of Supply Line 36-9-21 Replacement Project



II. ENGINEERING, DESIGN, AND PLANNING

A. Project Scope

Table 2: Mileage Information

	Criteria	Accelerated[2]	Incidental	New	Total[3]
Final Mileage	0.387 mi.	0.042 mi.	0.016 mi.	0.020 mi.	0.464 mi.
	2,041 ft.	221 ft.	83 ft.	106 ft.	2,451 ft.

SoCalGas presented a conceptual project scope in workpapers supporting the 2011 PSEP filing.[4] Prior to initiating execution of the Project in 2017, SoCalGas reviewed existing pipeline records to validate the scope of the Project. During the Engineering, Design, and Planning phase, SoCalGas further refined the scope. This progression of the project scope is summarized as follows:

1. 2011 PSEP Filing: SoCalGas identified Supply Line 36-9-21 as a Phase 1A Replacement Project comprised of 0.389 miles of Category 4 Criteria pipe.
2. Scope Validation: Through scope validation activities, after the 2011 filing and before initiating execution of the Project, SoCalGas confirmed the scope of the Project of 0.389 miles of Category 4 Criteria pipe.
3. Engineering, Design, and Constructability:
   a. To reduce impacts to local businesses, the Project Team installed the new pipeline along Vine Street as opposed to Ramada Drive where the existing pipeline was located.
   b. Accelerated mileage and Incidental mileage was included to facilitate the tie-in.

[2] Accelerated mileage includes Phase 2B pipe. Phase 2B includes pipelines without record of a pressure test to modern – Subpart J – standards (Phase 2B). The Accelerated mileage was included to realize efficiencies and to enhance project constructability.
[3] Values may not add to total due to rounding.
[4] See Amended PSEP of SoCalGas and SDG&E, submitted December 2, 2011, in R.11-02-019 and subsequently transferred to A.11-11-002.

4. Final Project Scope: The final project scope consists of a 0.464 mile Replacement. The Accelerated mileage consists of 221 feet of Phase 2B pipe, and 83 feet of Incidental pipe.

B. Decision Tree Analysis

SoCalGas performed a PSEP Decision Tree analysis of Supply Line 36-9-21 and confirmed the project design should commence as a Replacement Project.

For pipeline segments longer than 1,000 feet in length, under the approved PSEP Decision Tree, SoCalGas completes a preliminary review to determine whether SoCalGas can manage customer service impacts if the pipeline segment is taken out of service for a period of two to six weeks to complete pressure testing. Where mitigation of customer impacts to remove the line from service for pressure testing is feasible, SoCalGas compares the costs, constructability, risks, and benefits of pressure testing and replacement to determine whether pressure testing or replacement is the more prudent option.

Through this Decision Tree analysis, SoCalGas identified replacement as the more prudent option. Key considerations that support SoCalGas' determination to replace this segment include:

1. Shut-In Analysis: The Project Team completed a Request for Engineering Review (RER) analysis and concluded that there is no transmission line that feeds Supply Line 36-9-21 from the North so it cannot be shut-in. Utilizing a bypass would alleviate customer impacts during tie-in.
2. Customer Impacts: The Project Team identified that utilizing a bypass would alleviate customer impacts. The Project Team identified one customer within the replacement region; however, by utilizing the bypass, adequate pressure would be maintained without interrupting service to customers along Ramada Drive.

3. Community Impacts: Potential impact to local businesses resulted in a reroute of the original alignment from Ramada Drive to Vine Street.
4. Permit Conditions:
   a. The City of Paso Robles required an encroachment permit and traffic control. The city provided permit approval for mid-August 2017 to mid-November 2017 so that the Project Team could complete the Project prior to the holiday shopping season due to the proximity of shopping areas.
   b. A Caltrans encroachment permit was required for the HDD crossing of Highway 101.
5. Piggability: Non-piggable.
6. Pipe Vintage: 1950.
7. Existing Pipe Attributes: Multiple diameters.
8. Longseam Type: Unknown.
9. Longseam Repair History: No identified issues.
10. Condition of Coating: No identified issues.
11. History of Leaks: No identified issues.

