

PUBLIC UTILITIES COMMISSION

505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3298



November 22, 2017

Advice Letter 5057G

Ronald van der Leeden
Director, Regulatory Affairs
Southern California Gas
555 W. Fifth Street, GT14D6
Los Angeles, CA 90013-1011

**SUBJECT: Request for Recovery of the Transmission Integrity Management Program
Balancing Account (TIMPBA) 2015 Recorded Activity**

Dear Mr. van der Leeden:

Advice Letter 5057G is effective as of January 1, 2018, per Resolution G-3528 ordering paragraphs.

Sincerely,

A handwritten signature in black ink that reads "Edward Randolph".

Edward Randolph
Director, Energy Division



Ronald van der Leeden

Director

Regulatory Affairs

555 W. Fifth Street, GT14D6

Los Angeles, CA 90013-1011

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November 4, 2016

Advice No. 5057

(U 904 G)

Public Utilities Commission of the State of California

**Subject: Request for Recovery of the Transmission Integrity Management Program
Balancing Account (TIMPBA) – 2015 Recorded Activity**

Southern California Gas Company (SoCalGas) hereby requests California Public Utilities Commission (Commission) approval for the recovery of its TIMPBA under collection activity for the year ended 2015, to be incorporated in SoCalGas' revenue requirement and rates effective August 1, 2017.

Purpose

SoCalGas requests authority to recover the under collection of \$21.5 million recorded in its TIMPBA for reasonably incurred pipeline integrity-related expenses for the year 2015, pursuant to Finding of Fact No. 202 of Decision (D.) 13-05-010, SoCalGas' Test Year 2012 General Rate Case (GRC).

Background

SoCalGas' Transmission Integrity Management Program (TIMP) implements the federal regulatory requirements set forth in 49 Code of Federal Regulations (CFR) 192 Subpart O.¹ These federal pipeline regulations were first adopted effective February 14, 2004, following the passage of the Pipeline Safety Improvement Act of 2002, to promote the continued safe and reliable operation of the country's natural gas infrastructure. Under these regulations, operators of natural gas transmission pipelines are required to continually identify threats to their pipelines in High Consequence Areas (HCAs), analyze the risks posed by those threats, conduct appropriate pipeline assessments at least once every seven years, collect information about the physical condition of their pipelines, and take actions to minimize applicable threats and integrity concerns before pipeline failures occur. SoCalGas' TIMP is designed to meet these regulatory requirements and objectives. SoCalGas' request for

¹ Subpart O is incorporated into the Commission's General Order (GO) 112-E.

approval of funds for the TIMP in its 2012 GRC, filed in December 2010, was based on the forecast costs of complying with these regulatory requirements and objectives.

In 2010, when SoCalGas initially filed its 2012 GRC application, SoCalGas did not request balancing treatment for TIMP-related costs. In 2011, the California Legislature passed Senate Bill 879, codified as Public Utilities Code Section 969, which expressly requires that gas corporations “establish and maintain a balancing account” to recover TIMP expenses and related capital expenditures for the maintenance and repair of transmission pipelines. To comply with Section 969, and in light of the adoption of additional TIMP-related regulations, the high variability in the costs of first-time assessments and related repairs, as well as calls for heightened transmission integrity efforts, SoCalGas revised its GRC request in order to establish a two-way balancing account for TIMP-related costs.

SoCalGas’ request to establish a two-way balancing account for TIMP-related costs was approved in D.13-05-010. The TIMPBA was established to record actual Operations and Maintenance (O&M) and capital-related costs associated with SoCalGas’ TIMP and track the difference between authorized and actual expenditures. The TIMPBA is effective for the four-year GRC cycle ending December 31, 2015, or the effective date of SoCalGas’ next GRC. Any over or under collected balance at the end of each year within the GRC cycle is to be carried over to the following year. In addition, in accordance with Finding of Fact No. 202 of D.13-05-010, TIMP costs in excess of the corresponding authorized O&M and capital expenditures are subject to recovery through a Tier 3 advice letter filing.

In early 2010, when SoCalGas prepared its GRC application, SoCalGas did not anticipate the resources that would later be required to address the heightened focus on transmission integrity as a consequence of the rupture of a Pacific Gas and Electric Company transmission pipeline on September 10, 2010. Since the pipeline rupture in San Bruno, California, regulations such as “The Pipeline Safety, Regulatory Certainty, and Job Creation Act of 2011,” have led the Pipeline Safety and Hazardous Materials Safety Administration (PHMSA) to change its reporting requirements and review the existing transmission integrity requirements to identify areas for improvement.

In addition, pipeline operators were not required to complete all of their first “baseline” assessments under Subpart O until 2012. Therefore, when SoCalGas developed its TIMP costs estimates back in 2010, it did not yet have a complete history of the cost of repairs or remediations that would be driven by those baseline assessment findings and did not yet have experience with addressing challenges that were later encountered when conducting assessments and remediations in sensitive areas.

In its 2012 GRC, SoCalGas forecast \$32.9 million TIMP-related O&M expenses for the test year. In D.13-05-010, the Commission authorized \$28.6 million, a reduction of \$4.3 million or 13%. This reduction carried forward in 2015 as \$4.7 million or 27% of the under collected balance.²

² Based on the authorized attrition rate of 2.65% in 2013 and 2.75% in 2014 and 2015.

