STATE OF CALIFORNIA GAVIN NEWSOM, *Governor*

PUBLIC UTILITIES COMMISSION
505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3298

April 28, 2020

Mr. Dan Skopec
Vice President, Regulatory Affairs
SDG&E and SoCalGas
8330 Century Park Court, CP33C
San Diego, CA 92123-1530

SUBJECT: Review of the 2017 and 2018 Interim Risk Spending Accountability Report of San Diego Gas & Electric and Southern California Gas

Dear Mr. Skopec:

The California Public Utilities Commission (CPUC) received the 2017 and 2018 Interim Risk Spending Accountability Reports from Southern California Gas Company (SoCalGas) and San Diego Gas & Electric Company (SDG&E), collectively "the Sempra Utilities," filed on February 28, 2019, and September 30, 2019, respectively. Energy Division completed a review of these reports and provides the Utilities with recommendations for its 2019 report. The attachments provide background and details of staff's analysis on spending accountability and spending variances.

CONCLUSIONS

Energy Division (ED) reviewed the Sempra Utilities' reports and finds that they followed the guidance ED provided in the letter dated October 18, 2018 (2018 Compliance Letter).[1] The reports provided a comparison of their CPUC-jurisdictional General Rate Case (GRC) actual and imputed safety, reliability and maintenance spending. The Sempra Utilities correctly applied the selection criteria for its GRC programs according to the ED Guidance for the Standardized Reporting and Outline of the Risk Spending Accountability Report dated August 31, 2018 filed in the Safety Model Assessment Proceeding Applications (A.15-05-002 et al.). The Sempra Utilities provided reference information and a list of emergent or canceled projects from the Test Year (TY) 2016 General Rate Case (GRC), D.16-06-054, along with regulatory account information affecting authorized spending.

The data for the 2017-2018 reports show a pattern of overspending for many capital projects and underspending in most operations and maintenance projects. Overspending on capital allows the utility to grow its rate base and earn a higher rate of return. Underspending on operations and maintenance raises the concern that a utility is not adequately maintaining its system and is pocketing the savings from this underspending. This review focuses on spending variances from the 2018 report. The 2018 report shows a pattern of overspending for capital work in both utilities' gas businesses as well as support services and information technology at both utilities. Importantly, the 2018 report shows a pattern of underspending for capital work at SDG&E's electric business and expensed work at both utilities.[2] ED will further scrutinize O&M underspending in future reviews.

Energy Division concludes that the Sempra Utilities reported spending for their programs related to safety, reliability, and maintenance in conformity with the 2018 Compliance Letter and D.19-04-020.

[1] ED Risk Spending Accountability Report information: https://www.cpuc.ca.gov/General.aspx?id=6442461400
[2] See Attachment A p.3 for details

RECOMMENDATIONS

The CPUC adopted a new reporting framework in D.19-04-020, Ordering Paragraph 10. ED staff recommends the Sempra Utilities review the new format for future RSAR preparation and submission, which now differs from the 2018 Compliance Letter. This new format will apply to the Sempra Utilities' upcoming TY 2019 GRC, A.17-10-007/008, to be filed on March 31, 2020.[3]

The new RSAR framework requires utilities to provide work units for each program. ED staff recommends that the Sempra Utilities include lists of activities when work units are not available with explanations of how much safety, reliability or maintenance related work had been completed for each line item. The Sempra Utilities should ensure programs and variances are sufficiently described. It is especially important for future reports to provide this information when most program activities are not related to safety, reliability or maintenance[4] (see Analysis of Selected Programs in Attachment A of the Review).

ED staff directs the Sempra Utilities to refer to D.19-04-020 for submitting future reports[5]. The Sempra Utilities should serve future RSARs to the ED Tariff Unit (edtariffunit@cpuc.ca.gov), CPUC's Safety Policy Division, Safety and Enforcement Division, and the Public Advocates Office. The report should include information on how parties can file comments in the most recent open GRC/RAMP proceeding, with copies of the comments emailed to ED Tariff Unit. The report should request parties identify the submissions upon which they are commenting. All comments must follow the prioritization outlined in the RSAR Filing and Review Schedule.[6]

Please contact Kevin Flaherty (Natural Gas) at kevin.flaherty@cpuc.ca.gov or (415) 703-3842 or Jenny Au (Electric Costs) at jenny.au@cpuc.ca.gov or (213) 620-6502 if you have any questions.

