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Exhibit Number : _____
Reference Number : ORA-01
Commissioner : C. Peterman
ALJ : R. Mason
Witness : N. Stannik



**OFFICE OF RATEPAYER ADVOCATES
CALIFORNIA PUBLIC UTILITIES COMMISSION**

**Prepared Testimony on Southern California
Gas Company and San Diego Gas & Electric
Company Application for
Pipeline Safety and Reliability Memorandum
Account (PSRMA) Cost Recovery**

ORA Prepared Testimony

San Francisco, California
August 7, 2015

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1 **I. INTRODUCTION**

2 This exhibit presents the analyses and recommendations of the Office of Ratepayer
3 Advocates (ORA) regarding SoCalGas and San Diego Gas & Electric’s (SDG&E),
4 hereafter also called “Applicants,” Application to Recover Costs Recorded in Their
5 Pipeline Safety and Reliability Memorandum Accounts (PSRMA). Specifically, this
6 exhibit addresses:

7

- 8 • Cost Recordkeeping Systems and Practices
- 9 • Project Line 2000A
- 10 • Project Lines 42-66-1 and 42-66-2
- 11 • Playa del Rey (Phases 1 & 2) Storage Field Hydrotesting
- 12 • Descoped Project Costs

13

14 The Application also requests \$5.3 million for “Miscellaneous Other” costs, broken down
15 in the categories Facilities Build-out (\$2.9 million), Leak Survey (\$1.6 million), Pressure
16 Protection (\$0.3 million), and Other Remediation (\$0.5 million).

17 **II. SUMMARY OF RECOMMENDATIONS**

18 The Applicants have not met their burden to show reasonableness of incurred costs. Cost
19 recordkeeping systems and practices are insufficiently granular or detailed, lack unit
20 costs, and lack the ability to be compared to estimates or similar projects.

21

22 ORA cannot find reasonable the costs for hydrotesting and replacement (\$21.32 million
23 and \$5.06 million, respectively¹) of Project Line 2000A. There is also a lack of
24 documentation for significant per-mile cost increases over 100% as project mileage

¹ Applicants Workpaper “12-12-14 SCG PSEP WP 2000-A_FINAL EDITS.xlsx”, “Cost Summary” tab.

1 increased by less than 0.25 miles. The Commission should allow recovery of \$13.29
2 million of costs for Line 2000A.

3
4 ORA cannot find reasonable the \$0.91 million² costs for lines 42-66-1 and 42-66-2.
5 There are cost recordkeeping deficiencies regarding the costs of hydrotesting of the Playa
6 del Rey storage field (\$0.68 million³), but finds the actions taken for that project prudent.
7 Recovery of Playa del Rey hydrotesting costs should be allowed.

8
9 Unless Applicants can demonstrate that the costs associated with each of the de-scoped
10 projects associated with records searches were on pipelines installed prior to 1961, those
11 costs should be disallowed.

12
13 Background information and ORA’s analysis of issues are detailed below.

14 **III. COST RECORDKEEPING SYSTEMS AND PRACTICES**

15 **A. Background**

16 In rulemaking R.11-02-019, the Commission mandated creation of Pipeline Safety
17 Enhancement Plans (PSEP). Implementation of San Diego Gas & Electric’s (SDG&E)
18 and Southern California Gas’s (SCG) PSEP was moved into application (A.)11-11-002
19 (Application of San Diego Gas & Electric Company and Southern California Gas
20 Company for Authority to Revise Their Rates Effective January 1, 2013, in their
21 Triennial Cost Allocation Proceeding).

22

² Applicants Workpapers “12-12-14 SCG PSEP WP 42-66-1_FINAL EDITS.xlsx” “Cost Summary” tabs.

³ Applicants Workpaper “12-12-14 SCG PSEP WP Playa del Rey_Phase 12_FINAL EDITS.xlsx”, “Cost Summary” tab.

1 In A.11-11-002, the Commission issued Decision (D.) 14-06-007,⁴ which found that
2 “SDG&E and SoCalGas’s [original PSEP] showing was inadequate in detail and
3 thoroughness to approve Safety Enhancement as proposed...,”⁵ that “the budgets offered
4 in support of this billion-dollar proposal are not sufficiently detailed to justify ratemaking
5 pre-approval,”⁶ and described the budgets in the utilities’ proposal as “extremely
6 preliminary, in fact rudimentary.”⁷

7
8 D.14-06-007 directed SDG&E and SoCalGas to “file new applications... with detailed
9 project descriptions and history and adequate cost records to justify recovery in rates,”⁸
10 also stating that “the burden of proof is on SDG&E and SoCalGas to demonstrate that it
11 is entitled to the relief sought in this proceeding, including affirmatively establishing the
12 reasonableness of all aspects of the application.”⁹

13
14 D.14-06-007 ordered, “Cost recovery of the Pipeline Safety and Reliability Memorandum
15 Accounts for San Diego Gas & Electric Company (SDG&E) and Southern California Gas
16 Company (SoCalGas) will be reviewed for reasonableness in a new application or
17 applications. In addition to the other requirements to demonstrate reasonableness,
18 SDG&E and SoCalGas are limited to the recovery of only those costs that directly
19 contribute to the implementation of Safety Enhancement.”¹⁰

20

⁴ Decision 14-06-007 Implementing a Safety Enhancement Plan and Approval Process for San Diego Gas & Electric Company and Southern California Gas Company; Denying the Proposed Cost Allocation for Safety Enhancement Costs; and Adopting a Ratemaking Settlement.