For 2012 and 2013, the TIMPBA was under collected by about \$29 million (or 48% above the authorized revenue requirement of \$59.9 million for the combined 2012-2013 period). On April 11, 2014, SoCalGas filed Advice No. (AL) 4632 seeking to recover the under collected balance for 2012 and 2013. Energy Division conducted an invoice level review based on a sampling of the TIMP O&M costs and capital expenditures included in the balancing account requested in AL 4632 and found no inappropriately recorded or unreasonably incurred costs. On June 11, 2015, the Commission issued Resolution (Res.) G-3499, approving AL 4632 and authorizing SoCalGas to recover the under collected balance recorded in the TIMPBA through December 31, 2013. In approving AL 4632, the Commission found that “new PHMSA regulations and Senate Bill 879 did require SoCalGas to undertake activities in addition to what SoCalGas had forecasted at the time it was preparing for its 2012 GRC (A.10-12-005).”³

On June 19, 2015 SoCalGas filed AL 4819 seeking recovery of the TIMPBA under collected balance related to 2014 recorded activity. On May 12, 2016, the Commission issued Res. G-3517, approving AL 4819 and authorizing SoCalGas to recover the under collected balance recorded in the TIMPBA through December 31, 2014, subject to the removal of Employee Benefits/Recognition costs.⁴ In approving AL 4819, the Commission again noted that changes in pipeline safety regulations had increased TIMP costs and expenditures.⁵

In this filing, SoCalGas seeks recovery of \$21.5 million for the under collected balance related to 2015 recorded activity. Included in this total is \$4.6 million related to Line 404 costs, as discussed below. The 2015 TIMP-related costs recorded in the TIMPBA are attributable to the same types of activities that were previously approved by the Commission in Res. G-3499 and G-3517, and the under collection is driven by the same factors that were identified and deemed reasonable in SoCalGas’ approved AL 4632 and AL 4819.

A seven-mile section of Line 404 was pressure tested as part of the company’s Pipeline Safety Enhancement Plan (PSEP) because it was identified as lacking sufficient pressure test records. Through the course of SoCalGas’ ongoing scope and record validation process, pressure test documents were identified that demonstrated that the relevant seven-mile section had been pressure tested during its original installation in 1944. The 1944 pressure test documents are not sufficient to comply with modern standards for safety as required by D.11-06-017 (see D.11-06-017, mimeo., at 18). As such, the work on Line 404 should have commenced later in PSEP as part of Phase 2B (addressing pipelines with record of a pressure test, but without record of a pressure test to modern – 49 CFR Part 192, Subpart J – standards) instead of being pressure tested as part of Phase 1A. However, because the relevant sections of Line 404 are also assessed as part of SoCalGas’ TIMP program, costs of the pressure test are also recoverable in TIMP. In this instance, SoCalGas determined that TIMP was the appropriate mechanism to seek recovery because pursuant to Section 192.921 a pressure test is an acceptable assessment method, the relevant seven-mile pipeline section is partly located within a High Consequence Area, and the pressure test allows the TIMP re-assessment timeline to be extended by a year. As a result, these sections of Line

³ Res. G-3499 at 11.

⁴ Res. G-3517 at 10.

⁵ Res. G-3517 at 7.

404 have been descoped from PSEP Phase 2B. For the above reasons, \$4.6 million of costs incurred through December 2015 were moved to the TIMPBA from the PSEP regulatory accounts in 2016 as a prior period adjustment.

2015 TIMPBA Under Collection Balance

Attachment A details the actual costs recorded during 2015. As of December 31, 2015, the TIMPBA is \$53 million under collected. This under collected balance includes: 1) the carryover of \$19.1 million of 2014 recorded activity that had not yet been approved for recovery at the end of 2015, 2) \$16.9 million related to the unamortized portion of 2012-2013 under collected activity,⁶ and 3) \$16.9 million related to 2015 recorded activity. The \$4.6 million of costs related to Line 404 that is included as part of the request in this filing is not included in the \$53 million under collection shown in Attachment A because the transfer of those costs was recorded in 2016 as a prior period adjustment.

The 2015 recorded activity of \$16.9 million, requested for recovery in this filing, is comprised of O&M expenses of approximately \$6.8 million, capital-related costs of approximately \$10 million, and interest of \$0.08 million. This under collection is driven by three contributing factors. First, as noted above, in D.13-05-010, the Commission did not authorize SoCalGas to recover the entire forecast cost of implementing its TIMP. Rather, the Commission reduced the amount to be recovered by SoCalGas by \$4.3 million or 13% of the under collected balance. This carries over into 2015 as \$4.7 million. Thus, \$4.7 million (27%) of the under collected balance can be attributed to the reduced amount authorized for TIMP in D.13-05-010. Second, in 2010, when SoCalGas developed its forecast of TIMP-related costs for its 2012 GRC, it did not foresee conditions that ultimately led to increased TIMP-related costs. These unanticipated circumstances resulted in additional costs of about \$2.2 million or 13% of the under collected balance. Third, the remaining 60% of the under collected balance is as a result of how capital expenditures are recovered and balanced, the amount recovered by SoCalGas for capital is approximately \$10 million less than actual capital-related costs recorded to the TIMPBA, see Attachment C for an illustrative example on “Balancing Capital Related Costs.”

Table 1 below distinguishes the analysis of TIMP O&M and capital additions, from an actual and authorized perspective, from the actual TIMPBA under collection recorded on SoCalGas' financial statements. As noted above and shown in Table 1, the balancing of capital-related costs on a revenue requirement basis (i.e., the depreciation, taxes and return associated with capital additions to utility ratebase) and not on a capital expenditures basis contributes significantly to the TIMPBA under collection.

⁶ Amortization of \$2.4M per month is authorized in rates effective August 1, 2015 per Res. G-3499.

