

Application No: A.17-03-XXX  
Exhibit No.: \_\_\_\_\_  
Witness: J. Pech

Application of Southern California Gas Company (U 904 G) and San Diego Gas & Electric Company (U 902 G) for (A) Approval of the Forecasted Revenue Requirement Associated with Certain Pipeline Safety Enhancement Plan Projects and Associated Rate Recovery, and (B) Authority to Modify and Create Certain Balancing Accounts

Application 17-03-\_\_\_\_\_  
(Filed on March 30, 2017)

**CHAPTER III**  
**DIRECT TESTIMONY OF**  
**JOSE PECH**  
**ON BEHALF OF**  
**SOUTHERN CALIFORNIA GAS COMPANY**  
**AND**  
**SAN DIEGO GAS & ELECTRIC COMPANY**

BEFORE THE PUBLIC UTILITIES COMMISSION  
OF THE STATE OF CALIFORNIA

March 30, 2017

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

2 The purpose of my direct testimony on behalf of Southern California Gas Company  
3 (SoCalGas) and San Diego Gas & Electric Company (SDG&E) (collectively, the Utilities) is to  
4 explain the continuation of the Pipeline Safety Enhancement Plan (PSEP) General Management  
5 and Administration (GMA) concept, cost tracking, and allocation methodology for the Phase 1B  
6 and Phase 2 forecast presented for review and recovery in this application.

7 **II. PSEP GMA**

8 PSEP is an unprecedented undertaking, which required SoCalGas and SDG&E to  
9 establish a dedicated PSEP organization to support policies, procedures and practices when  
10 implementing its pipeline safety plan. To successfully achieve the relatively large and complex  
11 PSEP program, these efforts are, and will continue to be, necessary. The GMA costs associated  
12 with managing the PSEP program are not charged directly to individual PSEP projects, but are  
13 indeed project support costs that are incurred in support of PSEP projects. Those costs are  
14 tracked and charged to a GMA internal order (IO). The forecasted GMA costs for consideration  
15 in this application are based on nine different supporting functions for PSEP: (1) Program  
16 Management Office (PMO); (2) Construction; (3) Engineering; (4) Environmental; (5) Supply  
17 Management; (6) Gas Control; (7) Non-PMO General Administration; (8) Communication and  
18 Outreach and (9) Training. These nine functions oversee and support the PSEP organization and  
19 program. PSEP forecasts the nine GMAs to have similar cost assumptions to those incurred  
20 during Phase 1A. Based on PSEP experience the nine GMAs will be charged based on the  
21 following in Table 1:

**General Management and Administration (\$ Millions)**

**Table 1**

No.	Function	Percent of GMA	Cost
1	Program Management Office	16%	\$ 3.51
2	Construction	17%	3.73
3	Engineering	22%	4.82
4	Environmental	4%	0.88
5	Supply Management	21%	4.60
6	Gas Control	1%	0.22
7	Non-PMO General Administration	13%	2.85
8	Communication and Outreach	3%	0.66
9	Training	3%	0.66
	Total GMA		\$ 21.92

**A. Program Management Office**

The PMO GMA costs are for the PSEP Program Management support group. PMO is a separately identified department within the PSEP organization. The organization oversees PSEP implementation and provides governance for the execution of PSEP projects and activities. Specifically, the PMO's responsibility is to provide oversight of the program; managing the day to day operations, and is performed by various department groups within the PSEP organization. Those groups are Business and Administration, Regulatory Support from the Pipeline Safety & Compliance department, and Governance. The Business and Administration group provides financial reporting and monitoring of PSEP program costs. The Regulatory Support group provides support to PSEP's regulatory filings, Commission rulings and the data request/discovery process. The Governance group ensures the program has consistent implementation of processes along with managing scope, costs and schedule. Labor and non-labor costs for the PSEP PMO are for the developing program-wide processes, procedures, financial tracking, trainings and overseeing day to day operations. PSEP's PMO GMA forecast makes up approximately 16% of all GMAs.

