

Application No: A.18-11-XXX  
Exhibit No.: \_\_\_\_\_  
Witness: E. Reyes

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

Application 18-11-XXX

**CHAPTER IX**  
**DIRECT TESTIMONY OF EDWARD J. REYES**  
**(REVENUE REQUIREMENTS)**  
**ON BEHALF OF**  
**SOUTHERN CALIFORNIA GAS COMPANY**  
**AND**  
**SAN DIEGO GAS & ELECTRIC COMPANY**

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

November 13, 2018

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

2 The purpose of my testimony is to sponsor the Pipeline Safety Enhancement Plan (PSEP)  
3 revenue requirements associated with the PSEP projects and costs presented for review in this  
4 Application and that are recorded in Southern California Gas Company's (SoCalGas) and San  
5 Diego Gas & Electric Company's (SDG&E) Safety Enhancement Expense Balancing Accounts  
6 (SEEBAs), Safety Enhancement Capital Cost Balancing Accounts (SECCBAs), and Pipeline Safety  
7 and Reliability Memorandum Accounts (PSRMAs).

8 **II. PSEP REVENUE REQUIREMENT**

9 As described in Chapter III (Phillips), Chapter IV (Mejia), and Chapter VIII (Cayabyab),  
10 SoCalGas and SDG&E have presented \$854.0 million in capital expenditures and \$86.7 million in  
11 operations and maintenance (O&M) expenditures, recorded as of April 2018, for reasonableness  
12 review.<sup>1</sup> These expenditures form the basis for the revenue requirements requested as part of this  
13 Application, reduced by the 50% interim recovery authorized by Decision (D.) 16-08-003 and  
14 incorporated in rates through April 2018. The witnesses and their corresponding costs sponsored  
15 are detailed in Table 1 below.

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<sup>1</sup> Costs were further adjusted by disallowances identified after the April 2018 cut-off date and reflected in the PSEP balancing accounts in the subsequent months. Costs also include \$2.0 million of PSEP insurance that was denied without prejudice in D.16-12-063 and discussed in detail in Chapter VIII (Cayabyab).

**Table 1**  
**PSEP 2018 Reasonableness Review**  
**Summary of SoCalGas and SDG&E Costs (in \$000,000s)**

<b>Witness</b>	<b>Chapter</b>	<b>Cost Type</b>	<b>SoCalGas</b>	<b>SDG&amp;E</b>	<b>Total</b>
Phillips	III	Total Project Costs <sup>2</sup>	\$ 680	\$ 122	\$ 802
Mejia	IV	Valve Costs <sup>3</sup>	\$ 129	\$ 8	\$ 137
Cayabyab	VIII	PSRMA PSEP Insurance <sup>4</sup>	\$ 2	\$ -	\$ 2
		<b>Total</b>	<b>\$ 811</b>	<b>\$ 130</b>	<b>\$ 941</b>

The PSEP revenue requirements, as recorded in the SEEBAs, SECCBAs and PSRMAs and requested for recovery in rates, total \$188.3 million for SoCalGas and \$22.9 million for SDG&E.<sup>5</sup> As described in my testimony, these costs are fully loaded and include O&M, capital-related costs,<sup>6</sup> and regulatory account interest. Upon Commission approval of this Application, the revenue requirements will also be trued-up for such items as: (1) regulatory account interest; (2) the ongoing capital-related revenue requirements associated with approved PSEP capital projects that were recorded to the SECCBAs subsequent to April 2018 through the date that rates are adjusted; and (3) a reduction for previously authorized interim cost recovery incorporated in current rates subsequent to April 2018 and any future interim cost recovery approved by the Commission and incorporated in the following year's rates pursuant to D.16-08-003. SoCalGas and SDG&E will file Tier 1 Advice Letters within 30 days of the effective date of the decision authorizing recovery to incorporate the updated revenue requirements into rates on the first day of the next month following advice letter submission or in connection with other authorized rate changes implemented by SoCalGas and

<sup>2</sup> Includes \$6.1 million of PSEP-specific insurance overheads costs discussed in detail in Chapter VIII (Cayabyab).

<sup>3</sup> Ibid.

<sup>4</sup> See CPUC Decision (D.) 16-12-063 in Application (A.) 14-12-016.

<sup>5</sup> The revenue requirements are adjusted for certain overhead exclusions, and the SEEBAs, SECCBAs, and PSRMA balances exclude the disallowed costs discussed in Chapters III (Phillips) and IV (Mejia).

<sup>6</sup> Capital-related costs include depreciation, taxes and return associated with the cost of the PSEP assets.

SDG&E.<sup>7</sup> These revenue requirements will be allocated to functional areas and amortized over a 12-month period, as discussed in Chapter X (Schmidt-Pines).

The ongoing capital-related revenue requirements, associated with the reasonably incurred capital expenditures that are approved in this proceeding, will continue to be recorded in SoCalGas' and SDG&E's SECCBAs. SoCalGas and SDG&E propose to continue filing Tier 2 Advice Letters to incorporate these ongoing capital-related revenue requirements into rates until the corresponding costs are incorporated in base rates in connection with SoCalGas and SDG&E's next General Rate Case (GRC) proceeding. To the extent the PSEP projects associated with this Application are found reasonable, the remaining capital-related revenue requirement will be fully recovered, and no longer be subject to 50% interim rate recovery. Table 2 of my testimony illustrates the PSEP revenue requirements presented for recovery in this Application.