Sincerely,

FOR

Edward Randolph
Deputy Executive Director for Energy and Climate Policy/ Director, Energy Division

Cc: Melissa Hovsepian, Counsel for Sempra Utilities
Laura M. Earl, Counsel for Sempra Utilities
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[3] See D.19-04-020, Ordering Paragraph (O.P. 9).
[4] See D.19-04-020 p. 34 and attachment 2 for discussion of program description and verification.
[5] Ibid. pp. 45-47
[6] Ibid. pp 47-48

# ATTACHMENT A:
## Staff Risk Spending Accountability Review

The California Public Utilities Commission's (CPUC) Energy Division (ED) reviewed the 2017 and 2018 Interim Risk Spending Accountability Reports (RSAR) of Southern California Gas Company (SoCalGas) and San Diego Gas & Electric Company (SDG&E), collectively, "the Sempra Utilities." They filed the reports with ED as a joint Advice Letter, 5520-G (SoCalGas) and 3438-E/2801-G (SDG&E). They also filed the reports in their Test Year (TY) 2016 and TY 2019 General Rate Case (GRC) Applications (A.14-11-003/004 and A.17-10-007/008). ED conducted the review to "alert the Commission and other parties about a utility's risk mitigation activities and spending."[7] The review verifies compliance with the 2018 Compliance Letter and serves as a demonstration of the ED Review required by D.19-04-020.[8]

BACKGROUND

In December 2014, the CPUC issued D.14-12-025 which directed the investor-owned utilities under its jurisdiction to prepare annual reports comparing authorized and actual spending on risk mitigation projects and explain any discrepancies. Upon submission, ED Staff would review the reports and identify any spending patterns of concern with respect to the provision of safe and reliable gas and electric service.

Decision (D.)16-06-054 (O.P. 11) ordered the Sempra Utilities to submit interim risk spending accountability reports covering the TY 2016 GRC period to the CPUC. The Sempra Utilities sent their 2014-2015 and 2016 Interim RSARs to the service lists for A.14-11-003/004 in 2017. The ED responded to these filings in October 2018 indicating that the Sempra Utilities had met the decision's requirements.

Public Utilities Code section 591 was enacted on January 1, 2018 and revised on June 27, 2018. Part (a) of the code orders the CPUC to require electric and gas utilities to:

> "annually notify the commission, as part of an ongoing proceeding or in a report otherwise required to be submitted to the commission, of each time since that notification was last provided that capital or expense revenue authorized by the commission for maintenance, safety, or reliability was redirected by the electrical or gas corporation to other purposes."

In a letter dated October 18, 2018, ED directed the Sempra Utilities to file and serve annual "interim" RSARs for 2017 and 2018 in the applicable RAMP and/or GRC proceedings in preparation for the new risk-based decision-making framework. The Sempra Utilities filed their 2017 and 2018 RSARs in February and September of 2019, respectively.

In April 2019, the CPUC issued D.19-04-020, Phase Two Decision Adopting Risk Spending Accountability Report Requirements and Safety Performance Metrics for Investor-Owned Utilities and Adopting a Safety Model Approach for Small and Multi-Jurisdictional Utilities. The decision provided the Sempra Utilities with specific direction in complying with the reporting requirements of the new risk-based decision-making framework. The Sempra Utilities are scheduled to meet these requirements beginning with the TY 2019 GRC.

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[7] D.14-12-025 p. 48
[8] D.19-04-020 p. 46

REPORTING REQUIREMENTS

The Sempra Utilities were directed to include the following information in the 2017-18 RSAR[9].

1. A list of all programs[10] authorized or in effect during each reporting period associated with a safety or reliability risk category[11] activity and programs associated with maintenance[12] activity.
2. The authorized and actual spending for each reporting period and the difference in dollars (actual less authorized) and in percent (actual less authorized, divided by authorized).
3. Each difference would be accompanied by:
    a. A description of each program,
    b. The location in the 2016 GRC testimony where the program is described,
    c. The location in the 2019 GRC testimony where the program is described,
    d. A list of projects that were canceled or deferred within each program,
    e. A list of projects which were not presented in the 2016 GRC but were taken up
    f. If applicable, the balancing or memorandum account where spending for each program is recorded, the end-of-year balances, and dispositions for cost recovery.
4. A detailed explanation of the difference for programs that satisfy the following criteria:

- SDG&E – Electric:
    - Expense: A difference of at least $5 million, or a percentage difference of at least 20% subject to a minimum difference of $2.5 million.
    - Capital: A difference of at least $10 million, or a percentage difference of at least 20% subject to a minimum difference of $5 million.
- SDG&E – Gas:
    - Expense: A difference of at least $2.5 million, or a percentage difference of at least 20% subject to a minimum difference of $0.5 million.
    - Capital: A difference of at least $5 million, or a percentage difference of at least 20% subject to a minimum difference of $1 million.
- SoCal Gas:
    - Expense: A difference of at least $5 million, or a percentage difference of at least 20% subject to a minimum difference of $1 million.
    - Capital: A difference of at least $10 million, or a percentage difference of at least 20% subject to a minimum difference of $2 million.
- SDG&E/SoCal Gas Shared:
    - Expense: A difference of at least $5 million, or a percentage difference of at least 20% subject to a minimum difference of $1 million.
    - Capital: A difference of at least $10 million, or a percentage difference of at least 20% subject to a minimum difference of $2 million.

