

Docket	:	<u>A.17-10-007/008</u>
Exhibit Number	:	<u>ORA-33</u>
Commissioner	:	<u>L. Randolph</u>
ALJ	:	<u>R. Lirag</u>
Witnesses	:	<u>S.Chia, J.Lee, N.Stannik</u>



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

**Report on the Results of Operations  
for  
San Diego Gas & Electric Company  
Southern California Gas Company  
Test Year 2019  
General Rate Case**

Financial Examination and Compliance

San Francisco, California  
April 13, 2018

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# FINANCIAL EXAMINATION AND COMPLIANCE

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## I. INTRODUCTION

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This exhibit presents the results of examination and recommendations of the Office of Ratepayer Advocates (ORA) relating to the financial and accounting records for San Diego Gas & Electric Company (SDG&E) and Southern California Gas Company (SCG or SoCalGas), collectively the Sempra Utilities (Sempra), for its Test Year (TY) 2019 General Rate Case (GRC). The performance of this examination is in response to Sempra's Applications (A.) 17-10-007 and A.17-10-008 for authority to increase TY 2019 GRC revenue requirements. ORA conducted its last examination of Sempra's financial records in connection with Sempra's TY 2016 GRCs, A. 14-11-003 and A. 14-11-004.

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This exhibit also addresses SCG's and SDG&E's request to discontinue the submission of the Gas Transmission, Distribution and Storage Safety Reports (Safety Reports).

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## II. SUMMARY OF RECOMMENDATIONS

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Based on the procedures performed herein, ORA recommends the following adjustments to Operations & Maintenance (O&M) and Administrative & General (A&G) expenses:

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- For SDG&E, ORA recommends the removal of \$511,000 in 2014, \$338,000 in 2015, and \$119,000 in 2016 for the costs to conduct attorney-client privileged internal audit reports. These adjustments have been made to historical data for purposes of forecasting.

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- For SCG, ORA recommends the removal of \$55,000 in 2014, \$462,000 in 2015 and \$153,000 in 2016 for the costs to conduct attorney-client privileged internal audit reports. These adjustments have been made to historical data for purposes of forecasting.

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ORA recommends that SCG and SDG&E continue the submission of the Gas Transmission, Distribution and Storage Safety Reports.

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1 **III. SCOPE OF FINANCIAL EXAMINATION**

2 ORA conducted its examination of the Applicants' financial records in  
3 accordance with the authority and mandates set forth in the Public Utilities Code  
4 sections 314, 314.5 and 309.5. Typically, the basis for GRC requested revenue  
5 requirements are forecasts based on recorded financial historical data. The general  
6 objectives of the ORA examination are to ensure that the interests of ratepayers are  
7 protected and to review the Applicants' financial records, upon which the GRC was  
8 built, to determine if they are reasonable and proper for ratemaking purposes under  
9 established Commission rules and regulations.

10 ORA's examination addressed Sempra's recorded historical financial data  
11 used in connection with forecasting its proposed revenue requirement in this  
12 application. ORA's primary emphasis focused on determining whether costs should  
13 be included for GRC forecasting purposes. ORA conducted a limited financial  
14 examination of Sempra's records by focusing on the recorded Operations and  
15 Maintenance (O&M) expenses and Administrative and General (A&G) expenses of  
16 SDG&E and SCG. ORA also conducted a review of controls to assess whether the  
17 controls provide a reasonable level of assurance that the compilation of historical  
18 data from Sempra's records was adequate.

19 **IV. EXAMINATION OVERVIEW**

20 ORA's examination of SCG's and SDG&E's A&G and O&M expenses  
21 covered 2012 to 2016. ORA started its audit by reviewing the testimony and  
22 workpapers of the Applicants. ORA's examination included an overview of the  
23 integrity of Sempra's general ledger. ORA reviewed a selection of SCG's and  
24 SDG&E's Internal Audit Reports. SCG and SDG&E are subject to annual audits of  
25 their financial statements by an independent auditor. ORA reviewed the 2014 to  
26 2016 audit reports and workpapers of Sempra's independent auditor. ORA also  
27 reviewed the portions of the Board of Directors' Minutes for 2014 to 2016 that were  
28 not redacted by SCG and SDG&E.

1 SCG and SDG&E present their recorded O&M and A&G expenses by cost  
2 centers. ORA made a selection of recorded O&M and A&G expenses to be broken  
3 down by transaction entries. From the list of recorded O&M and A&G expenses'  
4 transaction entries, ORA selected a number of transaction entries for supporting  
5 documentation review.

6 In Part I, ORA discusses its examination of the A&G and O&M expenses  
7 found in SCG's Exhibits 22, 23, 24, 25, 26, 27, 28, 29, 30, 31, 32 and 33 and  
8 SDG&E's Exhibits 20, 21, 22, 23, 24, 25, 26, 27, 28, 29, 30, and 31. In Part II, ORA  
9 discusses its examination of O&M and Customer Services Expenses of SCG and  
10 SDG&E. In Part III, ORA discusses its review of Exhibit SCG-45/SDG&E-44  
11 (Compliance).