C. Engineering, Design, and Planning Factors

SoCalGas reviewed pipeline drawings and other information, contacted internal planning groups, communicated with external stakeholders, conducted survey activities, including reviewing public records and potholing of the area to confirm the presence of underground utilities and substructures, and completed a pre-design site walk. Key factors that influenced the engineering and design of the Project are as follows:

1. Shut-In Analysis: The Project Team completed an RER analysis and concluded that the line could be shut-in with the installation of a by-pass.
2. Customer Impact: Per the RER, two unutilized customer taps were abandoned. Further review confirmed that there were no active customer taps within the planned alignment. The Project Team maintained customer service utilizing stopple fittings.

3. Community Impact: Potential impact to local businesses resulted in a reroute of the original alignment from Ramada Drive to Vine Street.
4. Diameter Changes: The Project Team replaced the existing [redacted] line with a [redacted] line based on the recommendation of the RER and to standardize the pipeline for future piggability purposes.
5. Substructures: The Project Team identified multiple utilities prior to construction and included them in the Project design.
6. Permit Conditions: Negotiations with the City of Paso Robles yielded less repaving work.
7. Land Use: Landowner concerns at the northern end of Ramada Drive prevented the tie-in to the existing Highway 101 crossing, resulting in the relocation of the HDD under Highway 101 to the southern end of the Project.
8. Environmental: The Project Team planned for typical abatement activities when removing existing pipe for tie-ins.
9. Reroute: Potential impact to local businesses resulted in a reroute of the original alignment from Ramada Drive to Vine Street. Landowner concerns at the northern end of Ramada Drive also prevented the tie-in to the existing Highway 101 crossing, resulting in the relocation of the HDD under Highway 101 to the southern end of the Project.
10. Coupons: The Project Team conducted an examination study to confirm the existing pipe was within PSEP scope.

D. Scope Changes

SoCalGas did not make any notable scope changes during detailed design.

III. CONSTRUCTION

A. Construction Contractor Selection

The Project Team prepared an initial cost estimate based on the preliminary design. Following completion of the engineering, design, and planning activities described above, the Project Team directed the Performance Partner to prepare cost estimates based on a more detailed engineering design package. As indicated above, there were no notable changes in scope between the time when the Project Team prepared the preliminary cost estimate and when the Performance Partner prepared and submitted its Target Price Estimate. SoCalGas awarded the construction contract to the Performance Partner.

1. SoCalGas' Preliminary Construction Cost Estimate (*confidential*): SoCalGas' preliminary cost estimate for construction was [redacted].
2. Construction Contractor's Target Price Estimate (*confidential*): The Construction Contractor's cost estimate was [redacted], which was [redacted] than SoCalGas' preliminary cost estimate for construction.

B. Construction Schedule

Table 3: Construction Timeline

Construction Start Date	08/21/2017
Construction Completion Date	11/15/2017
NOP Date	10/19/2017

C. Changes During Construction

SoCalGas successfully mitigated conditions during construction in a manner that minimized potential impacts on project scope, cost, and schedule. As a result, these conditions did not result in any notable change orders.

Figure 3: Trenching Along Vine Street

Figure 4: PCF Connecting the Old and New Pipeline

Figure 5: Preparation for the HDD Across Highway 101

Figure 6: Back Reamer for HDD

D. Commissioning and Site Restoration

Commissioning activities include restoration of the site, final inspection and placement of the pipeline back into service, transportation and disposal of hydrotest water and hazardous material, and site demobilization. Closeout activities include development of final drawings, finalization of a reconciliation package, and updates to company recordkeeping systems to reflect the completed scope of work.