⁵ D. 14-06-007, p. 14.

⁶ D. 14-06-007, pp. 23-24.

⁷ D. 14-06-007, p. 25.

⁸ D. 14-06-007, p. 26.

⁹ D. 14-06-007, p. 55 (Conclusion of Law 3).

¹⁰ D.14-06-007, p. 61 (Ordering Paragraph 6).

1 **B. SDG&E and SCG Have Not Met Their Burden to Show Reasonableness**

2 Similar to the observation in D.14-06-007 that SDG&E and SCG’s showing in
3 A.11-11-006 was inadequate, the Applicants’ present Application (A. 14-12-016) is
4 insufficient to establish reasonableness of projects’ costs and execution. Evidence of
5 prudence in engineering and construction decisions; evidence of cost control systems and
6 methodology; the ability to track project progress; and the ability to compare recorded
7 cost to estimates and benchmarks are lacking in Applicants’ showing given the
8 documentation and evidence provided and obtained through the discovery process. The
9 fact that critical unit cost information is lacking in sufficient detail both in the original
10 application and in response to intervenors’ discovery indicates that Applicants are not
11 meeting the requirements established by the Commission to demonstrate reasonableness.

12
13 The Applicants’ failure to demonstrate reasonableness in the Application and testimony,
14 the lack of ambiguity in D. 14-06-007, and Applicants acknowledgement in response to
15 discovery of lack of documentation demonstrate that Applicants have not justified the
16 reasonableness for costs of the projects. Applicants should be directed to develop and
17 demonstrate a plan to improve its cost documentation going forward.¹¹

18
19 The Applicants’ project cost tracking system is not sufficiently granular or detailed to
20 allow for discernment of certain essential cost/financial information about each project.
21 In particular, the utilities’ cost workpapers for each project include 16 cost categories¹²
22 that cover all costs incurred for each project, categories which are too general to be of use
23 in assessing reasonableness.

¹¹ This could be done in collaboration with parties to this Application.

¹² All Applicants project workpapers (for example, “12-12-14 SCG PSEP WP 2000-A_FINAL EDITS.xlsx”). Categories are: Labor; Employee Expenses; Material – Gas; Material – Other; Material – Pipe & Fittings; Material – Valves; Material – Water; Permits & Right of Way; SRV – Construction; SRV – Engineering; SRV – Environmental; SRV – Survey; SRV – Other; Property Tax; and AFUDC. Applicants stated “‘SRV’ stands for Service, which includes third-party supporting service costs and may include costs from construction, engineering, environmental, survey and other services, such as training.” See Applicants Response to ORA-DR-03 Q4d, Attachment “ORA DR3 Q4d Cost Summary.xlsx”

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In response to data request ORA-DR-04, Applicants provided somewhat more detailed cost tracking for completed projects, with costs split into “Cost Elements,”¹³ which are more detailed sub-categories for individual projects. However, this more granular Cost Element data does not remedy the two-fold problem that the Application presents: 1) recorded cost-category data do not alone demonstrate reasonableness, and 2) Applicants have provided very limited comparison data¹⁴ for similar projects, industry benchmarks, or even Applicants’ own estimates, stating “SoCalGas and SDG&E do not have access to documentation that would allow for meaningful comparison of costs for similar work done by water or wastewater pipeline operators, or similar work done by other utilities.”¹⁵

As noted in ORA Exhibit 02 (J. Lee), ORA generally found no inconsistencies in its review of Applicants’ accounting system. However, to determine reasonableness, more than the incurrence of recorded costs is required. As stated in D. 14-06-007, “the burden of proof is on SDG&E and SoCalGas to demonstrate that it is entitled to the relief sought.” Examples of documentation that would help establish reasonableness in the present proceeding, but that were lacking in the Application and Applicants’ testimony, include:

- Detailed comparisons to similar projects undertaken in the past
- Detailed comparisons to similar projects in other regions or states
- Detailed comparisons of actual costs to Applicants’ own estimated costs¹⁶

¹³ Applicants Response to ORA-DR-03 Q4d.
¹⁴ Attachment “ORA DR3 Q12 Project comparison.xlsx” to Applicants Response to ORA-DR-03 Q12.
¹⁵ Applicants Response to ORA-DR-03 Q12.
¹⁶ See Section IV-B below.

- 1 • Documentation and justification of recorded and estimated unit costs
- 2 (\$/mile tested, \$/gallon water purchased, etc.)
- 3 • Clear tracking and documentation of changes to project scope or scale¹⁷
- 4 • Evidence of efforts to controls costs
- 5 • Evidence of efforts to reduce costs over time
- 6 • Evidence of efforts to find and reduce inefficiencies

7

8 In response to ORA’s requests, the Applicants have provided limited types of the

9 documentation listed above. Applicants have provided some specific or comparable data

10 when requested (for example, in response to data requests, Applicants have provided a

11 limited and incomplete set of examples of estimates for comparable projects,¹⁸ more

12 granular cost data related to certain specific contracts or work areas,¹⁹ processes through

13 which some of the unit cost estimating data is formed,²⁰ and aggregated costs for

14 multiple PSEP projects²¹). However, these responses are insufficient to cure the lack of

15 reasonableness showing in the Application and testimony because they are fragmented.

16 Although the Applicants appear to have accurately documented their recorded costs; the

17 deficiency in the Applicants’ showing is that there is little to no evidence (quantitative or

18 qualitative) demonstrating that the costs incurred are reasonable, as required in D.14-06-

19 007.²²

20

21 Applicants have acknowledged that they have no analyses or benchmarking studies for

22 projects in this Application or for any PSEP projects, nor is there any specific timeline to

¹⁷ See Section IV-B below.