1                   **PART I: ADMINISTRATIVE & GENERAL EXPENSES AND**  
2                   **OPERATIONS & MAINTENANCE EXPENSES (S. CHIA)**

3   **I.       SUMMARY OF FINDINGS AND RECOMMENDATIONS**

4           Based on the procedures performed, ORA recommends the following  
5 adjustments to SDG&E's and SoCalGas' historical costs:

- 6           • For SDG&E, ORA recommends the removal of \$511,000 in 2014,  
7           \$338,000 in 2015, and \$119,000 in 2016 for the costs to conduct  
8           attorney-client privileged internal audit reports. These adjustments  
9           have been made to historical data for purposes of forecasting.
- 10          • For SCG, ORA recommends the removal of \$55,000 in 2014,  
11          \$462,000 in 2015 and \$153,000 in 2016 for the costs to conduct  
12          attorney-client privileged internal audit reports. These adjustments  
13          have been made to historical data for purposes of forecasting.

14   **II.       DISCUSSION AND RECOMMENDATIONS**

15           **A. Privileged Internal Audit Reports**

16           ORA requested SCG and SDG&E provide a list of 2014 to 2016 internal audit  
17 reports so that ORA could review a selection of internal audit reports. SCG and  
18 SDG&E asserted 20 internal audit reports conducted by its Internal Audit and Risk  
19 Management cost center during 2014 to 2016 as attorney-client privileged internal  
20 audit reports. ORA does not challenge SCG and SDG&E's assertion of attorney-  
21 client privilege. ORA could not determine whether the costs to perform these audits  
22 were justifiably assigned to ratepayers.

23           SCG and SDG&E states that they do not typically track the cost to perform  
24 each internal audit as the internal audits are performed in accordance with an audit  
25 plan and do not represent additional work or increments. However, SCG and  
26 SDG&E did provide a calculation of what these attorney-client privileged audits  
27 would cost if they were stand-alone and incremental. SCG's and SDG&E's costs  
28 are based on a prorated share of the total annual audit cost which are calculated by

1 taking the hours to perform each audit divided by the total annual audit hours and  
2 then multiplied by the total annual audit cost.<sup>1</sup>

3 For SDG&E, ORA recommends the removal of \$511,000 in 2014, \$338,000 in  
4 2015, and \$119,000 in 2016 for the costs to conduct attorney-client privileged  
5 internal audits. For SCG, ORA recommends the removal of \$55,000 in 2014,  
6 \$462,000 in 2015 and \$153,000 in 2016 for the costs to conduct attorney-client  
7 privileged internal audits. ORA has made these recommended adjustments in  
8 Exhibit SCG-28/SDG&E-26 and cost center, A-6 Internal Audit and Risk  
9 Management, by adjusting the historical recorded data for purposes of forecasting.  
10 This recommendation is consistent with past Commission precedent. Decision 09-  
11 03-025 states, "Therefore, SCE has not demonstrated that its privileged audits are  
12 reasonable for ratemaking purposes. For this reason, the costs of the privileged  
13 audits will be disallowed for 2006."<sup>2</sup> The following table provides the calculation for  
14 ORA's recommendation for attorney-client privilege internal audits.  
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<sup>1</sup> SDG&E's response to data request ORA-SDG&E-EXAM-SWC-004, Q.2.

<sup>2</sup> D.09-03-025, p. 317.

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**Table 33-1**  
**Audit Costs for Attorney-Client Privileged Internal Audits**  
**2014 to 2016**  
**(In \$000)<sup>3</sup>**

	2014	2015	2016	Audit %	Audit Cost Based on Total Billed Costs	
<b>Total Billed Audit Costs</b>	\$7,113	\$8,194	\$6,945			
<b>Total Yearly Audit Hours</b>	71,254	79,449	72,836			
<b>Audit Hours Requested for SDG&amp;E</b>						
14-109A Electric Operations Record Retention Compliance	3,215			4.51%	\$321	
14-112 Wildfire Exp. Memo Acct	446			0.63%	45	
14-247 Distribution Pole Loading Audit	643			0.90%	64	
14-251 Pole Attachments Audit	812			1.14%	81	
15-217 Wildfire Exp. Memo Acct Follow-up Review		132		0.17%	14	
15-219 Fire Safety Program Audit		1,742		2.19%	180	
16-208 Leak Investigation & Survey Process			490	0.67%	47	
<b>Audit Hours Requested for SCG</b>						
14-281 Pipeline Safety Enhancement Program Memo Account	554			0.78%	55	
15-232 Distribution Construction Projects Tracking & Documentation		459		0.58%	47	
15-236 Leak Survey Audit		629		0.79%	65	
15-260 Management of Design, Construction, & Close-Out Records for High Pressure Pipes		1,553		1.95%	160	
15-261 G.O. 95-Overhead Electric Line Construction & Electric Pole Controls		442		0.56%	46	
16-317 Leak & Cathodic Protection Remediation			843	1.16%	80	
<b>Requested for CAU</b>						50/50 Split between SDG&E & SCG
15-241 Software Asset Mgmt-Microsoft Desktop Products		194		0.24%	20	10
15-251 Environmental Liabilities Audit		260		0.33%	27	13.5
15-262 Mobile Home Park Utility Upgrade Program Audit		829		1.04%	85	42.5
15-264 Pipeline Safety Enhancement Program Jacobs Contract Review		690		0.87%	71	35.5
15-270 Affiliate Compliance for Electronic Data		826		1.04%	85	42.5
16-319 Pipeline Safety Enhancement Plan Cost Controls			603	0.83%	57	28.5
16-408 Non-Employee Workforce Contracting Practices			920	1.26%	88	44
<b>ORA Recommended Adjustments</b>						
SDG&E	\$511	\$338	\$119			
SCG	\$55	\$462	\$153			

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<sup>3</sup> Response to data request ORA-SDG&E-EXAM-SWC-004, Q.2.