Table 1
SOUTHERN CALIFORNIA GAS COMPANY
TRANSMISSION INTEGRITY MANAGEMENT PROGRAM - SPENDING VS. AUTHORIZED - \$000

TIMP O&M Spending and Capital Additions			TIMPBA Calculation (Revenue Requirements)						
(a)	(b)	(c) = (a) - (b)	(d)	(e)	(f) = (d) - (e)	(g)	(h) = (f) + (g)		
Actual	Authorized	Over/ (Under) Spending	Actual ^{1/}	Authorized ^{2/}	Under/ (Over) Collection	Interest	TIMPBA Activity		
Year 2015:			Year 2015:						
O&M	37,820	31,008	6,812	O&M	37,820	31,008	6,812	6,812	
Capital Additions	39,557	17,731	21,826	Capital-Related Costs	10,997	972	10,025	10,025	
L404 - O&M	4,493		4,493	L404 - O&M	4,493		4,493	4,493	
L404 - Capital Additions	929		929	L404 - Capital-Related Costs	76		76	76	
				Interest			79	79	
Subtotal	82,798	48,739	34,059	Subtotal	53,386	31,980	21,406	79	21,485

^{1/} Actual capital-related costs also include the capital-related costs associated with capital additions from 2012 - 2014 and impact of the 2013 Cost of Capital.

^{2/} Authorized O&M and capital-related revenue requirement increased by 2.75% attrition adjustment adopted in 2012 GRC decision.

2015 TIMP Spending

Table 2 summarizes 2015 TIMP spending into four general categories: Program Management and Support, Assessments, Preventive & Mitigation, and Inflation to 2015 dollars.

Table 2

Direct + V&S (000's)	2015 Actual Costs	GRC 2015 Authorized	Difference (Actual vs Auth)
Program Mgt and Support	\$11,366	\$5,700	\$5,666
Assessments	\$30,266	\$20,760	\$9,506
Preventive & Mitigation	\$681	\$0	\$681
Subtotal	\$42,313	\$26,460	\$15,853
Inflation to 2015\$	N/A	\$4,548	-\$4,548
Total	\$42,313	\$31,008	\$11,305

As reflected in the costs above, SoCalGas consistently worked to improve the safety and reliability of its system in 2015. Through system modifications and enhancements, SoCalGas increased the transmission system miles that are capable of being inspected with in-line inspection tools (or "Smart Pigs") by roughly 0.02 miles. Since the beginning of 2015, the monies spent for Assessments included costs for the in-line inspection of approximately 315 miles of pipeline, the Direct Assessment (both External and Internal) of approximately 27 miles of pipe, 103 pipeline excavations and inspections (i.e., bellhole inspections), control surveys⁷ of over 240.3 miles of pipeline, and the repair of approximately 34 total anomalies within HCA segment and outside of HCA segment.

⁷ Control surveys are used to spatially align vendor survey data to accurately position bellhole excavations and to align high pressure pipeline database geometry.

Incorporation of TIMPBA Revenue Requirement in Rates

Upon a Commission resolution on this advice letter filing, SoCalGas plans to incorporate the 2015 under collected TIMPBA activity in rates effective August 1, 2017 or upon completion of the amortization of the 2014 under collected balance as authorized by the Commission.⁸ Pursuant to Res. G-3499, the TIMPBA amount will be amortized in gas transportation rates based on a functionalized allocation of transmission-related costs as developed in SoCalGas' most recent Triennial Cost Allocation Proceeding (TCAP). Attachment B, included with this filing, is a Summary of Natural Gas Transportation Rates.

Revenue Requirement Impact by Class of Service⁹

<u>Class of Service</u>	<u>Applicable Rate Schedules</u>	<u>Net M\$ (with FF&U) Increase/(Decrease)</u>
Core	GR, GS, GM, GO-AC, G-NGVR, GL, G-10, G-AC, G-EN, G-NGV	\$0.4
Noncore	GT-F, GT-I, GT-TLS	\$0.3
Backbone Transportation Service (BTS) & Other Services	G-BTS	\$4.8
TOTAL		\$5.5

⁸ SoCalGas and San Diego Gas and Electric Company (SDG&E) have an integrated transmission system and rate recovery mechanism. SDG&E will also incorporate their share of costs in rates effective August 1, 2017, or other authorized rate change upon Commission resolution.

⁹The 2015 SoCalGas' TIMPBA under collection of \$21.485 million to be recovered in rates effective August 1, 2017 is offset by the 2014 TIMPBA under collection of \$19.126 million that is currently in rates, effective August 1, 2016 through July 31, 2017. \$3.162 million of the 2012-2015 SDG&E TIMPBA under collection is being allocated to SoCalGas due to the integrated nature of the SDG&E and SoCalGas transmission systems and rate recovery mechanisms. The net effect is an increase of \$5.521 million (without FF&U and Sempra wide adjustments) in TIMPBA cost recovery in rates, effective August 1, 2017. \$0.851 million of the \$21.485 million 2015 SoCalGas' TIMPBA under collection (without FF&U), is being allocated to SDG&E due to the integrated nature of the SDG&E and SoCalGas transmission systems and rate recovery mechanisms. This is offset by \$0.758 million of the 2014 TIMPBA under collection of \$19.126 million that is currently in rates and being allocation to SDG&E gas. The SDG&E gas increase is \$0.093 million (without FF&U). SDG&E is also directed to file a Tier 2 advice letter to set forth gas rates to recover their allocation of TIMPBA costs upon approval of this filing. The revenue requirement includes FF&U and system wide adjustments.