¹⁸ Applicants Response to ORA-DR-14 Q6a and attachment “Q6a Line 2000 West Stage 3 Estimate.pdf”.

¹⁹ Applicants Response to ORA-DR-14 Q11.

²⁰ Applicants Response to ORA-DR-14 Q8.

²¹ Applicants Response to ORA-DR-14 Q9 and **confidential attachment** “Q9 Line 2000A recorded costs Final_CONFIDENTIAL.xlsx”.

²² D.14-06-007, p. 39.

1 create such analyses or benchmarks.²³ Applicants’ documentation does not allow for or
2 provide ready comparison with recorded data to comparable estimates, benchmarks, or
3 similar projects. When asked in Data Request ORA-DR-03, Applicants were unable to
4 provide any division between fixed and variable costs²⁴ or any comparisons to similar
5 projects.²⁵

6
7 The Applicants have estimating tools²⁶ that include significant levels of detail about a
8 variety of different costs, including contingency costs; 12 water-specific variable costs;
9 costs for multiple different types of construction labor (in the 2011 PSEP filing
10 estimate²⁷); Move In and Move out costs; 11 company labor sub-category costs; the costs
11 of dozens of types of materials and tools (in the 2012 Line 2000A estimate²⁸); costs for
12 different types of welds; and costs for various specific activities for test/replacement of
13 pipeline segments (in the 2013 Stage 3 Cost Estimating Tool²⁹). However, when asked
14 what purpose estimating tools serve given that they cannot be compared to actual costs,
15 Sempra stated “The estimating tools are used to enhance project decision-making, enable
16 funding authorizations, and improve consistency across projects.”³⁰

17

²³ Applicants Response to ORA-DR-16 Q15.

²⁴ Applicants Response to ORA-DR-16 Q9.

²⁵ Applicants Response to ORA-DR-16 Q12.

²⁶ These estimating tools have varied since Applicants’ original PSEP filing in 2011. See Applicants Response to ORA-DR-13 Q5.

²⁷ Attachment “Line 2000 Original Filing Estimate_77980300.xls” to Applicants Response to ORA-DR-13 Q12.

²⁸ **Confidential attachment** “2000 Blythe to Hwy 71Cost Est Worksheet.xls” to Applicants Response to ORA-DR-13 Q12.

²⁹ **Confidential attachment** “Stage 3 SCG Pipeline Estimate Template Rev 2.0 CONFIDENTIAL.xlsx” to Applicants Response to ORA-DR-13 Q14.

³⁰ Applicants Response to ORA-DR-16 Q14.

1 The Application and workpapers supporting recorded costs do not provide the level of
2 detail present in the estimating tools. The Applicants have confirmed that its method of
3 tracking costs for PSEP projects does not align with how costs are estimated,^{31,32} which
4 makes direct comparisons between the two very difficult, if not impossible. These
5 difficulties are true for both past estimating tools and the most current version currently
6 in use.³³ The Applicants have not manually aligned or compared recorded costs with
7 estimated costs in this Application, either quantitatively or qualitatively.

8
9 The Application includes no recorded data or calculations of unit costs, comparisons to
10 similar work by other utilities, similar non-utility projects, or even Applicants' past
11 projects in any depth or detail. To illustrate these deficiencies, ORA references the
12 Commission's proceeding on Sempra's original PSEP application (A. 11-11-002), in
13 which ORA witness Roberts demonstrated the complexities of water supply, treatment,
14 and disposals costs for PSEP hydrotest projects.³⁴ Mr. Roberts' testimony demonstrates
15 that water costs vary significantly not just with location,³⁵ but with volume purchased,³⁶
16 purchase and disposal location,³⁷ and containing equipment used.³⁸ Mr. Roberts' analysis
17 of Sempra's original proposal concluded that water-related costs accounted for 90% of
18 Sempra's estimated variable hydrotest costs.³⁹ In contrast to Mr. Roberts' analysis, the

³¹ Applicants Response to ORA-DR-13, Q2 and Q3.

³² Applicants Response to ORA-DR-16 Q14.

³³ For more information regarding Applicants' cost-estimating tools for projects in this Application, please see Applicants Response to ORA-DR-13 Q5. Applicants' most recent estimating tool was developed in 2013 and is frequently referred to as "Stage 3 estimating Tool" or similar.

³⁴ A. 11-11-002, DRA Exhibit 2A, Prepared testimony of T. Roberts, pp. III-12 to III-23.

³⁵ A. 11-11-002, DRA Exhibit 2A, Prepared testimony of T. Roberts, pp. III-12.

³⁶ A. 11-11-002, DRA Exhibit 2A, Prepared testimony of T. Roberts, pp. III-13.

³⁷ A. 11-11-002, DRA Exhibit 2A, Prepared testimony of T. Roberts, pp. III-14.

³⁸ A. 11-11-002, DRA Exhibit 2A, Prepared testimony of T. Roberts, pp. III-20 to III-23.

³⁹ A. 11-11-002, DRA Exhibit 2A, Prepared testimony of T. Roberts, p. III-12, Figure 4 – Breakdown of Sempra's estimated variable hydrotest costs.