**B. Exhibits SDG&E-31 and SCG-33 (Accounting and Finance/Legal/Regulatory Affairs/External Affairs)**

ORA requested a breakdown of recorded non-labor expenses for some of the cost centers discussed in Exhibits SDG&E-31 and SCG-33. SDG&E and SCG provided a breakdown of these expenses. Some of the transactions had cost element descriptions such as Events and Tickets, Catering, and Holiday Events. ORA requested another breakdown of these transactions. ORA’s review finds that some of these transactions should not be funded by ratepayers. The following table presents some of these transactions.

**Table 33-2  
SDG&E and SCG Transactions<sup>4</sup>**

Cost Center	Description	Cost Element Name	Cost	Document Date
<b>SDG&amp;E</b>				
2100-4009	T-shirts for Challenge Grant Walks	Material-Misc	\$5,225	4/7/16
2100-4009	T-Shirts for Junior Achievement Events	Material-Misc	2,345	4/30/16
2100-4009	Camo-T-shirts for Bay Bridge Walk Run Event	Material-Misc	15,647	4/26/16
2100-4009	AIDS Walk Tee Shirts-Red	Material-Misc	2,869	9/1/16
2100-4009	Military Appreciation Event -Balboa Park	Material-Misc	600	6/20/16
2100-4009	Youth Night Symphony Lunch	Services-Catering	1,594	9/6/16
2100-4009	Alzheimer Lunch and Learn	Services-Catering	2,845	10/21/16
2100-4009	Red Cross Holiday Event	Services-Holiday Events	3,118	12/29/16
Total			34,243	
<b>SCG</b>				
2200-2441	Events & Ticket chargeback for NBA and MLB games	Services-Event & Tickets	48,537	2015
2200-2339	Special Olympics T-shirts	Matl-Promo Items	7,742	7/8/15
2200-2330	Employee Giving Champions Catering	Matl-Promo Items	926	8/5/15
Total			57,205	

ORA requested that SDG&E and SCG provide the 2012 to 2016 recorded labor and non-labor expenses contained in Exhibits SDG&E-31 and SCG-33 broken down by the categories: (a) Entertainment expenses; (b) Sporting events; (c) Charitable expenses; (d) Brand awareness and loyalty surveys/campaigns/events; and (e) Lobbying activist/educating regulators/lawmakers.

<sup>4</sup> Response to data requests, ORA-SDG&E-EXAM-SWC-008 and ORA-SCG-EXAM-SWC-008.

1           ORA provides SCG’s response below. SDG&E’s response is similar to  
2 SCG’s response.

3           a. –b. Entertainment expenses, sporting events

4           SoCalGas objects to this request on the grounds that it is overbroad  
5 and vague and ambiguous with respect to its request for  
6 “entertainment expenses” and “sporting events.” Further, this request  
7 is unduly burdensome and seeks information beyond the scope of this  
8 proceeding and as such, seeks information that is neither relevant nor  
9 reasonably calculated to lead to the discovery of admissible  
10 information. Subject to and without waiving these objections,  
11 SoCalGas responds as follows.

12           The expenses requested are not available on a labor and non-labor  
13 basis as these categories appear to be all non-labor. SoCalGas does  
14 not have a cost element identified by “entertainment expenses” and  
15 sporting events.” After a reasonably diligent search, SoCalGas  
16 believes the two cost elements outlined in the table below are most  
17 representative of the requested costs. Per Exhibit SCG-33 (Direct  
18 Testimony of Stacey Lee) at Section VII, meals and entertainment  
19 costs are not included in SoCalGas’ Test Year 2019 GRC revenue  
20 requirement. Please refer to Exhibit SCG-33 at Section VII for more  
21 information regarding SoCalGas’ meals and entertainment costs.

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1 Table 33-3 below summarizes SCG's response for entertainment and  
 2 sporting event expenses. Table 33-4 summarizes SDG&E's response.

3 **Table 33-3**  
 4 **SCG's Response for Entertainment & Sporting Events Expenses<sup>5</sup>**

Cost element	Cost Element Desc	2012	2013	2014	2015	2016
6230680	SRV-Event & Tickets					
	2200-2095	\$667	\$500			
	2200-2305				\$5,000	\$5,000
	2AG001	174,234	140,478	92,200	148,117	126,181
	2AG002	299	10	82	45	
	2AG004					468
	2AG005	320			506	
	2AG007	23		29,070		468
	2AG011	7,332	4,300	3,627	2,642	1,105
	SRV-Event & Tickets Total	182,874	145,288	124,979	156,310	133,222
6230681	SRV-EV & TKT-CHGBK					
	2AG001	-112,011	-132,394	-139,440	-134,455	-131,074
	2AG007	31,728				
	2AG011		48,856	46,649	49,277	51,535
	SRV-EV & TKT-CHGBK Total	-80,283	-85,538	-29,791	-85,178	-79,539
Grand Total		102,592	59,750	32,188	71,132	53,683

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<sup>5</sup> Response to data request ORA-SCG-EXAM-SWC-013.