5. The total authorized spending categorized into expensed and capital programs. Each report shall group programs by the following categories as presented in A.14-11-003 et al.:

- SDG&E: Gas Distribution and Transmission, Electric Generation and Distribution, Other.
- SoCal Gas: Distribution, Transmission, Storage, Procurement, Other.
- Within each category, programs should be separated into expenses and capital expenditures.

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[9] 2018 Compliance Letter

[10] Programs are defined as workpaper categories for expense items (e.g. 1ED011.000 – Electric Regional Operations) and as budget codes for capital expenditures (e.g. 13247 – FiRM-Phases 1 & 2).

[11] Categories include, but are not limited to: Infrastructure Integrity, Physical Security and Environmental; Cyber Security & Customer Data Privacy; Wildfires; System Reliability; & Public & Employee Safety, Disaster Recovery.

[12] Associated with expensed and capitalized work related to Federal Energy Regulatory Commission Accounts 510-515, 528-532, 541-545, 551-554, 568-574, 576, 590-598 & 935.

STAFF ANALYSIS

The Sempra Utilities derived authorized values from the GRC for reported programs[13] and the attrition years were escalated using the authorized rate against total base year margin. To derive capital expenditures, the attrition rate was applied to the three-year average of spending for the GRC period. More information on Sempra Utilities' methods can be found in the 2018 Interim Report.[14]

Tables 1 and 2 below present total spending using the 2018 Compliance Letter categories. The Sempra Utilities spent over the imputed authorized amounts for many programs covered in the TY 2016 GRC. The report also shows a pattern of capital overspending in areas like Support Services or Information Technology included in "Other" program groups, at both Sempra Utilities.

**Table 1: O&M Spending 2017-2018 (in $000s)**

| | | 2017 | | | | 2018 | | | |
|---|---|---|---|---|---|---|---|---|---|
| Utility | Program Groups | Recorded | Imputed Authorized | Variance | Variance % | Recorded | Imputed Authorized | Variance | Variance % |
| SDG&E | Gas Distribution | 26,433 | 23,937 | 2,496 | 10% | 27,896 | 24,775 | 3,121 | 13% |
| | Gas Transmission | 4,942 | 5,332 | (390) | -7% | 4,951 | 5,518 | (567) | -10% |
| | Electric Generation | 34,398 | 56,982 | (22,584) | -40% | 34,456 | 58,955 | (24,499) | -42% |
| | Electric Distribution | 92,494 | 112,011 | (19,517) | -17% | 97,605 | 115,931 | (18,326) | -16% |
| | Other | 245,557 | 295,619 | (50,062) | -17% | 240,200 | 303,560 | (63,360) | -21% |
| | **Total** | **403,824** | **493,881** | **(90,057)** | **-18%** | **405,108** | **508,739** | **(103,631)** | **-20%** |
| SoCalGas | Gas Distribution | 138,264 | 153,375 | (15,111) | -10% | 146,211 | 158,677 | (12,466) | -8% |
| | Gas Transmission | 3,729 | 4,434 | (705) | -16% | 43,366 | 57,148 | (13,782) | -24% |
| | Gas Storage | 44,788 | 55,339 | (10,551) | -19% | 33,807 | 36,433 | (2,626) | -7% |
| | Gas Procurement | 35,528 | 35,201 | 327 | 1% | 4,271 | 4,590 | (319) | -7% |
| | Other | 363,106 | 428,707 | (65,601) | -15% | 380,030 | 460,715 | (80,685) | -18% |
| | **Total** | **585,415** | **677,056** | **(91,641)** | **-14%** | **607,685** | **717,563** | **(109,878)** | **-15%** |

**Table 2: Capital Spending 2017-2018 (in $000s)**

| | | 2017 | | | | 2018 | | | |
|---|---|---|---|---|---|---|---|---|---|
| Utility | Program Groups | Recorded | Imputed Authorized | Variance | Variance % | Recorded | Imputed Authorized | Variance | Variance % |
| SDG&E | Gas Distribution | 78,495 | 39,776 | 38,719 | 97% | 76,021 | 41,168 | 34,853 | 85% |
| | Gas Transmission | 9,331 | 7,482 | 1,849 | 25% | 9,088 | 7,744 | 1,344 | 17% |
| | Electric Generation | 13,158 | 12,377 | 781 | 6% | 6,141 | 12,810 | (6,669) | -52% |
| | Electric Distribution | 416,931 | 429,396 | (12,465) | -3% | 400,820 | 444,425 | (43,605) | -10% |
| | Other | 159,027 | 428,707 | (269,680) | -63% | 156,174 | 63,157 | 93,017 | 147% |
| | **Total** | **676,942** | **917,738** | **(240,796)** | **-26%** | **648,244** | **569,304** | **78,940** | **14%** |
| SoCalGas | Gas Distribution | 298,643 | 283,693 | 14,950 | 5% | 292,042 | 293,622 | (1,580) | -1% |
| | Gas Transmission | 130,029 | 105,159 | 24,870 | 24% | 197,616 | 108,839 | 88,777 | 82% |
| | Gas Storage | 102,369 | 72,402 | 29,967 | 41% | 76,940 | 74,936 | 2,004 | 3% |
| | Other | 147,278 | 99,877 | 47,401 | 47% | 153,639 | 103,373 | 50,266 | 49% |
| | **Total** | **678,319** | **561,131** | **117,188** | **21%** | **720,237** | **580,770** | **139,467** | **24%** |