1 most detail Sempra provides in this Application is a flat dollar amount per project under
2 the category “MATERIAL – WATER.” In response to an ORA data request for “a table
3 that shows the description or name of each cost element number used to date on project
4 2000A,”⁴⁰ the Applicants provided a spreadsheet that did not contain the category
5 “MATERIAL – WATER” and was unclear in how sub-categories or cost elements were
6 grouped into “MATERIAL – WATER” in the creation of the Applicants’ workpapers.⁴¹
7 When ORA asked whether the Applicants were able to determine recorded costs for
8 “pipe cleaning prior to filling the test section” and “disposal of water drained... following
9 a hydro test,”⁴² the Applicants stated, “No, SoCalGas and SDG&E do not have the
10 means to determine the recorded costs incurred for pipe cleaning”⁴³ and that they “*may*
11 be able to determine the recorded costs for water disposal for some projects by going
12 through relevant invoices and *attempting* to identify costs that pertain to water
13 disposal”⁴⁴ [emphasis added]. A “lessons learned” presentation provided by the
14 Applicants references multiple water-related issues and topics,⁴⁵ yet these are not
15 discussed in the Application.

16
17 D. 14-06-007 (A. 11-11-002) set forth higher standards for a greater level of detail than
18 Applicants’ current filing has provided. In order to act prudently, Applicants were
19 required to follow a standard of care that demonstrated all necessary records are retained,
20 some of which would likely include “records of contractor selection controls, project cost
21 control systems and reports, engineering design and review controls, and of course proper

⁴⁰ ORA data request ORA-DR-14 Q9.

⁴¹ **Confidential attachment** “Q9 Line 2000A recorded costs Final_CONFIDENTIAL.xlsx” to Applicants Response to ORA-DR-14 Q9.

⁴² Applicants Response to ORA-DR-03 Q10.

⁴³ Applicants Response to ORA-DR-03 Q10a.

⁴⁴ Applicants Response to ORA-DR-03 Q10b.

⁴⁵ Attachment “2000-A_071_EC_Lessons Learned.pdf” to ORA-DR-03 Q20. References to water-related issues or topics on pp. 2, 4, 7.

1 retention of construction records, retention of pressure testing records, and retention of all
2 other construction test and inspection records.”⁴⁶ Sempra was aware of the need for
3 documentation in an ex post reasonableness review, stating in its opening brief:

4
5 *“...ex post reviews create an incentive for inefficient expenditure on the part of*
6 *the utility. Rather than devoting resources to implementing an approved plan, the*
7 *utility will focus on documenting the justification for each expenditure...”⁴⁷*

8 **IV. PROJECT LINE 2000A**

9 **A. Background**

10 Applicants’ natural gas transmission Line 2000 runs approximately 225 miles⁴⁸ from
11 downtown Los Angeles to Blythe at the California-Arizona border.

12
13 Applicants’ request in this Application is for recovery of hydrotesting and replacement
14 costs related to the section of Line 2000 with the project name Line 2000A (hereafter
15 referred to as “Line 2000A”). Line 2000A begins in Corona and ends in Banning.⁴⁹ The
16 Applicants request recovery for 15.195 miles of pipe hydrotesting and 0.097 miles of
17 pipe replacement.⁵⁰ All replacement sections were the result of replacing pipe at tie-in
18 locations for hydrotests.⁵¹

19

⁴⁶ D. 14-06-007, pp. 36-37.

⁴⁷ Opening Brief of SCG and SDG&E in Application 11-11-002, p. 56.

⁴⁸ Applicants Supplemental Testimony (Mejia), p. 18, line 3.

⁴⁹ Applicants Workpaper “12-12-14 SCG PSEP WP 2000-A _FINAL EDITS.xlsx”, tab “WP Summary Overview”

⁵⁰ Applicants Workpaper “12-12-14 SCG PSEP WP 2000-A _FINAL EDITS.xlsx”, tab “WP Summary Overview”

⁵¹ Applicants Response to ORA-DR-12 Q1.

1 The Application requests \$21,315,883 in O&M costs and \$5,058,995 in capital costs for
2 Line 2000A.⁵²

3

4 **B. SDG&E and SCG Have Not Met Their Burden to Show Reasonableness of**
5 **Line 2000A Costs**

6 As noted in Section III above, Applicants provided inadequate documentation to
7 determine the reasonableness of their request for costs related to Line 2000A. Applicants'
8 documentation of costs related to Line 2000A shows deficiencies similar to what exists in
9 other parts of the Application.

10

11 ORA analyzed Line 2000A in detail, 1) because it represents nearly 75% of the total costs
12 Applicants are seeking to recover in this Application,⁵³ and 2) because of the
13 Applicants' anticipated upcoming filings on PSEP projects of similar scale and scope. In
14 light of the insufficient documentation and inadequate explanation from Applicants,
15 ORA's analysis of the costs associated with project Line 2000A faced five primary
16 challenges. As explained in further detail below, the five primary challenges were:

17

- 18 1) The insufficiently granular and/or detailed cost data provided by the
19 Applicants;⁵⁴
- 20 2) The lack of tracking and provision of costs by test/replacement segment;
- 21 3) Applicants' lack of clear documentation of scope changes to projects on Line
22 2000A (and more generally the scope changes to the broader Line 2000 work);
- 23 4) The lack of comparable estimates to recorded costs, directly caused by issues #1,
24 #2, and #3 above; and

⁵² Amended Testimony of Rick Phillips, p. 7, lines 1 and 13.