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**Table 33-4**  
**SDG&E's Response for Entertainment & Sporting Events Expenses<sup>6</sup>**

Cost element	GRC WKP GRP	2012	2013	2014	2015	2016
6230680	SRV-Event & Tickets					
	1AG001 PLNG & REG Accts					
	1AG003 Cost Accounting			\$990	(\$99)	\$1,090
	1AG005 MARP	\$3,509			286	123
	1AG006 Legal	415				
	1AG007 Claims					
	1AG012 Community Relation	134,997	147,477	127,538	140,095	51,793
	2100-3058 Accts Payable				260	
	2100-3067 IT Bus. Plng & BU	87	455			
	2100-3162 Controllers-VP	5,068	1,071	713	448	
	2100-3427 Elec Trans/SONG & SA	233				
	2100-3791 Extrnl & State Legis Affrs-VP	7,510	3,127			(2,006)
	2100-4005 Extrnl & State Legis Affrs-Sacramento OPS/GVT			12		
	2100-4008 Extrnl & State Legis Affrs-Media Relations	804	2,270	2,377	2,796	4,940
	Extrnl & State Legis Affrs-Community Relations	3,764	1,000	5,963	1,594	2,551
	Result	156,444	155,412	137,581	145,381	58,492
6230681	SRV-EV & TKT-CHGBK					
	2AG012 Community Relations	5,510	11,934	10,948	12,306	1,110
	2100-0657 Controllers-VP	(29,972)	(31,614)	(17,591)	(10,678)	(5,060)
	2100-3162 Regulatory Affrs VP		522	446		1,133
	2100-3791 Extrnl & State Legis Affrs-VP				434	2,817
	2100-4009 Extrnl & State Legis Affrs-Community Relations		860			
	Result	(24,453)	(18,398)	(6,197)	2,062	0

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**c. Charitable events**

SoCalGas objects to this request on the grounds that it is overbroad and vague and ambiguous with respect to its request for “charitable events.” Further, this request is unduly burdensome and seeks information beyond the scope of this proceeding and as such, seeks information that is neither relevant nor reasonably calculated to lead to the discovery of admissible information. Subject to and without waiving these objections, SoCalGas responds as follows. SoCalGas has excluded known costs associated with charitable events from its Test Year 2019 GRC revenue requirement.

<sup>6</sup> Response to data request ORA-SDG&E-EXAM-SWC-013.

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d. Brand awareness and loyalty surveys/campaigns/events

SoCalGas objects to this request on the grounds that it is overbroad and vague and ambiguous with respect to its request for “brand awareness” and “loyalty surveys/campaigns/events.” Further, this request is unduly burdensome and seeks information beyond the scope of this proceeding and as such, seeks information that is neither relevant nor reasonably calculated to lead to the discovery of admissible information. Subject to and without waiving these objections, SoCalGas responds as follows. SoCalGas has excluded known costs associated with brand awareness and/or loyalty surveys/campaigns/events from its Test Year 2019 GRC revenue requirement.

e. Lobbying activist/educating regulators/lawmakers

SoCalGas objects to this request on the grounds that it is overbroad and vague and ambiguous with respect to its request for “lobbying activist” and “educating regulators/lawmakers.” Further, this request is unduly burdensome and seeks information beyond the scope of this proceeding and as such, seeks information that is neither relevant nor reasonably calculated to lead to the discovery of admissible information. Subject to and without waiving these objections, SoCalGas responds as follows. SoCalGas has excluded known costs associated with lobbying activist/educating regulators/lawmakers from its Test Year 2019 GRC revenue requirement.<sup>7</sup>

Given that SDG&E and SCG have not included meals and entertainment cost in their TY 2019 GRC revenue requirement as discussed in Exhibits SCG-33 and SDG&E-31, ORA does not recommend any adjustments to 2012 to 2016 recorded expenses for entertainment, sporting events, charitable events, brand awareness and loyalty surveys/campaigns/events, and lobbying activist/educating regulators/lawmakers. Although SCG and SDG&E stated that they excluded known costs associated with these activities, they did not provide additional information in their data request responses. ORA was unable to verify that SDG&E and SCG excluded a reasonable amount from their TY 2019 GRC revenue requirement based on 2012 to 2016 recorded expenses for entertainment, sporting events, charitable

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<sup>7</sup> Responses to data request ORA-SCG-EXAM-SWC-013 and ORA-SDG&E-EXAM-SWC-013.

- 1 events, brand awareness and loyalty surveys/campaigns/events, and lobbying
- 2 activist/educating regulators/lawmakers.

1           **PART II: OPERATIONS & MAINTENANCE EXPENSES (J. LEE)**

2           **I.       SUMMARY OF FINDINGS AND RECOMMENDATIONS**

3           **A. Operations and Maintenance (O&M) - SDG&E**

4           Based on the procedures performed, ORA has no recommended adjustments  
5 to operations and maintenance for San Diego Gas & Electric Company.

6           **B. Operations and Maintenance (O&M) - SoCalGas**

7           Based on the procedures performed, ORA has no recommended adjustments  
8 to operations and maintenance for Southern California Gas Company.

9           **C. Customer Services – SDG&E and SoCalGas**

10          Based on the procedures performed, ORA has no recommended adjustments  
11 to Customer Services for SDG&E and SoCalGas.

12          **II.       EXAMINATION OVERVIEW**

13          The scope of this review covered SDG&E and SoCalGas' Operation &  
14 Maintenance expenses by cost centers and FERC account (from 500000E through  
15 910000G) during the period from January 1, 2014 to December 31, 2016. ORA's  
16 examination focused on the verification of general ledger integrity, and the Utilities'  
17 compliance with Commission established rules and regulations. The following areas  
18 were included in the examination:

19           **O&M – San Diego Gas & Electric Company**

- 20           a. Gas Distribution, Safety-and Risk Assessment Mitigation Phase-  
21           Related Costs;
- 22           b. Costs Related to Fueling Our Future Policy (FOF);
- 23           c. Gas Distribution Operation & Transmission Support SDG&E's  
24           Safety and Reliability Goals;
- 25           d. Pipeline Integrity for Transmission and Distribution;
- 26           e. Electric Distribution O&M;
- 27           f. Electric Generation.