As summarized in Table 3 below, the reports show overspending for capital work in both utilities' gas businesses and underspending for capital work at SDG&E's electric business. These tables also

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[13] For program definitions please see section 5.1.1 in D.19-04-020 pages 35 and 37

[14] See page 9.

show a notable pattern of underspending in gas O&M at both utilities. Staff will give further scrutiny to these categories in future reviews, given the context of recent outages[15] and incidents.[16]

**Table 3: Summary Electric and Gas Spending by Utility 2017-2018 (in 000s)**

| Utility | Program Groups | 2017 Recorded | 2017 Imputed Authorized | 2017 Variance | 2017 Variance % | 2018 Recorded | 2018 Imputed Authorized | 2018 Variance | 2018 Variance % |
|---|---|---|---|---|---|---|---|---|---|
| SDG&E | O&M Spend.-Electric | 126,892 | 168,993 | (42,101) | -25% | 132,061 | 174,886 | (42,825) | -24% |
| | O&M Spend.-Gas | 31,375 | 29,269 | 2,106 | 7% | 32,847 | 30,293 | 2,554 | 8% |
| | Cap. Spend. - Electric | 430,089 | 441,773 | (11,684) | -3% | 406,961 | 457,235 | (50,274) | -11% |
| | Cap. Spend. - Gas | 87,826 | 47,258 | 40,568 | 86% | 85,109 | 48,912 | 36,197 | 74% |
| | **Total** | 676,182 | 687,293 | (11,111) | -2% | 656,978 | 711,326 | (54,348) | -8% |
| SoCalGas | O&M Spending | 222,309 | 248,349 | (26,040) | -10% | 227,655 | 256,848 | (29,193) | -11% |
| | Cap. Spend. - Gas | 531,041 | 461,254 | 69,787 | 15% | 566,598 | 477,397 | 89,201 | 19% |
| | **Total** | 753,350 | 709,603 | 43,747 | 6% | 794,253 | 734,245 | 60,008 | 8% |

Attachment B in this review lists workpapers with the largest expense and capital spending variances for the 2017-2018. The Sempra Utilities provided spending explanations if the spending variance (over/under) exceeded the thresholds defined in the 2018 Compliance Letter.

Balancing or memorandum accounts track many costs detailed in the report. The Sempra Utilities may recover these costs above those authorized in D.16-06-054 at a future date via the annual gas true-up advice letter or application. Programs subject to balancing or memorandum accounts can be reviewed in the annual true-up process, the GRC, or a separate application, thus, analysis of those programs is not included here. These accounts include: Integrity Management, New Environmental Regulation, Research, Development & Demonstration and Vegetation Management.

While the Sempra Utilities were not required to provide work units or explanations for work completed within each program, ED staff made limited requests for this information since D.19-04-020 (O.P. 10) requires them in all future reports. The Sempra Utilities' responses to these requests showed that when there was no variance for work competed it was because of (a) no work unit had been authorized; (b) program activities were too varied to unitize; or (c) work units could not be defined for actual costs. In lieu of a comparison of work units, the Sempra Utilities' listed activities, contracts or other unit to better explain cost differences. The Sempra Utilities indicated future reports would be more detailed.

The 2018 report details as many as 15 cancelled projects including SDG&E's Moreno Compressor Station Modernization and SoCalGas' Line 2001 project. The report also lists as many as 30 deferred projects including SoCalGas' Honor Rancho Compressor Station Modernization and SDG&E's Rancho Santa Fe Sub Fire Hardening, Electric Clean Transportation Group expansion and the Greencraig Tenant Improvements. In the Electric Distribution line of business specifically, SDG&E reported that the utility underspent its capital programs by 11 percent. However, the Utility reported no cancelled or deferred projects in 2018 (see Analysis of Selected Programs, items A and B below).