⁵³ Requested recovery for Line 200A = \$26.3 million per Applicants workpaper "12-12-14 SCG PSEP WP 2000-A_FINAL EDITS.xlsx." Requested recovery for entire application = \$35.7 million per ORA workpaper "Cost_workpapers_merged - In-progress_removed.xlsx," tab "Cost Overview"

⁵⁴ See Section III for further details.

1 5) The lack of reasonable explanations for per-mile cost increases of over 100%,
2 even as scope was reduced.

3
4 The Applicants’ method of recording cost data does not allow costs to be distinguished
5 by test/replacement segment, even though Line 2000A is made up of ten (10) test pipe
6 segments.⁵⁵ The Applicants understand the importance of dividing and costing out
7 segments because bid requests for Line 2000A articulated work requirements by
8 segment.⁵⁶ However, Applicants failed to provide the same means to review the segment
9 costs that they themselves would evaluate during bidding. Instead, Applicants grouped all
10 costs into the same project budget, thereby obscuring the underlying cost data and
11 hindering the ability to review the reasonableness of Applicants’ work.

12
13 ORA understands that efficiencies and cost savings can be found by performing work
14 between/across segments on a project level and that “cross-cutting” costs⁵⁷ can be
15 challenging to quantify. However, Applicants’ recorded costs state only that their current
16 accounting practices do not have “a general practice to initiate separate Work Order
17 Authorizations (WOAs) for each individual section for the same pipeline.”⁵⁸

18
19 The frequent changes in scope to Line 2000A made evaluating and comparing recorded
20 costs and estimates extremely difficult. As projects are developed, records are researched,
21 and construction plans are executed, projects may change in scope. However, the
22 documentation describing the scope changes to Line 2000A varied, was often unclear or
23 lacking sufficient explanation, and was frequently missing key pieces of information,

⁵⁵ Applicants Workpaper “12-12-14 SCG PSEP WP 2000-A_FINAL EDITS.xlsx” tab “WO Summary Overview”

⁵⁶ Confidential attachment “2000-A_Southwest_Contractor_Bid_Proposal_CONFIDENTIAL.pdf” to Applicants Response to ORA-DR-13 Q6.

⁵⁷ Here, “cross-cutting” is meant to indicate costs shared or split across multiple pipeline segments of the same project.

⁵⁸ Applicants Response to ORA-DR-03 Q6.

1 such as cost, total mileage, section/segment locations, reasons for revisions/changes, etc.
2 For example, at least one estimate did not state the total mileage to be tested,⁵⁹ the initial
3 Work Order Authorization did not list the number of segments or total mileage to be
4 tested,⁶⁰ and a significant change order did not clearly show or state the project's revised
5 scope.⁶¹ Applicants' supplemental testimony on some of the scope changes of Line
6 2000A provided a general overview with some quantitative data,⁶² but omits critical
7 detailed data including project estimate amounts; recorded project costs; comparisons of
8 estimates to costs; locations/mile-markers of preserved⁶³ or descoped⁶⁴ mileage;
9 significantly revised project mileage after any changes; and how this revised mileage
10 affected budgets.

11
12 ORA's compilation of Line 2000A scope data is shown below in Table 1. The data in
13 columns A, C, D, and E are sourced from the document cited in column B unless
14 otherwise noted. ORA has included the initial Work Order Authorization to demonstrate
15 initial project scope, scale, and funding level; Change Notice 083 divided the initial Line
16 2000 project into four (4) sub-projects, of which Line 2000A was one.⁶⁵

17
18 As shown below in Table 1, ORA's discovery has identified concerns that the per-mile
19 cost of Line 2000A increased by 103.4% while scope increased by just 0.263 (1.76%)

⁵⁹ **Confidential** attachment "2000 Blythe to Hwy 71Cost Est Worksheet.xls" to Applicants Response to ORA-DR-13 Q12.

⁶⁰ Attachment "WOA 25428180.pdf" to Applicants Response to ORA-DR-13 Q12.

⁶¹ Attachment "Change Notice 083_12728000_Redacted.pdf" to Applicants Response to ORA-DR-13 Q12.

⁶² Supplemental Testimony of Hugo Mejia, pp. 18-27.

⁶³ Here, "preserved" is meant to indicate unchanged mileage when project scope was reduced or changed.

⁶⁴ Here, "descoped" is meant to indicate mileage that was removed from the project scope.

⁶⁵ Attachment "Change Notice 083_12728000_Redacted.pdf" to Applicants Response to ORA-DR-13 Q12.

1 miles. Without supporting information, Table 1 demonstrates a small increase in scope
2 with a significant increase in per-mile costs.

3

1 **Table 1: Scope Changes to (and Related to) Line 2000A**

	A	B	C	D	E	F	G
1	Date	Document	Scope	Total Mileage	Amount (\$million)	\$Million / mile	% Increase in cost per mile ⁶⁶
2	09/18/12	Initial WOA ⁶⁷	Colorado River to Hwy. 71	117.6 ⁶⁸	\$25.43	\$0.216	-
3	04/30/13	Project CN #083 ⁶⁹	(2000A only, details unspecified)	14.932 ⁷⁰	\$12.73	\$0.853	-
4	04/30/13	Project CN #273 ⁷¹	(2000A only, details unspecified)	14.932	\$20.25	\$1.356	37.1%
5	11/05/13	WOA Revision ⁷²	(unclear, reduction in scope ⁷³)	15.195 ⁷⁴	\$28.01	\$1.843	35.9%
6	12/12/14	Applicant Filing ⁷⁵	2000A as filed in Application	15.195	\$26.37	\$1.735	-5.9%
7							
8	Row 6 Minus Row 3			0.263	\$13.64	\$0.882	103.4%

2 WOA = Work Order Authorization; CN = Change Notice

3 Note: the data Row 6 in Table 1 is identical to Row 4 in Table 2 (below)

⁶⁶ ORA calculated column G (per-mile percentage increase) based on the April 2013 Change Notice 083 amount, at which point 2000A was defined to within 2% of its final mileage as filed in this Application.