1           **O&M – Southern California Gas Company**

- 2           a. Gas Distribution, Safety-and Risk Assessment Mitigation Phase-  
3           Related Costs;  
4           b. Costs Related to Fueling Our Future Policy (FOF);  
5           c. Gas Transmission Operation;  
6           d. Gas Engineering;  
7           e. Underground Storage;  
8           f. Pipeline Integrity for Transmission & Distribution;  
9           g. Pipeline Safety and Enhancement Plan (PSEP).

10           **Customer Services**

- 11           a. SDG&E Office Operations;  
12           b. SDG&E Information & Technologies;  
13           c. SoCalGas Field and Meter Reading;  
14           d. SoCalGas Office Operations;  
15           e. SoCalGas Information;  
16           f. SoCalGas Technologies, Policies & Solutions.

17           On a test basis, three types of selections and supporting documents  
18           representing 54% of total selected costs were examined (\$56,348,000 out of  
19           \$97,093,000 or 58% for SDG&E O&M), (\$77,522,000 out of \$148,844,000 or 52%  
20           for SoCalGas O&M), and (\$23,069,000 out of \$44,166,000 or 52% for Customer  
21           Services) for major expense items from 2014-1016 recorded data entries. All  
22           selections came from 2016 recorded data (see Table 33-5, below). The related  
23           supporting documents and disclosures were examined (e.g., invoices, control sheet,  
24           purchase order, JE and other source data). These tests were conducted in order to  
25           determine the accuracy and reasonableness of SDG&E and SoCalGas' financial  
26           data. ORA reviewed the documents for dates of service and the type of service  
27           performed and matched the service contracts for 2014-2016 from four major service  
28           providers (Capgemini America Inc., Utiliquest, Focuscom Inc. and TNS Custom  
29           Research Inc.).

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ORA also reviewed the following documents:

- SDG&E and SoCal Gas' application and workpapers;
- In consideration of risks, ORA reviewed external and internal audit reports from 2014-2016 with a focus on completeness of operational maintenance and customer service expenses, recording of O&M expenses in the proper period, proper classification and presentation of O&M and Customer Service expenses;
- Vendor's awards basis policy and procedures.

	<b>Selected Exhibit</b>	<b>2016 Total Expenditures</b>	<b>2016 Selected Sample</b>	<b>% of Sample</b>
SDG&E- 04	Gas Distribution	2,674	1,536	57%
SDG&E- 06	Gas Transmission Operation	1,622	1,017	63%
SDG&E- 11	Pipeline Integrity for Transmission & Distribu	6,732	4,053	60%
SDG&E- 15	Electric Distribution O&M	64,235	36,897	57%
SDG&E- 16	Electric Generation	21,830	12,845	59%
	<b>Total SDG&amp;E</b>	<b>97,093</b>	<b>56,348</b>	<b>58%</b>
SoCalGas-04	Gas Distribution	25,712	3,866	15%
SoCalGas-06	Gas Transmission Operation	14,937	7,153	48%
SoCalGas-09	Gas Engineering	3,381	1,680	50%
SoCalGas-10	Underground Storage	50,324	50,324	100%
SoCalGas-14	Pipeline Integrity for Transmission & Distribu	51,701	13,650	26%
SoCalGas-15	Pipeline Safety & enhancement Plan (PSEP)	2,789	849	30%
	<b>Total SoCalGas</b>	<b>148,844</b>	<b>77,522</b>	<b>52%</b>
	<b>Customer Services</b>			
SDG&E- 18	Office Operations	1,278	1,098	86%
SDG&E- 19	Information and Technologies	5,726	1,749	31%
SoCalGas-18	Field and Meter Reading	11,696	6,014	51%
SoCalGas-19	Office Operations	10,228	6,235	61%
SoCalGas-20	Information	6,714	6,714	100%
SoCalGas-21	Technologies, Policies & Solutions	8,524	1,259	15%
	<b>Total Customer Services</b>	<b>44,166</b>	<b>23,069</b>	<b>52%</b>
	<b>Grand Total</b>	<b>290,103</b>	<b>156,939</b>	<b>54%</b>

- 1 The audit samples also covered the following areas:
- 2 • Risk Assessment Mitigation Phase and Safety Culture,
  - 3 • SONGS-related O&M, and Resource Planning,
  - 4 • Cost of Generation Plant Costs (Palomar, Desert Star, Miramar,
  - 5 Cuyamaca Peak and Otay Mesa),
  - 6 • Planning Activities includes Forecasting, Designing, and
  - 7 Responding to Utilization of the Electric Distribution System,
  - 8 • Construction Services consists of three main groups, Construction
  - 9 Management, Construction Services Contracting, and Business
  - 10 Controls,
  - 11 • Fire Risk Mitigation (FiRM) Program,
  - 12 • Pole Risk Mitigation and Engineering (PRIME),
  - 13 • SCADA System Support and Maintenance,
  - 14 • Safety-and Risk Assessment Mitigation Phase (RAMP) – Related
  - 15 Costs,
  - 16 • Leak Repairs, Leak Survey, System Renewal, High-Pressure
  - 17 Pipeline Documents and Capacity Improvements Related Costs,
  - 18 • Leak Survey and Costs Related to Physical Condition of the Gas
  - 19 Distribution System,
  - 20 • Gas Distribution Costs of Measurement & Regulation for Pipeline
  - 21 Safety,
  - 22 • Costs of Cathodic Protection Activities,
  - 23 • Field Operations & Maintenance to Keep the Natural Gas System
  - 24 Operating Safety and Reliably,
  - 25 • Costs Related to the Gas Transmission Pipelines Function Within
  - 26 Gas Transmission, Responsible for the Safe Day-To-Day Operation
  - 27 and Maintenance of Gas Transmission Pipeline Facilities and
  - 28 Related Infrastructure,
  - 29 • Expenses for Gas Transmission, Underground Storage, and Gas
  - 30 Distribution-Related Engineering and Associated Costs of
  - 31 Engineering Related Programs that Cross Business Units or
  - 32 Utilities,
  - 33 • Costs Related to High-Pressure Pipeline, Compressor Station, and
  - 34 Underground Storage Fields, Designed to Receive Natural Gas
  - 35 from Interstate Pipelines and Local Production Sources,
  - 36 • Costs associated with Transmission Integrity Management Program
  - 37 Activities (TIMP), and Gas Distribution Integrity Management
  - 38 Program (DIMP),