**Table 2**  
**PSEP 2018 Reasonableness Review Revenue Requirements**  
**(in \$000s excluding FF&U)**

	<u>SoCalGas</u>	<u>SDG&amp;E</u>	<u>Total</u>
<b><u>O&amp;M</u></b>			
O&M Costs:			
Completed Projects	67,965	6,576	74,541
Descoped Projects	731		731
Post Completion Adjustments	7,359	363	7,721
PSRMA PSEP Insurance	1,656		1,656
Subtotal - O&M Costs	77,711	6,939	84,650
Revenue – 50% Interim Recovery	(33,364)	(4,514)	(37,878)
Regulatory Interest	995	103	1,098
Subtotal - O&M RR	45,342	2,527	47,870
<b><u>Capital</u></b>			

<sup>7</sup> For example, should Commission approval be obtained during the fourth quarter of the year, SoCalGas and SDG&E propose to update revenue requirements through December of the approval year and the subsequent year for the ongoing capital-related revenue requirements associated with these approved PSEP capital projects. These updated revenue requirements will be incorporated in rates effective January 1 of the following year.

Capital-Related Costs:			
Completed Projects	166,635	23,823	190,458
Post Completion Adjustments	(8)	(14)	(22)
PSRMA PSEP Insurance	167		167
Subtotal - Capital-Related Costs	166,795	23,809	190,604
Revenue – 50% Interim Recovery	(25,602)	(3,656)	(29,258)
Regulatory Interest	1,781	251	2,032
Subtotal - Capital-Related RR	142,974	20,404	163,378
<b>Total Revenue Requirement</b>	<b>188,317</b>	<b>22,931</b>	<b>211,248</b>
Sums may not equal due to rounding.			

1           The revenue requirements in Table 2 reflect fully loaded costs consisting of the incremental,  
2 company-wide overheads. These incremental overheads are incorporated in the costs presented in  
3 Chapter III (Phillips) and Chapter IV (Mejia), and explained in detail in Chapter VII (Moersen). In  
4 addition, PSEP O&M and capital costs are reduced for Pension and Post-Retirement Benefits Other  
5 Than Pensions (PBOPs), as these overhead costs are subject to separate balancing account  
6 mechanisms. Specifically, as authorized in D.13-05-010, SoCalGas’ and SDG&E’s Pension and  
7 PBOPs are balanced in the Pension Balancing Account and PBOP Balancing Account. The  
8 adjustments to SoCalGas’ and SDG&E’s fully loaded PSEP O&M and capital costs for Pensions,  
9 PBOPs and other cost exclusions are detailed in the accompanying workpapers.<sup>8</sup>

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<sup>8</sup> See WP-IX-R1 for SoCalGas’ PSEP O&M projects; WP-IX-R2 and WP-IX-R3 for SoCalGas’ capital projects; and WP-IX-R4 for SoCalGas’ summary of revenue requirements. See WP-IX-R5 for SDG&E’s O&M projects; WP-IX-R6 for SDG&E’s capital projects; and WP-IX-R7 for SDG&E’s summary of revenue requirements.

1 **III. CONCLUSION**

2 The PSEP revenue requirements presented in this Application are reasonable, should be  
3 adopted, and should be allocated to the functional areas and incorporated into natural gas  
4 transportation rates as discussed in Chapter X (Schmidt-Pines).

5 This concludes my prepared Direct Testimony.

1 **IV. WITNESS QUALIFICATIONS**

2 My name is Edward J. Reyes. My business address is 555 West Fifth Street, Los Angeles,  
3 California 90013. I am employed by Southern California Gas Company as the Director of  
4 Accounting Operations. In my current position my responsibilities include overseeing the Asset &  
5 Project Accounting, Accounts Payable and Sundry Services department. This department supports  
6 the reporting of property, plant and equipment for Securities and Exchange Commission and  
7 Federal Energy Regulatory Commission form reporting, Sarbanes Oxley section 404 and business  
8 process control implementation. This department is also responsible for timely and accurate  
9 payment of service/material invoices and contract obligations. I have been in this position since  
10 May 2017.

11 In my prior role as Director of Finance, I was responsible for overseeing the Financial and  
12 Strategic Analysis, Ratebase and Regulatory Accounts departments. This department supports the  
13 development of revenue requirements, cost recovery and management of SoCalGas' authorized  
14 regulatory balancing, tracking and memorandum accounts. I held this position from June 2012  
15 through May 2017 prior to assuming my current role.

16 I received a Bachelor of Science degree from California State University, Dominguez Hills  
17 in May 1994. I was initially employed by SoCalGas in November 1994 and have held various  
18 positions of increasing responsibility in the Accounting and Finance areas of the company,  
19 including Cost Accounting, Financial Accounting, Accounts Payable, New Business Accounting,  
20 Financial Systems, Affiliate Billing & Costing, Financial & Strategic Analysis, and Finance.

21 I have previously testified before the California Public Utilities Commission.