⁶⁷ Attachment “WOA 25428180.pdf” to Applicants Response to ORA-DR-13 Q12.

⁶⁸ Initial WOA states “Line 2000 hydro testing of HCA segments identified as Cat 4 criteria footage between Colorado River to Hwy. 71 in Corona.” Exact mileage is unclear. This number assumes the mileage from Sempra’s original PSEP filing.

⁶⁹ Attachment “Change Notice 083_12728000_Redacted.pdf” to Applicants Response to ORA-DR-13 Q12.

⁷⁰ Mileage as stated in e-mail exchange included as attachment to CN 083 in Applicants Response to ORA-DR-13 Q12.

⁷¹ Attachment “Change Notice 273_20250000.pdf” to Applicants Response to ORA-DR-13 Q12.

⁷² Attachment “WOA 28008484.pdf” to Applicants Response to ORA-DR-13 Q12.

⁷³ The WOA revisions states “Revised scope of work to delay testing of Line 2000 from Blythe to Banning”.

⁷⁴ Exact mileage at WOA Revision is unclear. The value is most likely in the range of 14.932 (mileage as described in Change Notice 083) – 15.195 (mileage as filed in this Application).

⁷⁵ Applicant Workpaper “12-12-14 SCG PSEP WP 2000-A_FINAL EDITS.xlsx”.

1 Applicants' as-filed costs for Line 2000A are not complete since "trailing costs" have
2 been recorded since filing and will continue to be recorded.⁷⁶

3

4 The Applicants' estimates for Line 2000A cannot be reasonably compared to recorded
5 costs. The Applicants do not have an estimate for Line 2000A in its current form; the
6 Applicants have confirmed that the only two pre-construction estimates it has related to
7 Line 2000A are its initial PSEP filing⁷⁷ (which is for nearly eight times the total mileage
8 of Line 2000A⁷⁸) and an internal September 2012 estimate⁷⁹ (which includes eastern
9 sections of Line 2000 that are not part of Line 2000A⁸⁰ and does not include crucial
10 information like the amount of pipe to be tested⁸¹). Although the Applicants assert that
11 Project Change Notices and revisions to the Work Order Authorization are
12 estimates,^{82, 83} such changes in fact reflect projections or changes to budget, and not
13 construction estimates.

14

15 For reference, ORA has compiled Table 2 below showing Applicants' estimates for (and
16 related to) Line 2000A. The estimates in rows 2 and 3 include nearly all of the scope of
17 2000A,^{84, 85} as well as additional mileage. The Applicants' request for Line 2000A in this

⁷⁶ Attached worksheet to Applicants Response to ORA-DR-11 Q4.

⁷⁷ Applicants Response to ORA-DR-13 Q5; Attachment "Line 2000 Original Filing Estimate_77980300.xls" to Applicants Response to ORA-DR-13 Q12.

⁷⁸ Attachment "Line 2000 Original Filing Estimate_77980300.xls" to Applicants Response to ORA-DR-13 Q12 lists "Total Hydrotest Length" as 117.6 miles. Line 2000A as filed is for 15.195 hydrotest miles and 0.097 replacement miles.

⁷⁹ Applicants Response to ORA-DR-13 Q5; Attachment "Line 2000 Original Filing Estimate_77980300.xls" to Applicants Response to ORA-DR-13 Q12.

⁸⁰ See confidential attachment "2000 Blythe to Hwy 71Cost Est Worksheet.xls"

⁸¹ Applicants Response to ORA-DR-16 Q8.

⁸² Applicants Response to ORA-DR-16 Q18.

⁸³ Applicants Response to ORA-DR-13 Q12 and provided attachments.

⁸⁴ Applicants Response to ORA-DR-16 Q6c.

⁸⁵ Attachment "Line 2000 Original Filing Estimate_77980300.xls", Tab "L-2000" to Applicants Response

- 1 Application (Row 4 same as Row 6 in Table 1) is included for comparison as well.
- 2 Columns A, C, D, and E are sourced from the document cited in column B unless
- 3 otherwise noted:
- 4

1 **Table 2: Applicants Estimates for (and Related to) Line 2000A**

	A	B	C	D	E	F	G	H
1	Date	Estimate	Scope	Mileage	Amount (\$Million)	\$Million / mile	% Increase in cost per mile⁸⁶	Total % Increase in cost per mile⁸⁷
2	07/26/2011	Original PSEP Filing Estimate	Line 2000	117.600	\$65.20	\$0.554	-	-
3	09/07/2012	2012 Internal Estimate	Line 2000 (revised)	25.755 ⁸⁸	\$22.38	\$0.869	56.86%	56.86%
4	12/12/14	Applicant Filing ⁸⁹	2000A (as filed)	15.195	\$26.37	\$1.735	99.65%	213.18%

2 *Note: the data Row 6 in Table 1 (above) is identical to Row 4 in Table 2*

3

⁸⁶ ORA calculated column G (per-mile percentage increase) based on the previous row in Table 2.

⁸⁷ ORA calculated column H (per-mile percentage increase) based on the original filing estimate.