- 1 • Customer Service Information and Technologies Costs and
- 2 Activities,
- 3 • Customer Service Safety and Risk-Related Costs,
- 4 • Customer Service's Costs Related to Fueling our Future (FOF),
- 5 • Customer Service's Smart Meter Data Operations (SMDO),
- 6 • Customer Service's Office Operations Costs and Activities.

### 7 **III. DISCUSSION AND RECOMMENDATIONS**

8 ORA found no exceptions during the audit testing of SDG&E's \$97.1 million in  
9 O&M expenses, SoCalGas' \$148.9 million in O&M expenses, and \$44.2 million in  
10 Customer Services costs booked in both SDG&E and SoCalGas' financial books  
11 and records during the period from January 1, 2014 to December 31, 2016.  
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1                                   **PART III: COMPLIANCE (S. CHIA AND N. STANNIK)**

2   **I.       SUMMARY OF RECOMMENDATIONS**

3           ORA makes no recommendation as to the reasonableness of SCG’s and  
4   SDG&E’s Compliance testimony. ORA recommends that SCG and SDG&E  
5   continue the submission of the Gas Transmission, Distribution and Storage Safety  
6   Reports as discussed below.

7   **II.      COMPLIANCE WITH PRIOR COMMISSION DECISIONS**

8           Exhibits SCG-45 and SDG&E-44 (Compliance) present SCG’s and SDG&E’s  
9   respective reports on the status of their compliance with Commission directives in  
10   prior GRC decisions. Most of SCG’s and SDG&E’s compliance items are pursuant  
11   to D.16-06-054, SCG’s and SDG&E’s TY 2016 GRC Decision, and the resulting  
12   adopted settlement agreements. SDG&E and SCG have filed advice letters to  
13   implement the revenue requirements and results of operations in compliance with  
14   D.16-06-054. SCG and SDG&E detailed the steps they took to implement the  
15   various Settlements, Regulatory Accounts, and other Commission directives  
16   resulting from the TY 2016 GRC.<sup>8</sup> SCG and SDG&E referenced testimony from the  
17   other witnesses’ exhibits in their TY 2019 GRC Applications as additional support of  
18   their compliance.<sup>9</sup>

19           ORA makes no recommendation as to the reasonableness of SCG’s and  
20   SDG&E’s Compliance testimony.

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<sup>8</sup> Ex. SCG-45/SDG&E-44, JKY-2.

<sup>9</sup> Ex. SCG-45/SDG&E-44, p. JKY-3.

1 **III. GAS TRANSMISSION, DISTRIBUTION AND STORAGE**  
2 **SAFETY REPORT**

3 SCG and SDG&E request discontinuing the submission of the Gas  
4 Transmission, Distribution and Storage Safety Reports (Safety Reports). Decision  
5 13-05-010, the TY 2012 GRC Decision, orders SDG&E and SCG to each serve a  
6 semi-annual Safety Report on the Directors of the Safety and Enforcement Division  
7 and the Energy Division. Sempra states that this Safety Report was adopted  
8 pursuant to Public Utilities Code section 958.5 to be effective on January 1, 2012.<sup>10</sup>

9 Section 958.5 states:

- 10 a. Twice a year, or as determined by the commission, each gas  
11 corporation shall file with the commission's consumer protection  
12 safety division a gas transmission and storage safety report. The  
13 consumer protection safety division shall review the reports to  
14 monitor each gas corporation's storage and pipeline-related  
15 activities to assess whether the projects that have been identified  
16 as high risk are being carried out, and to track whether the gas  
17 corporation is spending its allocated funds on these storage and  
18 pipeline-related safety, reliability, and integrity activities for which  
19 they received approval from the commission.
- 20 b. The gas transmission and storage safety report shall include a  
21 thorough description and explanation of the strategic planning and  
22 decision-making approach used to determine and rank the gas  
23 storage projects, intrastate transmission line safety, integrity, and  
24 reliability, operation and maintenance activities, and inspections of  
25 its intrastate transmission lines. If there has been no change in the  
26 gas corporation's approach for determining and ranking which  
27 projects and activities are prioritized since the previous gas  
28 transmission and storage safety report, the subsequent report may  
29 reference the immediately preceding report.<sup>11</sup>

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<sup>10</sup> Ex. SCG-45/SDG&E-44, p. JKY-33.

<sup>11</sup> Ex. SCG-45/SDG&E-44, pp. JKY-33 and JKY-34.