IV. PROJECT COSTS

A. Cost Avoidance Actions

SoCalGas exercised due diligence in the planning, design, and construction activities for this project to minimize or avoid costs when prudent to do so. As discussed above, the Project Team conducted a site visit to identify and incorporate discernible site conditions into the engineering, design, and planning of the Project. Specific examples of cost avoidance actions taken on this project are:

1. Water Management: Water sourcing was negotiated with the city and the project was allowed to use a nearby fire hydrant for hydrotest.
2. Future Maintenance: The Project Team removed an existing mainline valve (MLV) after confirming it was no longer needed for system isolation.
3. Permit Conditions: Negotiations with the City of Paso Robles yielded less repaving work. The city required the project to repave only up to the center line on the road of Vine Street as opposed to the entire width.
4. Construction Execution: Prior to construction, the project design utilized a temporary bypass method at the tie-in points to maintain gas flow. During construction, the Project Team reevaluated the design to utilize simpler Pressure Control Fittings.

B. Cost Estimate

Based on the preliminary design, once the project scope was confirmed and engineering, design, and planning activities were underway, SoCalGas prepared an estimate of the Direct Costs of the Project in the amount of $6,895,764. The Project Team considered the conditions known at the time to prepare the preliminary Direct Cost estimate. This estimate reflects the projected Labor, Material, and Services costs anticipated to be incurred to execute the Project.

SoCalGas estimated Indirect Costs of the Project based on the estimated Direct Costs and other project-related variables.

C. Actual Direct and Indirect Costs

Actual Direct Costs reflect the Labor, Material, and Services costs incurred to execute the Project. Actual Indirect Costs reflect costs for incremental overhead loaders in accordance with Company overhead allocation policies. The total loaded cost of the Project is $6,796,200.

Table 4: Estimated and Actual Direct Costs and Variances[5]

Direct Costs ($)	Estimate	Actuals[6]	Delta Over/(Under)
Company Labor	321,332	241,528	(79,804)
Materials	269,290	145,601	(123,689)
Construction Contractor	3,504,860	2,711,024	(793,836)
Construction Management & Support	254,703	292,996	38,293
Environmental	275,155	155,183	(119,972)
Engineering & Design	1,116,499	1,278,308	161,809
Project Management & Services	412,527	310,034	(102,493)
ROW & Permits	115,500	127,405	11,905
GMA	625,898	648,552	22,654
Total Direct Costs	**6,895,764**	**5,910,631**	**(985,133)**

Table 5: Estimated and Actual Indirect Costs, Total Costs, and Variances[7]

Indirect Costs/Total Costs ($)	Estimate	Actuals	Delta Over/(Under)
Overheads	628,634	597,259	(31,375)
AFUDC	398,874	256,151	(142,723)
Property Taxes	77,257	32,159	(45,098)
Total Indirect Costs	**1,104,765**	**885,569**	**(219,196)**
Total Direct Costs	**6,895,764**	**5,910,631**	**(985,133)**
Total Loaded Costs	**8,000,529**	**6,796,200**	**(1,204,329)**

[5] Values may not add to total due to rounding.
[6] Actual Material and Construction Contractor costs exclude the cost of upsizing the pipe.
[7] Values may not add to total due to rounding.

The Actual Full-Time Equivalent[8] (FTE) for this Project is 0.50.

D. Cost Impacts

Consistent with one of the overarching objectives of PSEP to maximize the cost effectiveness of safety enhancement investments, SoCalGas effectively planned, designed, and completed construction activities for this project. Each pipeline project is unique in scope and inherently complex due to a variety of factors including terrain, environmental and permitting constraints, scope changes during detailed design, material cost fluctuations, regulatory changes, and more. These complexities can lead to variances between initial estimates and actual costs. Consistent with prudent management at the time, the Project Team successfully mitigated these variances whenever feasible through the implementation of effective project management practices, thorough planning, and continuous monitoring.