Protest

Anyone may protest this advice letter to the Commission. The protest must state the grounds upon which it is based, including such items as financial and service impact, and should be submitted expeditiously. The protest must be made in writing and must be received within 20 days of the date of this advice letter, which is November 24, 2016. There is no restriction on who may file a protest. The address for mailing or delivering a protest to the Commission is:

CPUC Energy Division
Attention: Tariff Unit
505 Van Ness Avenue
San Francisco, CA 94102

Copies of the protest should also be sent via e-mail to the attention of the Energy Division Tariff Unit (EDTariffUnit@cpuc.ca.gov). A copy of the protest should also be sent via both e-mail and facsimile to the address shown below on the same date it is mailed or delivered to the Commission.

Attn: Sid Newsom
Tariff Manager - GT14D6
555 West Fifth Street
Los Angeles, CA 90013-1011
Facsimile No. (213) 244-4957
E-mail: snewsom@SempraUtilities.com

Effective Date

In compliance with Finding of Fact No. 202 of D.13-05-010, this advice letter is designated as Tier 3 pursuant to GO 96-B and, as such, requires a Commission resolution to approve. Following a Commission resolution on this advice letter, SoCalGas respectfully requests that this filing be made effective after Commission approval for implementation and inclusion in rates effective August 1, 2017 or other date SoCalGas is authorized to revise its rates.

Notice

A copy of this advice letter is being sent to SoCalGas' GO 96-B service list and the Commission's service lists in A.10-12-006, SoCalGas' TY 2012 GRC, and A.14-11-004, SoCalGas' TY 2016 GRC. Address change requests to the GO 96-B should be directed by electronic mail to tariffs@socalgas.com or call 213-244-3387. For changes to all other service lists, please contact the Commission's Process Office at 415-703-2021 or by electronic mail at Process_Office@cpuc.ca.gov.

Ronald van der Leeden
Director - Regulatory Affairs

Attachments

CALIFORNIA PUBLIC UTILITIES COMMISSION

ADVICE LETTER FILING SUMMARY ENERGY UTILITY

MUST BE COMPLETED BY UTILITY (Attach additional pages as needed)

Company name/CPUC Utility No. **SOUTHERN CALIFORNIA GAS COMPANY (U 904G)**

Utility type:

ELC GAS
 PLC HEAT WATER

Contact Person: Sid Newsom

Phone #: (213) 244-2846

E-mail: SNewsom@semprautilities.com

EXPLANATION OF UTILITY TYPE

ELC = Electric GAS = Gas
PLC = Pipeline HEAT = Heat WATER = Water

(Date Filed/ Received Stamp by CPUC)

Advice Letter (AL) #: 5057

Subject of AL: Request for Recovery of the Transmission Integrity Management Program Balancing

Account (TIMPBA) – 2015 Recorded Activity

Keywords (choose from CPUC listing): Balancing Account

AL filing type: Monthly Quarterly Annual One-Time Other

If AL filed in compliance with a Commission order, indicate relevant Decision/Resolution #:

D.13-05-010

Does AL replace a withdrawn or rejected AL? If so, identify the prior AL No

Summarize differences between the AL and the prior withdrawn or rejected AL¹: N/A

Does AL request confidential treatment? If so, provide explanation: No

Resolution Required? Yes No

Tier Designation: 1 2 3

Requested effective date: 8/1/17

No. of tariff sheets: 0

Estimated system annual revenue effect (%): 0.2%

Estimated system average rate effect (%): 0.2%

When rates are affected by AL, include attachment in AL showing average rate effects on customer classes (residential, small commercial, large C/I, agricultural, lighting).

Tariff schedules affected: N/A

Service affected and changes proposed¹: N/A

Pending advice letters that revise the same tariff sheets: N/A

Protests and all other correspondence regarding this AL are due no later than 20 days after the date of this filing, unless otherwise authorized by the Commission, and shall be sent to:

**CPUC, Energy Division
Attention: Tariff Unit
505 Van Ness Ave.,
San Francisco, CA 94102
mas@cpuc.ca.gov and jnj@cpuc.ca.gov**

**Southern California Gas Company
Attention: Sid Newsom
555 West 5th Street, GT14D6
Los Angeles, CA 90013-1011
SNewsom@semprautilities.com**

¹ Discuss in AL if more space is needed.

ATTACHMENT A

Advice No. 5057

**Southern California Gas Company
Transmission Integrity Management Program
Balancing Account (TIMPBA)
Year 2015**

ATTACHMENT A
SOUTHERN CALIFORNIA GAS COMPANY
TRANSMISSION INTEGRITY MANAGEMENT PROGRAM BALANCING ACCOUNT (TIMPBA)
Year 2015