The Sempra Utilities provided a comprehensive list of canceled/deferred or emergent programs and explained the designation since authorized costs in the report were imputed. The report generally

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[15] See for instance the discussion of gas transmission Line 235-2 on page 206 of D.19-09-051.
[16] For example, the 2015 Aliso Canyon Incident is the subject of an ongoing Commission proceeding (I.19-06-016).

disaggregates workpaper costs to a lower "subprogram" level known as cost centers (see D.19-04-020, p. 37). As such, any organizational changes within a program will spread the costs to other cost centers. The Sempra Utilities also explained that "…there are no explicitly authorized capital expenditures, by project/workpaper, in the post-test years for the TY 2016 GRC" and projects can "appear to have been cancelled or deferred, when, in reality, they were completed."[17]

While underspending often results in fewer completed projects, the Risk Spending Accountability Reporting process is meant to describe a relationship between each regulated utility's costs and commitments. ED staff recommend the Sempra Utilities provide more information about how much work had been accomplished in relation to how much was intended to be done. This will better aid the CPUC and the public in evaluating the cost effectiveness of risk mitigations.

ANALYSIS OF SELECTED PROGRAMS

While the Sempra Utilities should generally provide more work unit information in future reports, ED staff recommend including specific details in future reports to enhance verification. Where work unit information is not available, the report should enumerate work activities, contracts or work orders if they are cited in a program's variance explanation (see items C and D below). The report should list State or Federal mandates if they are cited in a program's variance explanation (item C). Programs should state the degree to which they contain safety, reliability or maintenance activities (item C). Programs should cite the degree to which individual activities contributed to the variances (item D).

ED staff made general requests for information covering cancelled, deferred or emergent work and work units. More detailed requests covered Electric Distribution, Gas Distribution, IT and Customer Services related programs. Staff analysis found no significant issues with the completeness of the Sempra Utilities' responses to these requests. The results of these inquiries may be found in the sections below:

### A. SDG&E Electric Distribution

In the Electric Distribution line of business, SDG&E reported that the utility underspent in its capital programs by 11 percent as shown in the Table 4 below.

**Table 4: SDG&E's 2018 Core Electric Capital Programs**

| | 2018 | | | |
|---|---|---|---|---|
| Program Groups | Recorded | Imputed Authorized | Variance | Variance % |
| Electric Distribution | 400,820 | 444,425 | (43,605) | -10% |
| Electric Generation | 6,141 | 12,810 | (6,670) | -52% |
| **Total** | **406,961** | **457,235** | **(50,274)** | **-11%** |

It is reasonable to expect that the level of under-expenditure shown by SDG&E would entail a lower number of projects. However, while SDG&E underspent its authorized budget in 2018, the utility reported that there are no cancelled or deferred projects in 2018.[18] The simple explanation is

[17] The Sempra Utilities' Response to ED's 2018 SAR Data Request 03, dated January 29, 2020, Question 1.
[18] Response to ED's 2018 SAR Data Request 01, dated January 10, 2020: "ED-DR-01 Q2 2018 SDG&E SAR.xlsx"

that SDG&E's 2018 authorized capital expenditures are not based on a specific list of projects.[19] SDG&E provided the following:

> "In the TY2016 GRC, specific capital project forecasts were approved to be placed-in-service in years 2014-2016 to establish the test year rate base and the capital-related revenue requirement (i.e. depreciation, tax, and return) for TY 2016. The post-test year revenue requirement increases are then calculated by applying a 3.5% factor to the total base margin component of the revenue requirements…For purposes of this report, the Utilities imputed a proxy value for 2018 authorized capital expenditures by taking a three-year average of the escalated capital spending for the years 2014 through 2016 and then applying the authorized attrition increases to this amount. The Utilities believe this is the most reasonable methodology to derive the authorized figures for capital expenditures, because it normalizes the direct capital spending assumptions from the forecast years."

In other words, there is little correlation between the authorized budget and any commitments on SDG&E's part in completing projects. Therefore, it is difficult to evaluate SDG&E's spending in 2018 on an accountability basis. As the Sempra Utilities transition to a risk-informed investment decision making framework, their capital forecasts need to be based on specific programs and associated projects to aid the Commission and the public in their evaluation of the cost effectiveness of risk mitigation spending.

### B. SDG&E Electric Distribution O&M: Substation C&O

SDG&E's RSAR shows a significant decrease in its spending in this program of $4.28 million (-56%). According to SDG&E, the program's core functions include installing and maintaining 140 distribution substations and the control functions of approximately 1,300 overhead and underground distribution field devices. SDG&E asserted that its Substation Construction and Maintenance program is "critical to the safe and efficient installation, maintenance, and reliability of all distribution electrical facilities."