1           **B.     Construction**

2           The Construction GMA costs are for the PSEP Construction Support Group. The  
3 Construction Support Group is responsible for the direct management of all construction  
4 activities during the execution of the PSEP projects. It includes managing the construction  
5 contractors, safety, and project inspections. These groups also manage the necessary  
6 construction field work documents. Labor and non-labor costs for the PSEP Construction GMA  
7 are for the development of the construction processes, procedures and training. Program training  
8 includes construction inspection, welding, and safety related activities. PSEP’s Construction  
9 GMA forecast makes up approximately 17% of all GMAs.

10           **C.     Engineering**

11           The Engineering GMA costs are for the PSEP Engineering Support Group, which  
12 oversee project planning, engineering, estimating and manage the execution for the PSEP  
13 organization. Labor and non-labor costs for the Engineering GMA are for the development of  
14 the engineering, estimating, survey, execution processes and procedures. This includes the  
15 development for planning and engineering design of the PSEP program. PSEP’s Engineering  
16 GMA forecast makes up approximately 22% of all GMAs.

17           **D.     Environmental**

18           The Environmental GMA costs are for the Environmental Support Group, which is  
19 responsible for supporting the PSEP environmental strategy and compliance oversight. The  
20 Environmental Support Group works within PSEP, SoCalGas, SDG&E and external stakeholders  
21 (such as regulatory agencies and contractors) to identify and address environmental requirements  
22 related to the PSEP program. As part of this effort, the group oversees environmental project  
23 reviews, permitting, and agency consultations. Labor and non-labor expenses for the

1 Environmental GMA are related to the development of the environmental program-wide  
2 processes, procedures, and trainings. PSEP's Environmental GMA forecast makes up  
3 approximately 4% of all GMAs.

#### 4 **E. Supply Management**

5 Supply Management GMA costs are for the PSEP Supply Management Support Group,  
6 which provide supply chain-related support for the PSEP organization. The Supply Management  
7 Support Group costs are for managing the procurement procedures to identify and define  
8 processes, methods and material management used in the procurement of material and services.  
9 Supply Management is also responsible for the supervision of the program contracting and  
10 procurement effort. This activity includes contract sourcing activities, bulk ordering of  
11 materials, negotiating with suppliers, developing and implementing contracts, managing  
12 contracts, and warehousing and logistic activities. Labor and non-labor expenses for the Supply  
13 Management GMA are related to the development of the Supply Management processes,  
14 procedures and trainings. PSEP's Supply Management GMA forecast makes up approximately  
15 21% of all GMAs.

#### 16 **F. Gas Control**

17 Gas Control GMA costs are for the Gas Control Support Group, which provide SoCalGas  
18 PSEP's gas control support, including the coordination of shutting down pipelines for tie-ins.  
19 Labor and non-labor expenses for Gas Control GMA include labor and miscellaneous costs for  
20 integrating PSEP field data into the Gas Control environment. PSEP's Gas Control GMA  
21 forecast makes up approximately 1% of all GMAs.

1           **G.     Non-PMO**

2           The Non-PMO GMA costs are for program wide support from project controls, Quality  
3 Assurance (QA)/Quality Control (QC), and project wide documentation control. These activities  
4 are primarily undertaken by Project Controls and Technology and the QA/QC support team.  
5 Project Controls and Technology provides project control oversight and reporting, working with  
6 the engineering execution teams to develop project schedules, forecast costs and maintain the  
7 master project schedule. The QA/QC team implements and manages the PSEP quality plan. The  
8 team ensures PSEP adheres to procedures and processes across the program. The QA/QC group  
9 provides an independent check of the processes and documentation at key points, performs  
10 periodic inspections and reviews to verify compliance with the PSEP procedures and quality  
11 plan. Labor and non-labor expenses for Non-PMO General Administration GMA are related to  
12 the development of processes, procedures, and trainings to implement various programmatic  
13 controls.

14           **H.     Communication and Outreach**

15           Communication and Outreach GMA costs are for the development of internal and  
16 external communications of PSEP's status to key stakeholders. The Communication and  
17 Outreach group is responsible for establishing communication and outreach strategies, while  
18 proactively educating internal and external stakeholders. The Communication and Outreach team  
19 aid with acquisition of permits. Labor and non-labor expenses for the Communication and  
20 Outreach GMA are related to the development of the Communication and Outreach processes,  
21 procedures and trainings for the program. PSEP's Communication and Outreach GMA forecast  
22 makes up approximately 3% of all GMAs.