(Over) / Under Collection

	Jan-15	Feb-15	Mar-15	Apr-15	May-15	Jun-15	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15	Dec-15	Total
Beginning Balance	48,127,135	49,662,422	50,533,194	54,095,046	55,342,399	56,651,940	57,852,706	57,886,914	55,743,963	55,568,137	53,817,666	51,915,233	48,127,135
Prior Period Adjustment													-
Adjusted Beginning Balance	48,127,135	49,662,422	50,533,194	54,095,046	55,342,399	56,651,940	57,852,706	57,886,914	55,743,963	55,568,137	53,817,666	51,915,233	48,127,135
Costs:													
O&M Costs	3,500,802	2,812,707	5,331,897	3,060,413	3,121,914	3,015,010	1,781,581	2,008,894	3,926,489	2,190,560	2,061,890	5,007,461	37,819,618
Capital-Related Costs													
Depreciation	140,222	144,183	164,801	165,712	166,494	166,617	172,562	175,992	183,186	206,730	210,267	212,132	2,108,898
Income Taxes	146,604	144,709	189,933	179,338	179,448	178,507	188,967	191,602	200,133	222,201	223,469	221,773	2,266,684
Return	369,881	391,682	497,509	464,393	464,538	462,426	491,371	497,882	529,494	643,488	617,488	618,928	6,049,080
Property Taxes	37,474	37,474	37,474	37,474	37,474	37,474	57,969	57,969	57,969	57,969	57,969	57,969	572,658
Total Costs:	4,194,983	3,530,755	6,221,614	3,907,330	3,969,868	3,860,034	2,692,450	2,932,339	4,897,271	3,320,948	3,171,083	6,118,263	48,816,938
Revenues:													
Authorized Cost	2,664,993	2,664,993	2,664,993	2,664,993	2,664,993	2,664,993	2,664,993	2,664,993	2,664,993	2,664,993	2,664,993	2,664,993	31,979,916
Amortization								2,416,452	2,416,452	2,416,452	2,416,452	2,416,452	12,082,260
Total Revenues:	2,664,993	2,664,993	2,664,993	2,664,993	2,664,993	2,664,993	2,664,993	5,081,445	5,081,445	5,081,445	5,081,445	5,081,445	44,062,176
Net Cost / (Revenue)	1,529,990	865,762	3,556,621	1,242,337	1,304,875	1,195,041	27,457	(2,149,106)	(184,174)	(1,760,497)	(1,910,362)	1,036,818	4,754,762
Current Month Interest**	5,297	5,010	5,231	5,016	4,666	5,725	6,751	6,155	8,348	10,026	7,929	8,739	78,893
Current Month Activity	1,535,287	870,772	3,561,852	1,247,353	1,309,541	1,200,766	34,208	(2,142,951)	(175,826)	(1,750,471)	(1,902,433)	1,045,557	4,833,655
Ending Balance	49,662,422	50,533,194	54,095,046	55,342,399	56,651,940	57,852,706	57,886,914	55,743,963	55,568,137	53,817,666	51,915,233	52,960,790	52,960,790

** Interest applied to average monthly balance as follows: (((Beg. Bal.+(Beg. Bal.+Current Month Adjustment))/2)*(Int.Rate/12)

Interest rate:	0.13%	0.12%	0.12%	0.11%	0.10%	0.12%	0.14%	0.13%	0.18%	0.22%	0.18%	0.20%
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Notes:

1/

The 2015 undercollected balance requested in AL 5057 is adjusted for employee recognition costs disallowed pursuant to Resolution G-3517 and the addition of Line 404 costs transferred to the TIMPBA. In 2016, SoCalGas removed from the TIMPBA \$3,474 and \$9,579 of employee recognition costs for 2014 and 2015, respectively, and included \$4.6 million of Line 404 costs to TIMPBA as prior period adjustments.

ATTACHMENT B

Advice No. 5057

**Natural Gas Transportation Rate Revenues
Southern California Gas Company
2015 TIMPBA**

Attachment B
Advice No. 5057
Natural Gas Transportation Rate Revenues
Southern California Gas Company
2015 TAMPBA

	Present Rates			Proposed Rates			Changes		
	Sep-1-16 Volumes Mth A	Average Rate \$/therm B	Sep-1-16 Revenues \$000's C	Sep-1-16 Volumes Mth D	Proposed Rate \$/therm E	Sep-1-16 Revenues \$000's F	Revenue Change \$000's G	Rate Change \$/therm H	% Rate change I
	1 CORE								
2 Residential	2,337,534	\$0.82577	\$1,930,262	2,337,534	\$0.82588	\$1,930,530	\$268	\$0.00011	0.0%
3 Commercial & Industrial	984,102	\$0.43695	\$430,002	984,102	\$0.43703	\$430,084	\$81	\$0.00008	0.0%
4									
5 NGV - Pre SempraWide	117,220	\$0.22351	\$26,200	117,220	\$0.22357	\$26,206	\$7	\$0.00006	0.0%
6 SempraWide Adjustment	117,220	\$0.00847	\$993	117,220	\$0.00847	\$993	\$0	\$0.00000	0.0%
7 NGV - Post SempraWide	117,220	\$0.23198	\$27,193	117,220	\$0.23204	\$27,199	\$7	\$0.00006	0.0%
8									
9 Gas A/C	825	\$0.23098	\$190	825	\$0.23102	\$190	\$0	\$0.00004	0.0%
10 Gas Engine	16,774	\$0.15232	\$2,555	16,774	\$0.15232	\$2,555	\$0	\$0.00000	0.0%
11 Total Core	3,456,455	\$0.69152	\$2,390,202	3,456,455	\$0.69162	\$2,390,559	\$356	\$0.00010	0.0%
12									
13 NONCORE COMMERCIAL & INDUSTRIAL									
14 Distribution Level Service	893,164	\$0.07253	\$64,783	893,164	\$0.07259	\$64,831	\$48	\$0.00005	0.1%
15 Transmission Level Service (2)	654,456	\$0.01839	\$12,036	654,456	\$0.01845	\$12,072	\$36	\$0.00006	0.3%
16 Total Noncore C&I	1,547,620	\$0.04964	\$76,819	1,547,620	\$0.04969	\$76,903	\$85	\$0.00005	0.1%
17									
18 NONCORE ELECTRIC GENERATION									
19 Distribution Level Service									
20 Pre Sempra Wide	333,969	\$0.06483	\$21,651	333,969	\$0.06489	\$21,670	\$19	\$0.00006	0.1%
21 Sempra Wide Adjustment	333,969	(\$0.00804)	(\$2,687)	333,969	(\$0.00804)	(\$2,686)	\$0	\$0.00000	0.0%
22 Distribution Level Post Sempra Wide	333,969	\$0.05678	\$18,964	333,969	\$0.05684	\$18,983	\$19	\$0.00006	0.1%
23 Transmission Level Service (2)	2,641,080	\$0.01510	\$39,868	2,641,080	\$0.01515	\$40,014	\$146	\$0.00006	0.4%
24 Total Electric Generation	2,975,049	\$0.01978	\$58,832	2,975,049	\$0.01983	\$58,997	\$165	\$0.00006	0.3%
25									
26 TOTAL RETAIL NONCORE	4,522,669	\$0.02999	\$135,650	4,522,669	\$0.03005	\$135,900	\$250	\$0.00006	0.2%
27									
28 WHOLESALE & INTERNATIONAL (excluding SDG&E)	317,990	\$0.01489	\$4,736	317,990	\$0.01495	\$4,754	\$18	\$0.00006	0.4%
29									
30 OTHER SERVICES (SDG&E, UBS, & BTS)	1,247,558		\$230,820	1,247,558		\$235,709	\$4,889		
31 SYSTEM TOTAL w/BTS	9,544,672	\$0.28931	\$2,761,408	9,544,672	\$0.28989	\$2,766,922	\$5,513	\$0.00058	0.2%
32									
33 EOR Revenues	203,920	\$0.03733	\$7,613	203,920	\$0.03739	\$7,624	\$11	\$0.00006	0.2%
34 Total Throughput w/EOR Mth/yr	9,748,592			9,748,592					