SDG&E explained that substation maintenance costs can vary due to the time-based and cyclical nature of required maintenance requirements. Also, the amount, scope, and magnitude of repairs depend on the results of visual inspections and preventative diagnostic testing. SDG&E asserted that the lower expense is driven by "the amount of maintenance required from year to year." SDG&E also stated that it completed a lower number of patrol inspections in 2018 as compared to 2013. Furthermore, SDG&E performed fewer maintenance activities such as circuit breaker overhauls, insulator washing, and weed control. In sum, the reduction in maintenance spending in this program may be due to a lower number of inspections performed in 2018 and may have an impact on safety. The reduced number of inspections should be evaluated.

In evaluating SDG&E's risk spending, it is critical for the CPUC and the public to understand the drivers for the variances in year to year spending. ED recommends that SDG&E include more details in its variance explanations in future reports.

### C. SDG&E Information Technology O&M: Information Security Contracts

The 2018 report shows SDG&E spent $2.4 million on Information Security Contracts, which is 468 percent more than the imputed authorized value. The utility explained that the variance was caused

[19] Response to ED's 2018 SAR Data Request 01, dated January 10, 2020, Question 2.

by a heightened need for security. Since the authorized value in the report was based upon a settlement agreement which did not contain a specific value, SDG&E was unable to provide authorized contracting levels for cybersecurity. The utility disclosed they had paid 35 contracts, which averaged $67,000 per contract in 2018.[20]

While work units were not necessarily available for this program, program costs were difficult to verify. ED Staff recommends that SDG&E provide a quantitative explanation of the costs using units such as the number of contracts and contract values to ease verification.[21]

### D. SoCalGas Transmission O&M: Operator Qualification

The 2018 report says that SoCalGas spent $1.5 million on their Operator Qualification program in the reporting period, which is approximately 381 percent more than their imputed authorized value.

The report explains that SoCalGas spent less than the authorized amount on Gas Distribution O&M because of lower than forecasted staffing levels, which precipitated labor being shifted to other groups. The utility explained the variance as having to merge Operator Qualification with Operations Management & Training.

The utility disclosed that there had been 5,600 trainings in 2018. However, SoCalGas explained that its training forecast was based upon adjusted-recorded base year costs rather than historic trends in employee training since trainings vary by task and expiration date.[22]

The variance explanation, workpaper activity description and in line citations did not provide enough context to understand how the values from Operations Management and Training had affected the variance. ED staff recommends the utility consider ways to incorporate work unit reporting requirements from D.19-04-020 into Operator Qualification to ease verification.[23]

### E. SDG&E Support Services Capital: Business Unit Expansion Blanket

The 2018 report says that SDG&E spent $20 million on their Business Unit Expansion Blanket in the reporting period, which is approximately 661 percent more than their imputed authorized value. The utility explained that the office expansion in Kearny Mesa known as the Greencraig facility project was not included in the TY16 GRC application but comprised majority of the variance.

The utility's response to requests for information indicated that when the Greencraig facility project was excluded from the workpaper, total spending was only $1 million or nearly 40% below the $2.6 million authorized. Moreover, had the budget codes in this workpaper not been aggregated with other related projects, the variance in this workpaper would have been remarkably different.[24]

The utility indicated in TY 2016 Testimony (SDG&E- 17 JCS-28 to JCS-29) that unplanned business requirements are a possibility for this workpaper because it is designed to support business growth. ED Staff recommends that explanations for variances, which include projects like the Greencraig facility, disaggregate costs to show how the project relates to the workpaper and variance.[25]

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[20] The Sempra Utilities' Response to ED's 2018 SAR Data Request 03, dated January 29, 2020, Question 2.
[21] See D.19-04-020 p. 34 for discussion of report verification.
[22] The Sempra Utilities' Response to ED's 2018 SAR Data Request 03, dated January 29, 2020, Question 2b.
[23] See D.19-04-020 p. 34 for discussion of report descriptions.
[24] The Sempra Utilities' Response to ED's 2018 SAR Data Request 03, dated January 29, 2020, Question 2c.
[25] See D.19-04-020 p. 66 O. P. 11 A. for how to explain project expansions which lead to cost variances.

### F. SoCalGas Distribution Capital: Main and Service Abandonments

The 2018 report states that SoCalGas spent $12.6 million on Main and Service Abandonments in the reporting period, which is approximately 180 percent more than their imputed authorized value. The utility explained they had received more than the expected number of requests and orders for the program.

The utility disclosed they had received 4,672 orders for abandonments but their forecast for abandonments was based upon a five-year average of actuals rather than historic trends. SoCalGas has indicated that they are evaluating methods for calculating work units for the Main and Service Abandonment line item since they are required to provide them in their 2019 RSAR.

The utility justified spending on abandonments based upon a five-year spending average (SCG-04-R FBA-106 and SCG-04-R GOM-108) because the scope and costs for work orders or requests can vary widely.[26] However, with no measure of authorized work, the variance for this program is hard to verify.[27] ED staff recommend the Utility pursue the work unit requirements in D.19-04-020 and include a presentation of the work orders or requests upon which these program costs are based.