1 Sempra states that the Safety Report was ordered prior to additional reporting  
2 requirements adopted in D.16-06-054 and D.14-12-025.<sup>12</sup> Decision 16-06-054,

3 Ordering Paragraph (OP) 11, ordered new reporting requirements as follows:

4 San Diego Gas & Electric Company (SDG&E) and Southern California  
5 Gas Company (SoCalGas) shall file on an interim basis a limited  
6 version of the two accountability reports specified in D.14-12-015.

7 a. SDG&E and SoCalGas shall each file a Spending Accountability  
8 Report with the Docket Office, and serve a notice of availability of  
9 such report as directed in this decision, within one year from the  
10 issuance date of today's decision.

11 i. The Spending Accountability Report shall compare Test  
12 Year 2016 authorized spending to actual 2014 and 2015  
13 spending on a limited set of risk mitigation projects as  
14 discussed in this decision and in Exhibit 23, and to propose  
15 a methodology for reporting and comparing the projected  
16 versus actual benefits of its risk mitigation activities.

17 b. A second Spending Accountability Report shall be filed and served  
18 within two years from the issuance of today's decision, which is to  
19 include actual 2016 spending.

20 c. SDG&E and SoCalGas are directed to discuss the form of these  
21 reports with the Safety and Enforcement Division and the Energy  
22 Division before the due dates of these reports.

23 d. Subsequent reporting requirements beyond what is required above  
24 will be supplanted by the direction provided in Decision 14-12-025,  
25 a decision in either or both the Safety Model Assessment  
26 Proceeding and the Risk Assessment Mitigation Phase, or in the  
27 next general rate case proceedings of the Applicants.<sup>13</sup>

28 A subsequent Commission Decision, D.17-01-012, required that the second  
29 interim spending accountability report shall now be filed in the TY 2019 GRC  
30 Applications of SDG&E and SoCalGas.<sup>14</sup>

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<sup>12</sup> Ex. SCG-45/SDG&E-44, p. JKY-34.

<sup>13</sup> Ex. SCG-45/SDG&E-44, pp. JKY-28 and JKY-29.

<sup>14</sup> Ex. SCG-45/SDG&E-44, pp. JKY-28 and JKY-29.

1 SCG and SDG&E will be required to file two accountability reports annually in  
2 accordance with D.14-12-025: the Risk Mitigation Accountability Report and the Risk  
3 Spending Accountability Report. D.14-12-025 states that “[b]oth reports shall report  
4 on the activities and spending the utility undertook during the GRC test year, and  
5 during each attrition year.” SCG and SDG&E are to file these reports on July 31 and  
6 September 30, respectively, “after the applicable reporting,” which would mean that  
7 reporting would begin at or around 2020.<sup>15</sup>

8 SCG and SDG&E state that the additional reporting requirements adopted in  
9 D.16-06-054 and D.14-12-025 will provide the information required by Public Utilities  
10 Code section 958.5, which may result in duplicative reports both in terms of the  
11 intent of and efforts put forth for the Safety Report for several reasons as detailed  
12 below:<sup>16</sup>

- 13 a. Beginning in 2020, SCG and SDG&E will report on their activities  
14 that mitigate their top safety risks, including their gas transmission,  
15 distribution, and storage operations. Through the submission of the  
16 Risk Mitigation Accountability Report and Risk Spending  
17 Accountability Report, the Commission, Commission Staff, and  
18 parties will have the ability to see and evaluate whether SCG and  
19 SDG&E are “spending [their] allocated funds on these storage and  
20 pipeline-related safety, reliability, and integrity activities for which  
21 they have received approval from the commission,” which was the  
22 genesis of the Safety Report.
- 23 b. The Commission’s Safety and Enforcement Division and Energy  
24 Division will be reviewing and opining on the accountability reports  
25 of SCG and SDG&E. As such, the efforts of the Commission staff  
26 may be duplicative with the filing of the Safety Report.
- 27 c. The Safety Report requires thorough description and explanation of  
28 the strategic planning and decision making approach used to  
29 determine the activities. SCG and SDG&E have and will continue  
30 to provide such thorough descriptions and explanations in their  
31 RAMP Report, which is also a new requirement that followed the  
32 adoption of the Safety Report.

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<sup>15</sup> Ex. SCG-45/SDG&E-44, pp. JKY-34 and JKY-35.

<sup>16</sup> Ex. SCG-45/SDG&E-44, p. JKY-35.

1 d. SB 549 was approved by Governor Brown on September 25, 2017  
2 and will take effect on January 1, 2018. This bill adds Section 591  
3 to the Public Utilities Code and “require an electrical or gas  
4 corporation to annually notify the commission, as part of an ongoing  
5 proceeding or in a report otherwise required to be submitted to the  
6 commission, of each time since that notification was last provided  
7 that capital or expense revenue authorized by the commission for  
8 maintenance, safety, or reliability was redirected by the electrical or  
9 gas corporation to other purposes.” SCG and SDG&E claim that  
10 this will be another annual reporting requirement that will address  
11 authorized safety spending.<sup>17</sup>

12 ORA disagrees and recommends that SCG and SDG&E continue the  
13 submission of the Safety Reports. First, the Risk Assessment Mitigation Phase  
14 (RAMP) and its associated reporting requirements are new processes that are still  
15 constantly developing and evolving. Second, SCG’s and SDG&E’s risk assessment  
16 processes are also changing as they collect more data and learn from their  
17 analyses. Third, the Safety Model Assessment Proceeding (S-MAP)<sup>18</sup> will likely  
18 introduce further changes to the risk assessment’s process and requirements.