At the completion of the Line 36-9-21 Replacement Project, Actual Direct Costs came within the AACE Class 3 Total Installed Cost (TIC) accuracy range, adhering to the standard industry practices defined by the Association for the Advancement of Cost Engineering (AACE) International. The Actual Direct Costs were less than the preliminary estimate by $985,133. This variance can be attributed to several factors including: the removal of the tie-in assembly and the implementation of a pressure control fitting (PCF) design significantly reduced the labor required for gas handling; the project utilized a PCF for the tie-in instead of the planned tie-in assembly, significantly lowering costs, receiving a credit for minimizing work at the tie-in, reducing field overhead, and eliminating the need to excavate a driveway, which further reduced costs associated with additional excavation, shoring, backfill, and paving; the water from the hydrotest was reused by a business along the project route, eliminating the need for transportation and disposal; the

[8] Full-time equivalents (FTEs) are included in GRC forecasts to provide context to requested amounts for company labor. FTEs are calculated by measuring the number of hours charged over a given time period. For example, one FTE is equal to 40 hours per week, or typically 2,080 hours per year. The calculation of FTEs includes overtime hours. Therefore, if one employee works 60 hours per week, he or she would be recorded as 1.5 FTEs.

Project Team initially considered the cost of obtaining an easement from a nearby landowner, but instead adjusted the alignment and avoiding this expense; and the Engineering and Design firms completed activities originally identified as Project Management & Services in the initial estimate while the actual costs were recognized under Engineering and Design.

E. Disallowance

The scope of the Line 36-9-21 Replacement Project did not include any pipe subject to disallowance under D.14-06-007 or D.15-12-020.

V. CONCLUSION

SoCalGas enhanced the safety of their integrated natural gas transmission system by prudently executing the Supply Line 36-9-21 Replacement Project. Through this Replacement Project, SoCalGas successfully replaced 0.464 miles of pipeline in Paso Robles. The total loaded cost of the Project is $6,796,200.

SoCalGas executed this project prudently through replacement and reroute along Vine Street that included an HDD under Highway 101.

SoCalGas engaged in prudent cost avoidance efforts by removing a MLV no longer needed for system isolation, negotiating less repaving work with the city, and utilizing PCF bottom out fittings as opposed to a temporary bypass.

End of Supply Line 36-9-21 Replacement Project Final Report

ATTACHMENT B

I. SUPPLY LINE 49-11 VALVE ENHANCEMENT PROJECT

A. Background and Summary

The Supply Line 49-11 Valve Enhancement Project consists of valve enhancements made to an existing mainline valve (MLV) located in the City of San Diego in San Diego County. Through this project, SDG&E enhanced the safety of its natural gas transmission system by enabling the rapid detection of a significant change in pipeline pressure and remote isolation and depressurization of a portion of Line 49-11 in the event of a pipeline rupture. SDG&E relocated an existing mainline valve, installed a new actuator, new power equipment, new communications equipment, and the necessary automation equipment. The total loaded project cost is $2,145,312.

The Supply Line 49-11 Valve Enhancement Project construction site is located within an urban area in the central part of the City of San Diego. There are high voltage power lines nearby. The site is on SDG&E owned property.

Table 1: General Project Information

Supply Line 49-11 Valve Enhancement Project			
Location	San Diego		
Days on Site	34 days		
Construction Start	10/18/2016		
Construction Finish	05/04/2017		
Commissioning Date	12/12/2018		
Valve Upgrades			
Valve Number	2205		
Valve Type	Existing – Ball		
Actuator	New		
Actuator Above-/Below-Grade	Above-Grade		
ASV	Yes		
RCV	Yes		
Site Upgrades			
Vault	None		
Power	New – Solar		
Communication	New – Radio		
SCADA Panel	New		
Equipment Shelter	New		
Wall	New – Retaining		
Project Costs ($)	**Capital**	**O&M**	**Total**
Loaded Project Costs	2,145,312	-	2,145,312
Disallowed Costs	-	-	-