⁸⁸ Applicants Response to ORA-DR-16 Q9f.

⁸⁹ Applicants Workpaper "12-12-14 SCG PSEP WP 2000-A_FINAL EDITS.xlsx".

1 As noted in Section III above, the categories, unit costs, and projects scopes in the
2 Applicants' various estimates do not align with recorded cost categories, hindering ready
3 comparison. ORA acknowledges that estimating tools and accounting systems will not
4 always align perfectly and understands that the two systems serve different purposes. The
5 Applicants' burden to show reasonableness includes either demonstrating that estimates
6 reasonably predicted recorded costs or explaining in detail the reasons that estimates did
7 not. Applicants did not provide significant comparison to either their forecasts or
8 comprehensive explanations of why actual costs deviated significantly upwards from
9 forecasts.

10

11 The Application does not adequately justify or support the reasonableness of the 103%
12 cost increases of Line 2000A (see Table 1 above). To explain the project's initial
13 estimated costs increase of over \$6.6 million (52%),⁹⁰ Applicants' testimony states "In
14 early July 2013, after a construction contractor was hired through a competitive
15 solicitation process, the Line 2000-A estimate was updated to \$19,348,000 in direct and
16 indirect costs."⁹¹ To explain the project's budget increase of another \$8.6 million
17 (45%)⁹² in two subsequent iterations, the Applicants list a variety of project changes⁹³
18 and ascribes the increase to "the above construction change orders, increased project
19 management oversight costs, and increased easement costs"⁹⁴ and "the above costs
20 increases and additional increases resulting from additional pressure control fittings to
21 supply a district tap during hydrotesting, water management activity, engineering
22 activity, project management activity, and PSEP GMA costs."⁹⁵ These limited

⁹⁰ Supplemental Testimony of Hugo Mejia, pp. 24, lines 19 and 21.

⁹¹ Supplemental Testimony of Hugo Mejia, pp. 24-25, lines 20-21 and 1.

⁹² Supplemental Testimony of Hugo Mejia, pp. 26, lines 12-15 and page 27, lines 6-13.

⁹³ Supplemental Testimony of Hugo Mejia, pp. 25-26, lines 3-27 and 1-11 and pp. 26-27, lines 16-25 and 1-5.

⁹⁴ Supplemental Testimony of Hugo Mejia, p. 26, lines 12-13.

⁹⁵ Supplemental Testimony of Hugo Mejia, p. 27, lines 9-12.

1 descriptions by Applicants fail to provide the information required by intervenors or the
2 Commission to ascertain and to support the reasonableness of the 103% increase in
3 project costs.

4

5 The Applicants' costs and cost estimates for Line 2000A have consistently increased
6 even as project scope has consistently been reduced. Had the Applicants' per-mile cost
7 from Line 2000A been used in the original PSEP estimate for all of Line 2000, the
8 estimate would have totaled over \$200 million, more than 800% of the actual original
9 estimate. Moreover, applying the same as-filed per-mile cost to Project 2000A as defined
10 by Change Order 083 (at which point 2000A was defined to within 2% of its final
11 mileage as filed in this Application, see Table 1 above), Sempra's cost projection at that
12 time would have been more than double.

13

14 The Applicants have not met their burden to prove recorded costs of \$27.37 million for
15 Line 2000A reasonable and costs should be recovered at the per-mile rate of Sempra's
16 2012 Internal Estimate⁹⁶ for a total cost recovery of \$13.29 million. The calculation used
17 to arrive at this value is as follows:

18

Project Mileage⁹⁷	2012 Estimate Per-Mile Cost⁹⁸	=	Total Cost (Mileage * Per-Mile Cost)
15.292	0.869	=	\$13,288,748

19

20

⁹⁶ See Table 2 above.

⁹⁷ Applicants Workpaper "12-12-14 SCG PSEP WP 2000-A_FINAL EDITS.xlsx", tab "Cost Summary". Includes 15.195 miles of hydrotest (cell E3) and 0.097 miles of replacement (cell E4).

⁹⁸ See Table 2 above.

1 **V. PROJECT LINES 42-66-1/2 AND PLAYA DEL REY (PHASE I)**

2 **A. Background**

3 The Application seeks \$0.81 million (100% capital) for abandonment of Line 42-66-2
4 and replacement of Line 42-66-1,⁹⁹ as well as \$0.68 million (100% O&M) for the Phase
5 1 & 2 hydrotesting of its Playa del Rey Storage Field.¹⁰⁰
6

7 **B. SDG&E and SCG Have Not Met Their Burden to Show Reasonableness of**
8 **Project Lines 42-66-1 and 42-66-2**

9 As noted in Section III above, ORA is unable to determine the reasonableness of costs for
10 Lines 42-66-1 and 42-66-2 because of cost record-keeping deficiencies. The projects
11 have a high¹⁰¹ per-mile replacement cost¹⁰² and the high percentage of overhead
12 costs.¹⁰³ ORA acknowledges the difficulties involved in pipeline work near residential
13 areas and railroad crossings and the role that fixed costs may have played in such a short
14 pipe segment, but cannot make a reasonableness determination given the information
15 provided.
16

17 ORA was able to verify that the abandonment of segment 42-66-2 was performed
18 according to 49 Code of Federal Regulations § 192.727, Abandonment or Deactivation of
19 Facilities.^{104,105}

⁹⁹ Amended Testimony of Rick Phillips, p. 7, line 1.

¹⁰⁰ Amended Testimony of Rick Phillips, p. 7, line 1.