1) These rates are for Natural Gas Transportation Service from "Citygate to Meter". The BTS rate is for service from Receipt Point to Citygate.
2) All rates include Franchise Fees & Uncollectible charges

ATTACHMENT C

Advice No. 5057

Balancing Capital Related Costs

Attachment C

Balancing Capital Related Costs

Capital investments are recovered through their associated capital-related costs, which are comprised of return on ratebase, taxes on return, depreciation, and ad valorem tax. When balancing capital-related costs, two ratemaking anomalies can occur and cause under collections that are not primarily related to differences between actual and authorized spending levels. First, authorized capital-related costs are established based on the monthly timing of when test year capital investment is placed in-service and on a monthly weighted-average ratebase. Consequently, if authorized monthly capital expenditures are reflected as capitalized later in the year, authorized ratebase is lower, resulting in the corresponding authorized capital-related costs reflecting only a partial year, or “stub year,” recovery of the actual annual capital-related costs. This stub year recovery is permanent in the GRC cycle so it will continue in each of the three attrition years of the GRC cycle. In Table 3 below, the illustrative test year shortfall (which would be recorded as an under collection in the TIMPBA) is the difference between the \$1 million authorized capital-related costs and \$2 million recorded capital-related costs, or a shortfall of \$1 million in the test year. The shortfall in the test year will repeat in the subsequent attrition years.

The second anomaly occurs because recorded ratebase accumulates in the attrition years, such that capital-related costs increase and are balanced against a constant, partial-year authorized capital-related cost. In the table below, the test year shortfall is \$(1) million. Due to the accumulating ratebase, however, the shortfall increases to \$(2) million in the first attrition year, further increases to \$(4) million in the second attrition year, and further increases to \$(6) million in third attrition year, for a total shortfall of about \$(13) million for the total four- year cycle.

Balanced Capital Illustration

Illustrative 4 year cycle - \$Millions					
	TY	AY 1	AY 2	AY 3	Total
Authorized Capital Expenditures	10	10	10	10	40
Authorized Ratebase (partial year)	5	5	5	5	
Authorized Capital Related Costs	1	1	1	1	4
Recorded Capital Expenditures	10	10	10	10	40
Recorded Ratebase (partial year)	10	15	25	35	
Recorded Capital Related Costs	2	3	5	7	17
Capital Related Costs Shortfall	(1)	(2)	(4)	(6)	(13)

As explained in SoCalGas' 2016 GRC (A.14-11-004), despite SoCalGas' efforts to manage its actual capital additions at authorized levels approved in a GRC, the above capital-related ratemaking anomalies can occur and contribute to undercollections in SoCalGas' applicable balancing accounts. This phenomenon is beyond SoCalGas' control.¹

¹ See A.14-11-004, Direct Testimony of Reginald M. Austria, at 6-7.

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

ENERGY DIVISION

RESOLUTION G-3528
November 9, 2017

R E S O L U T I O N

Resolution G-3528. Southern California Gas Company (SoCalGas) request for recovery of the Transmission Integrity Management Program (TIMP) Balancing Account balance for the calendar year 2015.

PROPOSED OUTCOME:

- SoCalGas' request to recover its TIMP Balancing Account Balance for the calendar year 2015 is approved.

SAFETY CONSIDERATIONS:

- SoCalGas' TIMP Balancing Account records pipeline integrity-related costs associated with federal regulatory requirements set forth in 49 CFR 192 Subpart O adopted following the passage of the Pipeline Safety Improvement Act of 2002.

ESTIMATED COST:

- Approximately \$21.5 million.

By Advice Letter 5057, filed on November 4, 2016.

SUMMARY

Decision (D.) 13-05-010 authorized SoCalGas to establish a two-way balancing account to recover actual Operations & Maintenance (O&M) expenses and Capital Expenditures for compliance with the Transmission Integrity Management Program (TIMP). SoCalGas filed Advice Letter (AL) 5057 requesting recovery of approximately \$21.5 million for undercollection of costs recorded during calendar year 2015 in the TIMP Balancing Account. This includes a component of \$4.6 million attributable to pressure testing of Line 404, which was moved to the TIMPBA from Pipeline Safety Enhancement Plan (PSEP) regulatory accounts for 2016 as a prior period adjustment.