B. Maps and Images

Figure 1: Satellite Image of Supply Line 49-11 Valve Enhancement Project

II. ENGINEERING, DESIGN, AND PLANNING

A. Project Scope

SoCalGas and SDG&E presented a conceptual project scope for the Supply Line 49-11 Valve Enhancement Project in workpapers supporting the Valve Enhancement Plan in the 2011 PSEP filing.[1] This conceptual scope identified MLV 2205 on Supply Line 49-11 for automation to enable remote isolation to a portion of Supply Line 49-11. Prior to initiating execution of the Project, SoCalGas and SDG&E reviewed available information and performed a detailed system flow analysis to validate the scope of the Project and confirmed that this valve enhancement will provide the planned isolation. The final project scope is summarized in Table 2 below.

1. 2011 PSEP Filing: SDG&E identified MLV 2205 on Supply Line 49-11 for automation to achieve the objective of rapid system isolation.
2. Updated Scope: Upon project initiation, SDG&E reviewed the conceptual project scope and determined that this isolation point would achieve the transmission isolation objectives set forth in the Valve Enhancement Plan.
3. Engineering, Design, and Constructability: The valve selected for automation was orientated on its side with a gearbox attached to the existing valve. The Project Team determined that, due to the depth of the pipeline, and to facilitate the installation of the new actuator, the valve required repositioning so that the valve stem protrudes straight up from the top of the valve.
4. Final Project Scope: The final project scope consists of the automation of one valve that included the repositioning of an existing MLV, the installation of a new actuator, the installation of power equipment, the installation of communications equipment, and the installation of necessary automation equipment at the project site.

[1] See Amended PSEP of SoCalGas and SDG&E, submitted December 2, 2011, in R.11-02-019 and subsequently transferred to A.11-11-002.

Table 2: Final Project Scope

Final Project Scope				
Line	Valve #	Valve Size (*confidential*)	Installation Type	Function
49-11	2205	[redacted]	A/AG	ASV/RCV

B. Site Evaluation and Planning

SDG&E initiated the planning process for the Supply Line 49-11 Valve Enhancement Project by performing a pre-design site walk to determine the existing conditions and assess any potential impact on the design. Key factors that influenced the engineering and design of this project are as follows:

1. Site Description: This site is in an urban area within the central part of the City of San Diego. The land parcel is partially developed with the undeveloped portion consisting of mostly sloped terrain with predominantly native vegetation. There are high voltage power lines near the site.
2. Land Issues: The site is on land owned by SDG&E. The Project Team did not anticipate any land issues for this project.
3. DOT Class: This project site is in a Class 3 location.
4. Power Source: There was no preexisting power equipment. The Project Team installed new power equipment at the site.
5. Communication Technology: There was no preexisting communications equipment. The Project Team installed new communications equipment at the site.