### G. SDG&E and SoCalGas Information Technology Capital: Mandated Software

The Sempra Utilities included IT-related workpapers in the 2018 report even though they were insignificantly related to safety, reliability or maintenance. However, the variances were sufficiently large that they required additional scrutiny. SoCalGas was authorized to spend $61,000 but spent $28 million on necessary Information Technology Capital upgrades in the reporting period. Likewise, SDG&E recorded a $31 million expense when they were only authorized $103,000. The report (p17) explained that unforeseen outages and required technology pilots caused the companies to reprioritize spending to accommodate upgrades.

The Sempra Utilities indicated that capital expenditures for software are related to Pipeline and Hazardous Materials Safety Administration (PHMSA) and California Legislature mandates or internal audits. Supporting information described spending on these programs as minimally related to safety, reliability or maintenance. Responses to requests for information listed multiple projects including: Integrity Management, remote monitoring, leak survey, internal audits, records management (e.g., workforce security and business processes) and operational flow orders. These projects were in turn related to numerous requirements including PHMSA code (ADB-2012-06, 49 CFR 192 Subparts O and P), CPUC requirements (PU Code 958, GO 58-A, GO 112-E and GO 112-F), CA Senate Bills (1371, 887, 1371), international standards (API 1173), and Tariff Rules (e.g. Gas Rule 30).[28]

While it is true that reporting requirements only nominally relate to these IT workpapers, many of the costs are described in TY 2016 testimony as relating safety, reliability or maintenance (2016 GRC SDG&E- 19 SJM-21 to SJM-30 and 2016 GRC Testimony: SCG-18-R CRO-19 to CRO- 34). ED Staff recommends that where the Sempra Utilities determine workpapers peripherally relate to the variance criteria described in D.19-04-020, they should still provide detailed explanations to ease the process of verification.[29]

[26] The Sempra Utilities' Response to ED's 2018 SAR Data Request 03, dated January 29, 2020, Question 2d.
[27] See D.19-04-020 p. 34 for discussion of report verification.
[28] The Sempra Utilities' Response to ED's 2018 SAR Data Request 03, dated January 29, 2020, Question 3a and 3b.
[29] See D.19-04-020 p. 34 for discussion of report verification.

# ATTACHMENT B

The following tables show the expense and capital programs (workpapers) for the two companies and the variances in total GRC spending. Variances reference the Sempra Utilities imputed authorized amount.

| Table 1: SDG&E Capital Spending 2017 - 2018 | | | | |
|---|---|---|---|---|
| | Variance $000 | | Variance % | |
| **WP Activity Description** | **2017** | **2018** | **2017** | **2018** |
| New Electric Distribution Business | $ (11,390) | $ (9,637) | -19% | -16% |
| Capacity/Expansion | $ (3,215) | $ (14,000) | -13% | -54% |
| DER Integration | $ 4 | $ (212) | 100% | 100% |
| Elect Equip/Tools/Misc | $ 7,178 | $ 1,574 | 644% | 136% |
| Franchise | $ (13,984) | $ (14,132) | -49% | -48% |
| Mandated | $ (9,948) | $ (3,869) | -25% | -10% |
| Materials | $ (5,400) | $ (5,838) | -26% | -27% |
| Overhead Pools | $ (19,008) | $ (10,760) | -18% | -10% |
| Reliability/Improvements | $ 8,017 | $ (17,476) | 9% | -20% |
| Safety & Risk Management | $ 31,063 | $ 24,883 | 69% | 53% |
| Electric Transmission/FERC Driven Projects | $ 4,218 | $ 5,861 | 24% | 32% |
| Electric Generation | $ (22,585) | $ (6,670) | -40% | -52% |
| Gas Distribution | $ 38,720 | $ 34,853 | 97% | 85% |
| Gas Transmission | $ 1,849 | $ 1,344 | 25% | 17% |
| Information Technology | $ 71,532 | $ 76,200 | 190% | 195% |
| Real Estate, Land Services & Facilities | $ 26,473 | $ 16,818 | 113% | 70% |