¹⁰¹ \$914,179 for 0.063 miles = \$14.51 million/mile. See Applicants' estimates and recorded costs in Tables 1 and 2 above (range \$0.216 million – 1.843 million/mile). See also ORA and PG&E estimates of PG&E per-mile costs in D. 12-12-030, p. 62 (range \$0.317 million - \$2.500 million/mile). See also Sempra Amended Application in R. 11-02-019, p. 57 (range \$0.500 million– \$0.600 million/mile).

¹⁰² Total cost: \$914,179. Total miles: 0.063. Cost per mile: \$14,510,778. See Applicants Workpaper "12-12-14 SCG PSEP WP 42-66-1_FINAL EDITS.xlsx".

¹⁰³ \$234,771 of total project costs \$914,179 (25.7%). See Applicants Workpaper "12-12-14 SCG PSEP WP 42-66-1_FINAL EDITS.xlsx".

¹⁰⁴ 49 Code of Federal Regulations, § 192.727, Abandonment or Deactivation of Facilities.

¹⁰⁵ Applicants Response to ORA-DR-12 Q5.

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C. ORA Does Not Object to Recovery of Costs Associated with Playa Del Rey (Phases 1 & 2) Hydrotesting

ORA notes cost record-keeping deficiencies for the costs associated with the hydrotesting of the Playa del Rey storage field. However, Applicants’ decision to perform the Playa del Rey testing on a Time & Material basis,¹⁰⁶ on an accelerated schedule,¹⁰⁷ and with an existing on-site contractor were prudent courses of action at the time and cost recovery should be allowed.

VI. DESCOPED PROJECT COSTS

A. Background

The Application includes proposed recovery of \$347,724 related to projects that “were later descoped from Phase 1A because of ongoing record review efforts or lowering of the line’s MAOP.”¹⁰⁸ A breakdown of the total costs shows \$325,962 of these costs are records-related and \$21,762 results from the lowering of Line 38-528’s Maximum Allowable Operating Pressure (MAOP).

B. ORA Analysis

ORA appreciates Applicants’ continued efforts “to review records in parallel with [their] PSEP engineering and design activity.”¹⁰⁹ ORA agrees that continued records searches are important and will ultimately save ratepayers, shareholders, and Applicants money. However, consistent with D.14-06-007, the Commission should disallow the costs of

¹⁰⁶ Applicants Response to ORA-DR-04 Q4.
¹⁰⁷ Applicants Presentation to ORA “PSEP Cost Estimating Workshop” June 24, 2015, slide 9.
¹⁰⁸ Applicants Amended Prepared Testimony (Phillips), p. 11, lines 3-5.
¹⁰⁹ Applicants Amended Prepared Testimony (Phillips), p. 11, footnote 19.

1 descoped projects associated with records searches,¹¹⁰ which totals \$325,962 in this
2 application. To the extent that Applicants can differentiate the costs of records searching
3 from work initiated then cancelled, it is reasonable for Applicants to receive some
4 recovery of the non-records search related work conducted. However, Applicants have
5 the burden to show that each of the de-scoped projects associated with records searches
6 were on pipelines installed prior to 1961.¹¹¹ Costs of descoped projects that are
7 associated with the finding of records should be borne by shareholders consistent with
8 D.14-06-007¹¹² unless Applicants demonstrate that these pipelines were installed in 1961
9 or later.

¹¹⁰ D.14-06-007, Conclusion of Law 13, pp. 56-57.

¹¹¹ As provided by the Administrative Law Judge's Ruling Setting a Procedural Schedule as Ordered by Decision 15-03-049, dated April 16, 2015, pp. 1 and 2. A.11-11-002 is currently subject to re-rehearing and that the applicable date may move from 1961 to 1956.

¹¹² D. 14-06-007, p. 57, Conclusion of Law 14.

1 **VII. WITNESS QUALIFICATIONS**

2 Q.1 Please state your name and address.

3 A.1 My name is Nils Stannik. My business address is 505 Van Ness Avenue, San
4 Francisco, California, 94102.

5

6 Q.2 By whom are you employed and in what capacity?

7 A.2 I am employed by the California Public Utilities Commission as a Utilities
8 Engineer in the Office of Ratepayer Advocates Energy Cost of Service & Natural
9 Gas Branch.

10

11 Q.3 Briefly describe your educational background and work experience.

12 A.3 I have a Bachelor of Engineering in Electrical Engineering from the University of
13 Michigan.

14

15 Prior to joining ORA, I worked as a design engineer for Complete Solar designing
16 and assisting in the permitting of residential PV systems throughout California.

17 Prior to that, I worked as an electrical engineer for HDR Engineering on power
18 and instrumentation & control technologies for large fossil-fuel power plants.

19

20 Since joining the ORA in December 2014, I have worked on PG&E's 2015 Gas
21 Transmission and Storage Application (A.13-12-012), SoCalGas's/SDG&E's

22 2016 Triennial Cost Allocation Proceeding (A.14-12-017) Phase 1,

23 SoCalGas's/SDG&E's Pipeline Safety and Reliability Memorandum Account

24 Application (A.14-12-016), the Commission's San Joaquin Valley Disadvantaged

25 Community OIR (R. 15-03-010), and Liberty Utilities' General Rate Case (A. 15-
26 05-008).

27

28 Q.4 What is your area of responsibility in this proceeding?

29 A.4 I am responsible for ORA's testimony in this proceeding.

1

2 Q.5 Does that complete your prepared testimony?

3 A.5 Yes, it does.