C. Engineering, Design, and Planning Factors

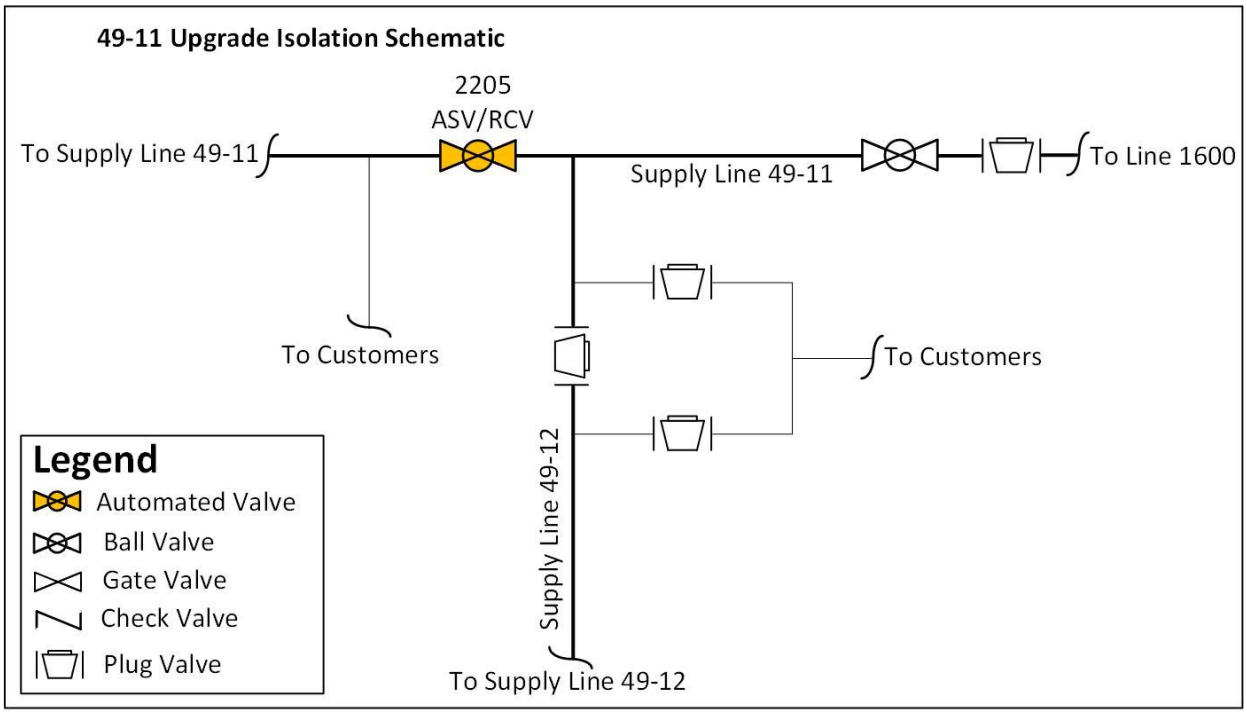
SDG&E reviewed drawings and records, contacted internal planning groups, communicated with external stakeholders, conducted survey activity, performed potholing of the area to identify the presence of underground utilities and substructures, and

completed a site walk. Key factors that influenced the engineering and design of the Project are as follows:

1. Engineering Assessment: During the site evaluation, the Project Team confirmed the existing technology. The Project Team determined that the existing valve required repositioning and thus the line would be shut-in for a portion of construction.
2. Valve Details: The existing valve was a manually operated Class 300 ball valve, which was reused by the Project Team.
3. Actuator Details: There was no preexisting actuator. The Project Team installed a new actuator.
4. Customer Impact: The Project Team did not identify any anticipated service disruptions to customers. The Project Team utilized existing valves to shut-in the line and maintained service to customers by utilizing alternate feeds.
5. Community Impact: The Project Team did not anticipate any notable impacts to the community from this project.
6. Substructures: The Project Team did not identify any existing substructures that affected the design and engineering at this site.
7. Environmental: The Project Team did not identify any notable environmental concerns at the work site. An environmental monitor performed routine site visits during construction.
8. Permit Restrictions: There were no special permits or permit restrictions for this project site.
9. Land Use: The Project Team performed all work within existing SDG&E property.
10. Traffic Control: The Project Team did not identify any traffic control needs at the site.

Final Report for Supply Line 49-11 Valve Enhancement Project

Figure 2: Supply Line 49-11 Valve Enhancement Project Schematic



D. Scope Changes

Through engineering, design, and planning activities, SDG&E determined that changes in scope were appropriate to enhance the design of the Project and address engineering factors. As a result, the preliminary cost estimate does not fully reflect the final scope. Summarized below are notable changes in scope made after the preliminary cost estimate was developed and approved. After the development and approval of the preliminary cost estimate, The Project Team determined that utilizing utility power was not feasible due to the location of the nearest utility power source. The Project Team updated the design to include solar power. Additionally, the Project Team identified the need to install a retaining wall to protect the new automation equipment.