1           **I.       Training**

2           Training GMA costs are for developing and delivering first time and refresher training to  
3 employees and contractors. The activity includes expenditures for PSEP trainers, instructional  
4 design, and training of field personnel supporting PSEP-specific projects. Training improves  
5 safety and efficiency by promoting consistency across projects and supports continued and  
6 consistent compliance with applicable laws, regulations, and established procedures and policies.  
7 PSEP’s Training GMA forecast makes up approximately 3% of all GMAs.

8           **III.     GMA FORECAST**

9           The PSEP GMA captures costs that support the PSEP program. Since those costs are not  
10 charged directly to PSEP projects, the PSEP GMA is used by each support group to capture the  
11 functional support activity. Those PSEP GMA costs are then spread to projects monthly and  
12 quarterly. As stated previously, PSEP forecasts GMA costs to mirror its actual experience with  
13 Phase 1A project implementation. The GMA costs are assumed to be approximately 10% of the  
14 total project forecasted costs, and are part of the PSEP Phase 1B and Phase 2 forecast, as  
15 described in the Direct Prepared Testimony of Ronn Gonzalez (Chapter II). Please see the  
16 attached Table 2, which shows the GMA forecasted costs requested for review and recovery in  
17 this application.



**General Management and Administration Project Costs (\$ Million)**

**Table 2**

<b>Project</b>	<b>Loaded &amp; Escalated Costs</b>	<b>General Management &amp; Administration</b>
36-37 Section 11	\$64.67	\$ 5.88
36-37 Section 12	20.93	1.90
38-556	17.36	1.58
38-514	9.99	0.91
L7043	1.81	0.16
L127	1.83	0.17
36-1001/45-1001	14.98	1.36
36-1002	6.37	0.58
38-960	24.42	2.22
43-121	11.06	1.01
2000 D	35.72	3.25
2000 C	32.00	2.91
AFUDC & Prop. Tax	13.38	-
<b>Total</b>	<b>\$254.53</b>	<b>\$ 21.92</b>

1

2 **IV. GMA EXPENDITURES AND TRACKING**

3 PSEP GMA costs will continue to be monitored using the IO number established in the  
4 utilities' accounting system. As costs are incurred, expenditures are directly charged to the  
5 distinct IO number equivalent to the PSEP GMA. The costs are comprised of labor and non-  
6 labor expenses for SoCalGas and SDG&E.

7 **V. GMA COSTS MONITORING AND MANAGEMENT**

8 The monitoring and tracking responsibilities of the PSEP GMA resides with the PSEP  
9 PMO. These costs will continue to be tracked, monitored and reviewed monthly by the  
10 individual PSEP department leads.

11 The PMO's Budget and Administration group issues monthly Cost Center Reports, which  
12 identify costs to the PSEP GMA IO number. The monthly Cost Center Reports include all IO  
13 numbers charged to the department lead's cost center. The cost reports provide detailed  
14 transaction type costs (i.e., employee labor, employee expenses, vendor expense, travel and other

1 expenses). In addition, the detailed report includes all internal orders (IOs) costs. As part of the  
2 validation process, the assigned department leads will be responsible to review the report and  
3 confirm there are no erroneous costs to their respective cost centers. If there are mischarges, the  
4 department leads would inform the PMO's Budget and Administration group so corrections can  
5 be made.

6 For external vendors supporting GMA, PSEP utilizes a vendor management system and  
7 vendors use the vendor management system to submit their weekly GMA support hours (straight  
8 and overtime). SoCalGas and SDG&E department leads review hours before approving. Once  
9 hours are approved, the vendors are authorized to invoice SoCalGas and SDG&E.