This amount is in addition to the \$31.9 million¹ that the Commission authorized as revenue requirement for 2015 for SoCalGas to collect in D.13-05-010. The additional costs are primarily the result of additional requirements by Pipeline Hazard Materials Safety Administration (PHMSA) that were adopted after SoCalGas had prepared its cost estimates in 2010 for its Test Year 2012 General Rate Case (GRC). SoCalGas' request to recover its TIMP Balancing Account balance recorded for the calendar year 2015 is approved.

The TIMP Balancing Account amount will be amortized in gas transportation rates based on a functionalized allocation of transmission-related costs pursuant to Resolutions G-3499 and G-3517. The functionalized allocation of the TIMP balance is consistent with D.14-06-007 and D.12-12-030.

BACKGROUND

The SoCalGas Transmission Integrity Management Program (TIMP) was established as a result of the Pipeline Safety Improvement Act of 2002 and the enactment of 49 CFR Part 192 Subpart O (Subpart O).

Pursuant to Subpart O, operators of gas transmission pipelines are required to identify the threats to their pipelines in High Consequence Areas, analyze the risk posed by these threats, collect information about the physical condition of their pipelines, and take actions to address applicable threats and integrity concerns before pipeline failures occur.

Since the Pacific Gas and Electric Company (PG&E) pipeline rupture in San Bruno in September 2010, regulations such as "The Pipeline Safety, Regulatory Certainty, and Job Creation Act of 2011" have led the Pipeline and Hazardous Materials Safety Administration (PHMSA) to change its reporting requirements and review existing transmission integrity requirements to identify areas for improvement.

¹ Based on the authorized attrition rate of 2.75% for 2015 adopted in 2012 GRC decision.

In its 2012 GRC proceeding, Application (A.) 10-12-006, the Commission authorized \$28.6 million² for TIMP-related O&M expenses, a reduction of \$4.3 million or 13% to SoCalGas' requested forecast. However, in Ordering Paragraph 19 of D.13-05-010, the Commission authorized SoCalGas to establish a two-way balancing account to recover actual TIMP compliance O&M expenses and capital expenditures.

D.13-05-010 allowed TIMP year-end balances in the two-way balancing account to be carried forward into the following year to ensure that SoCalGas had sufficient funds to carry out all the necessary TIMP-related work to ensure that its gas transmission system remains safe and reliable. The TIMP balancing account is effective for the GRC cycle ending December 31, 2015.

The TIMP Balancing Account was established in SoCalGas' tariff via Advice Letter (AL) 4507. For 2012 and 2013, the TIMP Balancing account was under collected by about \$29 million (or 48% above the authorized revenue requirement of \$59.9 million for the combined 2012-2013 period). On June 11, 2015, the Commission issued Resolution G-3499, approving Advice Letter 4632 and authorized SoCalGas to recover the accumulated balance recorded in the TIMP Balancing Account through December 31, 2013.

For 2014, the TIMP Balancing account was under collected by about \$19.1 million (i.e., SoCalGas spent 61% above the authorized revenue requirement of \$31.1 million for 2014). On May 12, 2016, the Commission issued Resolution G-3517, approving Advice Letter 4819 and authorized SoCalGas to recover the accumulated balance recorded in the TIMP Balancing Account through December 31, 2014.

SoCalGas states in the advice letter that there are three primary reasons why the TIMP Balancing Account had a substantial balance accumulated from 2015. First, the amount authorized by the Commission was below SoCalGas' forecast. This accounts for \$4.7 million of the excess TIMP costs. Second, SoCalGas "did not foresee conditions that ultimately led to increased TIMP-related costs." An

² D.13-05-010 allows \$20.76 million for non-shared O&M costs, 5.7 million for shared O&M costs.

example is the impact of revisions post-San Bruno by the Pipeline and Hazardous Materials Safety Administration (PHMSA) in transmission integrity requirements. These unanticipated circumstances account for about \$2.2 million of the undercollected balance. And, third, "as a result of how capital expenditures are recovered and balanced," SoCalGas has recovered \$10 million less than the amount needed to fully recover the revenue requirement associated with capital expenditures.

On June 11, 2015, the Commission approved Resolution G-3499 which found that changes in pipeline safety regulation occurred after SoCalGas prepared its 2012 GRC Application 10-12-005 and as a result, led to higher actual TIMP costs than initially forecasted. Resolution G-3499 determined that new PHMSA regulations and Senate Bill 879 required SoCalGas to undertake activities in addition to what SoCalGas had forecasted at the time it was preparing for its 2012 General Rate Case (A.10-12-005). This conclusion was reiterated in Resolution G-3517, dated May 12, 2016, pertaining to TIMP costs for 2014.

Also pursuant to Resolutions G-3499 and G-3517, SoCalGas proposes to amortize the TIMP Balancing Account amount in gas transportation rates based on a functionalized allocation of transmission-related costs as developed in SoCalGas' 2012-15 Triennial Cost Allocation Proceeding (TCAP). The revenue requirements and rate impacts are described in Attachment B of Advice Letter 5057.

The total of \$21.5 million includes \$4.6 million for recovery of costs pertaining to Line 404. A seven-mile section of Line 404 was pressure tested as part of SoCalGas' Pipeline Safety Enhancement Plan (PSEP) because sufficient pressure test records were lacking. While the line had been pressure tested when originally installed in 1944, the records from those tests were insufficient to comply with safety standards required by D.11-06-017. Since Line 404 also falls within a High Consequence Area (HCA) in the TIMP program, the pressure testing was done as required for PSEP, but the costs were moved into those recoverable under TIMP as a prior period adjustment for costs that would otherwise have been assigned to PSEP for 2016.