III. CONSTRUCTION

A. Construction Contractor Selection

The Project Team prepared an initial cost estimate based on the preliminary design. Following completion of the engineering, design, and planning activities described above, the Project Team directed the Performance Partner (Mechanical Construction Contractor) and Alliance Partner (Electrical Contractor) to prepare cost estimates based on a more detailed engineering design package, which included the updated design described in the discussion of notable changes in scope above.

1. SDG&E's Preliminary Mechanical Construction Contractor Estimate *(confidential)*: SDG&E's preliminary cost estimate for construction was [redacted].
2. Mechanical Construction Contractor's Target Price Estimate *(confidential)*: The Mechanical Construction Contractor's cost estimate was [redacted], which was [redacted] than SDG&E's preliminary cost estimate for construction.
3. SDG&E's Preliminary Electrical Contractor Estimate *(confidential)*: SDG&E's preliminary cost estimate for electrical construction was [redacted].
4. Electrical Contractor's Estimate (*confidential*): The Electrical Contractor's estimate was [redacted], which was [redacted] than SDG&E's preliminary cost estimate.

B. Construction Schedule

Table 3: Construction Timeline

Construction Start Date	10/18/2016
Construction Completion Date	05/04/2017
Days on Site	34 days
Commissioning Date	12/12/2018

The Project Team completed all construction activities as soon as practicable prior to commissioning. Finalization of commissioning activities is dependent on electrical utility connections, and system and/or resource availability.

C. Changes During Construction

SDG&E successfully mitigated field conditions during construction in a manner that minimized potential impacts on project scope, cost, and schedule. As a result, these conditions did not result in any notable change orders.

Figure 3: Mainline Valve Assembly With Instrument Piping

D. Commissioning and Site Restoration

Commissioning activities included site restoration, final inspections, and placement of the valve back into service. During this stage, SDG&E successfully performed site acceptance testing and conducted point-to-point verification with Gas Control personnel for the newly automated valve, and transferred ownership of the new equipment to Field Operations. Closeout activities included development of final drawings, the reconciliation package, and updates to company recordkeeping systems to reflect the completed scope of work. The site was fully commissioned on December 12, 2018, as summarized in Table 3.

IV. PROJECT COSTS

A. Cost Avoidance Actions

SDG&E exercised due diligence in the design, planning, and construction activities for this project to minimize or avoid costs when prudent to do so. As discussed above, the Project Team reviewed existing records, communicated with external stakeholders, and conducted a site walk to incorporate known site conditions in the project plan and design. The Project Team reused the existing valve as opposed to installing a new mainline valve.

B. Cost Estimates

Based on the preliminary design, once the preliminary project scope was confirmed and engineering, design, and planning activities were underway, SDG&E prepared an estimate of the Direct Costs of the Project in the amount of $1,706,878. The Project Team considered the conditions known at the time to prepare the preliminary Direct Cost estimate. This estimate reflects the projected Labor, Material, and Services costs anticipated to be incurred to execute the Project, based on initial design plans.

SDG&E estimated Indirect Costs of the Project based on the estimated Direct Costs and other project-related variables.

C. Actual Direct and Indirect Costs

Actual Direct Costs reflect the Labor, Material, and Services costs incurred to execute the Project. Actual Indirect Costs reflect costs for incremental overhead loaders in accordance with Company overhead allocation policies. The total loaded cost of the Project is $2,145,312.