10 **VI. GMA COSTS ARE DISTINCT FROM THE INCREMENTAL OVERHEADS**  
11 **APPLIED TO PSEP**

12 Since PSEP is an incremental program, only SoCalGas and SDG&E's incremental  
13 overhead loaders listed below in Table 3<sup>1</sup> are included in PSEP's Phase 1B and Phase 2 forecasts  
14 described in the Prepared Direct Testimony of Ronn Gonzalez (Chapter II). The incremental  
15 overhead rates are applied to each direct cost per its classification as company labor, contract  
16 labor, purchased services and material. Only overhead loaders that are considered incremental  
17 are included. The treatment of incremental overhead loaders for the PSEP program is consistent  
18 with other approved incremental projects.

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<sup>1</sup> The incremental overhead loaders are listed as indirect costs in work papers supporting Karen Chan's Prepared Direct Testimony (Chapter IV).

**Table 3**

<b>Incremental Loaders</b>	
1	Payroll Tax
2	Incentive Compensation Plan
3	Pension and Benefits
4	Worker's Compensation
5	Vacation and Sick
6	Public Liability and Property Damage
7	Purchasing
8	Administrative and General-Capital

1  
2 The PSEP program excludes SoCalGas and SDG&E's non-incremental overheads listed  
3 below in Table 4. To prevent non-incremental overheads from being recovered as part of the  
4 filing, SoCalGas Regulatory Accounts and SDG&E's Regulatory Operations Reporting  
5 departments review the PSEP project IO numbers and, if needed manually exclude any non-  
6 incremental overheads from the Phase 1 and Phase 2 regulatory accounts; Safety Enhancement  
7 Expense Balancing Account, Safety Enhancement Capital Cost Balancing Account and Pipeline  
8 Safety Enhancement Plan Memorandum Accounts (e.g., SEEBAs, SECCBAs and PSEPMA's).  
9 The approval sought for Phase 1B and Phase 2 in this filing reflect only incremental overheads  
10 and exclude the non-incremental overheads.

**Table 4**

<b>Non-Incremental Loaders</b>	
1	Warehouse
2	Fleet Distribution
3	Fleet Transmission
4	Shop
5	Small Tools
6	Exempt Material - Misc Pipe Material
7	Supervision and Engineering- Distribution
8	Supervision and Engineering- Transmission
9	Department Overheads- Replacement

11  
12 To support similar functions in Table 4 Non-Incremental Loaders, PSEP will apply the  
13 costs associated with the nine GMA supporting functions to its PSEP projects. In some  
14 instances, the PSEP GMA costs serve to replace non-incremental loaders. These GMA costs  
15 only include PSEP-specific costs and are only applied to PSEP's hydrotest, replacement, and

1 valve projects. As an example, the SoCalGas and SDG&E company-wide loader Supervision  
 2 and Engineering-Distribution shown in Table 3 is a non-incremental overhead loader and  
 3 excluded from the PSEP projects. Instead of applying the SoCalGas and SDG&E Supervision  
 4 and Engineering-Distribution loader in Table 3, PSEP's Engineering GMA costs, which serve a  
 5 similar function but are specific to PSEP, are allocated to its PSEP projects. Similar allocation  
 6 occurs for other non-incremental loaders listed in Table 3; such as Warehouse and Shop loaders.  
 7 Table 5 illustrates the non-incremental loaders and its GMA equivalent.

**Table 5**

	<b>Non-Incremental Loaders</b>	<b>GMA Equivalent</b>
1	Warehouse	Supply Management
2	Fleet Distribution	NA
3	Fleet Transmission	NA
4	Shop	Supply Management
5	Small Tools	Supply Management
6	Exempt Material - Misc Pipe Material	Supply Management
7	Supervision and Enigneering- Distribution	Engineering
8	Supervision and Enigneering- Transmission	Engineering
9	Department Overheads-Replacement	Project Management Office

9 **VII. CONCLUSION**

10 This concludes my testimony.

1 **VIII. WITNESS QUALIFICATIONS**

2 My name is Jose Pech. I have been employed by Southern California Gas Company  
3 since 2001. My business address is 555 West Fifth Street, Los Angeles, California 90013-1011.

4 I have held various financial and budgeting positions at SoCalGas. My current role is the  
5 Business and Administration Manager. I have held this current position since 2014.

6 I received my Bachelor of Science degree in Business Administration – Accounting from  
7 California State University Los Angeles. I have not previously testified before the Commission.