NOTICE

Notice of AL 5057 was made by publication in the Commission's Daily Calendar. SoCalGas states that a copy of the Advice Letter was mailed and distributed in accordance with General Order 96-B.

PROTESTS

SoCalGas Advice Letter (AL) 5057 was not protested.

DISCUSSION

The Energy Division reviewed 2015 costs recorded in the TIMP Balancing Account and also examined some invoices on a selective, sampling basis. Energy Division conducted an invoice level review of random costs for verification using selective sampling. Based on the information provided, the Energy Division found that the costs reviewed were appropriately recorded and incurred, and should be approved.

In response to Energy Division staff data requests, SoCalGas provided Energy Division with supporting information extending to the invoice level to demonstrate that the reviewed costs and expenditures were appropriately incurred TIMP-related expenditures. SoCalGas also provided several examples where forecasted costs and expenditures associated with a specific project encountered additional assessments and remediation causing actual costs to be higher than initially forecasted.

Cost overruns were generally caused by additional work required during construction after the initial inspection and estimate was forecasted, such as additional permitting and environmental work required by other regulatory agencies, accidental equipment failures, additional pipeline anomalies and additional cleaning runs of pipelines.

For verification at the invoice level, Energy Division staff examined TIMP O&M expenses and capital expenditures selecting three sample months: April 2015, October 2015 and December 2015. In addition, staff examined O&M and capital expenditures for two specific projects where SoCalGas stated that the actual TIMP costs exceeded the initial forecast.

Of the several hundred entries in the utility ledger recorded during those months and for the two projects, staff selectively identified a number of line items based on anomalies in the description or the amount logged. Each ledger item in turn contained several cost elements. Of these cost elements, staff again selectively identified a number of cost elements to request invoices from the utility. SoCalGas provided 30 invoices associated with the cost elements. Staff review included both O&M expenses and capital expenditures.

Based on the information provided by SoCalGas, Energy Division staff found that expenses and expenditures examined were appropriately recorded to the TIMP Balancing Account and reasonably incurred.

In order to clarify inconsistent references to the effective date sought by AL 5057, Energy Division issued a data request. SoCalGas responded with a request that the commission order an effective date of January 1, 2018.

The TIMP Balancing Account amount will be amortized in gas transportation rates based on a functionalized allocation of transmission-related costs pursuant to Resolutions G-3499 and G-3517. The functionalized allocation of the TIMP balance is consistent with D.14-06-007 and D.12-12-030.³

COMMENTS

This is an uncontested matter in which the resolution grants the relief requested. Accordingly, pursuant to PU Code 311(g)(2), the otherwise applicable 30-day period for public review and comment is being waived.

FINDINGS

1. The TIMP Balancing Account was authorized by Commission Decision 13-05-010.
2. D.13-05-010 directed SoCalGas to file a Tier 3 Advice Letter to recover authorized TIMP-related O&M and Capital Expenditures. SoCalGas filed

³ D. 14-06-007, Section 9: Allocating Safety Enhancement Costs.

AL 5057 to request recovery of the TIMP Balancing Account balance of approximately \$21.5 million from the calendar year 2015.

3. The costs included in the TIMP Balancing Account are incurred in response to the mandated federal pipeline safety regulations including, but not limited to requirements associated with Subpart O, Gas Transmission Pipeline Integrity Management.
4. Ordering Paragraph 19 of D.13-05-010 authorized SoCalGas to establish a two-way balancing account to recover the TIMP-related O&M costs and capital expenditures.
5. D.13-05-010 states that any costs in excess of the authorized TIMP O&M costs and capital expenditures will be subject to recovery through a Tier 3 Advice Letter process.
6. SoCalGas' 2012 GRC Application 10-12-006 was prepared prior to certain changes in reporting requirements by PHMSA.
7. Changes in pipeline safety regulation increased SoCalGas' actual TIMP costs and expenditures, and were among the reasons why TIMP costs were higher than initially forecasted.
8. Energy Division conducted an invoice level review based on a sampling of the TIMP O&M costs and capital expenditures included in the TIMP Balancing Account requested in AL 5057.
9. A section of Line 404 was pressure-tested as part of SoCal gas' Pipeline Safety Enhancement Plan (PSEP). Since that section also falls within the SoCalGas TIMP program, the pressure test was removed from the scope of PSEP for 2016, and costs moved to TIMP as a prior period adjustment.
10. Consistent with Resolutions G-3499 and G-3517, SoCalGas should use a functionalized method to allocate the TIMP Balancing Account balance.

THEREFORE IT IS ORDERED THAT:

1. The request of Southern California Gas Company in AL-5057 to recover its Transmission Integrity Management Program Balancing Account Balance for calendar year 2015 is approved.
2. Southern California Gas Company is authorized to recover from ratepayers approximately \$ 21.5 million over the twelve month period beginning January 1, 2018, following this resolution.
3. At the conclusion of the twelve month recovery period, Southern California Gas Company shall file a Tier 1 Advice Letter to remove the authorized Transmission Integrity Management Program Balancing Account balance.

This Resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed and adopted at a conference of the Public Utilities Commission of the State of California held on November 9, 2017; the following Commissioners voting favorably thereon:

/s/TIMOTHY J. SULLIVAN
TIMOTHY J. SULLIVAN

MICHAEL PICKER

President

CARLA J. PETERMAN

LIANE M. RANDOLPH

MARTHA GUZMAN ACEVES

CLIFFORD RECHTSCHAFFEN

Commissioners