# ATTACHMENT B (cont)

| Table 2: SDG&E Expense Spending 2017 - 2018 | | | | |
|---|---|---|---|---|
| | Variance $000 | | Variance % | |
| WP Activity Description | 2017 | 2018 | 2017 | 2018 |
| Electric Distribution | $ (19,517) | $ (18,326) | -17% | -16% |
| Electric Generation | $ 781 | $ (24,499) | 6% | -42% |
| Electric & Fuel Procurement | $ (1,937) | $ (2,036) | -20% | -20% |
| Gas Distribution | $ 2,496 | $ 3,120 | 10% | 13% |
| Gas Engineering | $ (146) | $ (150) | -100% | -100% |
| Gas System Integrity | $ (147) | $ (251) | -46% | -76% |
| Gas Transmission | $ (243) | $ (317) | -5% | -6% |
| Customer Services - Office Operations | $ (3,963) | $ (4,539) | -16% | -18% |
| CS - Information & Technologies | $ (9,489) | $ (10,424) | -33% | -35% |
| Customer Services – Field | $ (3,509) | $ (4,779) | -14% | -19% |
| Cybersecurity | $ 3,484 | $ 5,409 | 56% | 86% |
| Information Technology | $ (24,202) | $ (24,953) | -31% | -31% |
| IT Leadership | $ (1,370) | $ (968) | -70% | -49% |
| IT Application Services | $ (9,485) | $ (9,261) | -40% | -38% |
| IT Infrastructure | $ (11,962) | $ (14,663) | -44% | -53% |
| Database / IT&OTI Contracts | $ 183 | $ 319 | 1% | 2% |
| Network/Telecom Services and Voice | $ (1,568) | $ (380) | -15% | -3% |
| Support Services Environmental | $ (2,433) | $ (3,407) | -32% | -44% |
| Support Services Real Estate, Land & Facilities | $ (8,841) | $ (12,970) | -22% | -31% |
| Accounting & Finance, Legal, Regulatory Affairs, External Affairs | $ (214) | $ (133) | -35% | -22% |
| Compensation & Benefits | $ (171) | $ (188) | -51% | -54% |
| Corporate Center – General | $ 1,532 | $ (3,482) | 3% | -6% |
| Human Resources Dept, Safety, LTD & WC | $ (1,965) | $ (1,889) | -21% | -20% |
| Risk Management | $ 1,791 | $ 180 | 65% | 6% |

# ATTACHMENT B (cont)

| Table 4: SoCalGas Capital Spending 2017 - 2018 | | | | |
|---|---|---|---|---|
| | Variance $000 | | Variance % | |
| **WP Activity Description** | **2017** | **2018** | **2017** | **2018** |
| Gas Distribution | $ 14,951 | $ (1,580) | 5% | -1% |
| Gas Transmission | $ 24,871 | $ 88,777 | 24% | 82% |
| Gas Storage | $ 29,967 | $ 2,004 | 41% | 3% |
| IT Applications | $ 25,864 | $ 43,054 | 79% | 127% |
| IT Infrastructure | $ 10,274 | $ (8,597) | 22% | -18% |
| Support Services | $ 11,261 | $ 15,809 | 56% | 76% |

# ATTACHMENT B (cont)

| Table 4: SoCalGas Expense Spending 2017 - 2018 | | | | |
|---|---|---|---|---|
| | Variance $000 | | Variance % | |
| WP Activity Description | 2017 | 2018 | 2017 | 2018 |
| Gas Control & System Operations-Planning | $ (2,297) | $ (2,049) | -30% | -26% |
| Gas Distribution | $ (12,814) | $ (10,417) | -9% | -7% |
| Gas Engineering | $ (7,883) | $ (8,875) | -33% | -36% |
| Major Projects | $ (589) | $ 283 | -28% | 13% |
| Gas System Integrity | $ (3,466) | $ (3,499) | -27% | -27% |
| Gas Transmission | $ (6,496) | $ (10,566) | -16% | -25% |
| Underground Storage | $ 327 | $ (2,626) | 1% | -7% |
| Gas Procurement | $ (705) | $ (319) | -16% | -7% |
| Customer Services - Field & Meter Reading | $ (50,561) | $ (62,334) | -23% | -28% |
| Customer Services - Information | $ (7,201) | $ (7,368) | -28% | -28% |
| Customer Services - Office Operations | $ (14,158) | $ (14,267) | -27% | -27% |
| Customer Services - Technology, Policies, & Solutions | $ 244 | $ 255 | 7% | 7% |
| Information Technology and Cybersecurity | $ 775 | $ 1,766 | 8% | 18% |
| Infrastructure | $ 160 | $ (412) | 2% | -4% |
| Environmental Services | $ 847 | $ 723 | 22% | 18% |
| Fleet Services & Facility Operations | $ 1,009 | $ (2,213) | 27% | -10% |
| Supply Management & Supplier Diversity | $ (2,442) | $ (2,446) | -41% | -40% |
| Accounting & Finance, Legal, Regulatory Affairs, External Affairs | $ (198) | $ (173) | -18% | -15% |
| Compensation & Benefits | $ (466) | $ (603) | -52% | -64% |
| Corporate Center – General | $ 21,301 | $ 20,571 | 44% | 41% |
| Human Resources Dept, Safety, LTD & WC | $ (6,191) | $ (4,443) | -30% | -21% |
| Risk Management | $ (836) | $ (866) | -75% | -76% |