Table 4: Estimated and Actual Direct Costs and Variances[2]

Direct Costs ($)	Estimate	Actuals	Delta Over/(Under)
Company Labor	106,660	59,461	(47,199)
Materials	165,080	82,578	(82,502)
Mechanical Construction Contractor	429,342	337,881	(91,461)
Electrical Contractor	76,073	70,736	(5,337)
Construction Management & Support	126,873	190,248	63,375
Environmental	149,960	19,760	(130,201)
Engineering & Design	266,356	974,439	708,083
Project Management & Services	245,384	42,576	(202,808)
ROW & Permits	4,600	5,360	760
GMA	136,550	72,537	(64,013)
Total Direct Costs	**1,706,878**	**1,855,575**	**148,697**

Table 5: Estimated and Actual Indirect Costs, Total Costs, and Variances[3]

Indirect Costs/Total Costs ($)	Estimate	Actuals	Delta Over/(Under)
Overheads	234,667	175,927	(58,740)
AFUDC	206,991	99,492	(107,499)
Property Taxes	0	14,317	14,317
Total Indirect Costs	**441,658**	**289,737**	**(151,921)**
Total Direct Costs	**1,706,878**	**1,855,575**	**148,697**
Total Loaded Costs	**2,148,536**	**2,145,312**	**(3,224)**

The Actual Full-Time Equivalents[4] (FTEs) for this Project are 0.21.

[2] Values may not add to total due to rounding.
[3] Ibid
[4] Full-time equivalents (FTEs) are included in GRC forecasts to provide context to requested amounts for company labor. FTEs are calculated by measuring the number of hours charged over a given time period. For example, one FTE is equal to 40 hours per week, or typically 2,080 hours per year. The calculation of FTEs includes overtime hours. Therefore, if one employee works 60 hours per week, he or she would be recorded as 1.5 FTEs.

D. Cost Impacts

Consistent with one of the overarching objectives of PSEP to maximize the cost effectiveness of safety enhancement investments, SDG&E effectively planned, designed, and completed construction activities for this project. Each pipeline project is unique in scope and inherently complex due to a variety of factors including terrain, environmental and permitting constraints, scope changes during detailed design, material cost fluctuations, regulatory changes, and more. These complexities can lead to variances between initial estimates and actual costs. Consistent with prudent management at the time, the Project Team successfully mitigated these variances whenever feasible through the implementation of effective project management practices, thorough planning, and continuous monitoring.

At the completion of the Supply Line 49-11 Valve Enhancement Project, Actual Direct Costs came within the AACE Class 3 Total Installed Cost (TIC) accuracy range, adhering to the standard industry practices defined by the Association for the Advancement of Cost Engineering (AACE) International. The Actual Direct Costs exceeded the preliminary estimate by $148,697. This variance can be attributed to several factors including: the installation of the communications equipment extended the project schedule, with construction management remaining actively involved until the upgrades were completed; the Project Team updated the design to include solar power as utility power was not feasible due to the location of the nearest utility power source; the Project Team identified during detailed design that the installation of a retaining wall to protect the new automation equipment would be required; and the Engineering and Design firms completed activities originally identified as Project Management & Services in the initial estimate while the actual costs were recognized under Engineering and Design.

V. CONCLUSION

SDG&E enhanced the safety of their integrated natural gas system by prudently executing the Supply Line 49-11 Valve Enhancement Project. Through this Valve Enhancement Project, SDG&E successfully automated one valve to achieve the objective of enabling rapid system isolation of a portion of Supply Line 49-11 within the City of San Diego. The total loaded cost of the Project is $2,145,312.

SDG&E executed this project prudently through designing and executing the Project to support achievement of Valve Enhancement Plan isolation objectives, responding to unanticipated changes by modifying the design from utility power to solar power, and by installing the equipment necessary to bring power and communications to this valve to enable rapid automated isolation to a portion of Line 49-11 in San Diego County.

SDG&E engaged in prudent cost avoidance efforts to complete this safety enhancement at a reasonable cost by engaging in reasonable efforts to promote competitive and market-based rates for contractor services and materials and using a reasonable amount of Company and contractor resources to complete this safety enhancement as soon as practicable.

End of Supply Line 49-11 Valve Enhancement Project Final Report