19 It is premature to assume that the Risk Mitigation Accountability Report, Risk  
20 Spending Accountability Report, RAMP reports, and SB 549 requirements will  
21 provide a complete replacement of the Safety Reports.<sup>19</sup> ORA recommends that  
22 SCG and SDG&E continue the submission of the Safety Reports.

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<sup>17</sup> Ex. SCG-45/SDG&E-44, pp. JKY-34 to JKY-36.

<sup>18</sup> Application (A.) 15-05-002.

<sup>19</sup> See, for example, page SDG&E/SCG F-1 where SCG/SDG&E state “The risk evaluation and registry process... continues to evolve” and page SDGE/SCG F-2, which states “The utilities are currently evaluating increasing the amount of data collected and tracked.” See also, Safety and Enforcement Division Report on Sempra RAMP, page 3: “Although some gaps remain [in Sempra RAMP filing], SED recognizes that this is an evolving process.”



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**WITNESS QUALIFICATIONS – S. CHIA**

My name is Sophie Chia. My business address is 505 Van Ness Avenue, San Francisco, California. I am employed by the Office of Ratepayer Advocates (ORA) as a Public Utility Financial Examiner IV in the Energy Cost of Service and Natural Gas Branch.

I received a Bachelor of Science Degree in Business Administration / Accounting from California State University, San Francisco.

I joined the Commission in 1985. I held the position of Financial Examiner until 1995. During that time, I conducted audits and analyses of utility operations, prepared written testimony, and testified in telecommunications proceedings. I rejoined the Commission in January 2003. I have been the ORA witness on Results of Examination, Customer Service expenses, Other Operating Revenues, Operations Support expenses, Transmission & Distribution expenses, and capital expenditures for General Rate Cases of various electric and gas utilities.

I am responsible for the introductory portion of this report, as well as Part I (A&G expenses) and a portion of Part III (Compliance).

This completes my prepared testimony.

1 **WITNESS QUALIFICATIONS – J. LEE**

2 My name is Joyce Lee. My business address is 505 Van Ness Avenue, San  
3 Francisco, California. I am employed by the Office of Ratepayer Advocates (ORA)  
4 as a Public Utility Financial Examiner III in the Energy Cost of Service and Natural  
5 Gas Branch.

6 I have a Master of Business Administration degree in Business and Finance  
7 from Holy Names University.

8 Prior to joining the Commission, I worked in various corporate offices in the  
9 Information Technology, bio-medical, and museum industries in the finance and  
10 accounting field for more than 23 years.

11 Since joining the Commission in January 2011, I was assigned to review the  
12 Information Technology and Operation Excellence program in San Diego Gas &  
13 Electric Company's (SDG&E) GRC (A.10-12-005) and Southern California Gas  
14 Company's (SoCal Gas) GRC (A.10-12-006), Pacific Gas and Electric Company's  
15 (PG&E) storms, fires, and earthquakes CEMA audit (A.11-09-014), and Southern  
16 California Edison Company's (SCE) Bark Beetle CEMA audit (A.12-05-003),  
17 SEMPRA GRC (A.14-11-003,004), SoCalGas and SDG&E Pipeline Safety and  
18 Reliability Memorandum Account (PSRMA), Liberty Utilities 2016 General Rate  
19 Case audit (A.15-05-008), PG&E GRC 2017 audit (A.15-09-001), SCE 2014 SONGS  
20 Reasonableness Review (A.15-01-014) SCE GRC 2018 audit (A.16-09-001), and  
21 Sempra 2019 GRC Audit (A.17-10-007 and A.17-10-008).

22 I am responsible for Part II (O&M expenses) of this report.

23 This completes my prepared testimony.

1 **WITNESS QUALIFICATIONS – N. STANNIK**

2 My name is Nils Stannik. My business address is 505 Van Ness Avenue, San  
3 Francisco, California. I am employed by the Office of Ratepayer Advocates (ORA)  
4 as a Utilities Engineer in the Energy Safety and Infrastructure Branch.

5 I received a Bachelor of Science in Engineering (BSE) degree in Electrical  
6 Engineering from the University of Michigan. I am a California-registered Engineer in  
7 Training (EIT).

8 Since joining the ORA in 2014, I have worked on various proceedings and  
9 projects related to pipeline safety, gas and gas safety, General Rate Cases, cost  
10 allocation, safety modeling, risk mitigation, wildfires, disadvantaged communities,  
11 utility asset transfers, electrical transmission, and electrical transmission and  
12 distribution security, among others. These include the Safety Model Assessment  
13 Proceeding (A.15-05-002), SCG/SDG&E’s Risk Assessment Mitigation Phase (I.16-  
14 11-015), PG&E’s Risk Assessment Mitigation Phase (I.17-11-003), multiple Pipeline  
15 Safety Enhancement Plan (PSEP) proceedings (A.14-12-016, A.16-09-005, A.17-03-  
16 021), and fire safety-related proceedings (A.15-05-006, A.15-09-010, A.17-07-011). I  
17 also regularly perform work on non-proceeding safety issues including gas pipeline  
18 events and safety recordkeeping/record management.

19 Prior to joining ORA, I worked as an engineer designing and permitting  
20 residential photovoltaic systems throughout California. Prior to that, I worked as an  
21 electrical engineer on power and instrumentation technologies for large power  
22 generation plants.

23 I am responsible for the majority of Part III of this report, specifically pertaining  
24 to Gas Transmission, Distribution and Storage Safety Reports.

25 This completes my prepared testimony.