

Application: A.23-11-003
Witness: Leslie F. Hayles
Chapter: 3 - Supplemental

**SUPPLEMENTAL TESTIMONY OF
LESLIE F. HAYLES
ON BEHALF OF SOUTHERN CALIFORNIA GAS COMPANY
(CEMA ACCOUNTING)**

**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA**



March 11, 2024

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1 SUPPLEMENTAL TESTIMONY OF LESLIE F. HAYLES
2 (CEMA ACCOUNTING)

3 I. PURPOSE

4 This supplemental testimony has been prepared as directed by the February 8, 2024,
5 Administrative Law Judge (ALJ) Ruling Requesting Additional Information (Ruling)¹ issued in
6 Application (A.) 23-11-003, the Application of Southern California Gas Company (SoCalGas)
7 for Authorization to Recover Costs Recorded in Its Catastrophic Event Memorandum Account
8 (CEMA) and Its COVID-19 Pandemic Protections Memorandum Account (CPPMA)
9 (Application). The Ruling directs SoCalGas to provide responses to five questions with regard
10 to subaccounts and cost allocation methodology. This supplemental testimony will address the
11 questions concerning CEMA accounting.²

12 II. CEMA LINE-ITEM ACCOUNTING

13 The Ruling directs SoCalGas to, "...provide line-item accounting of its CEMA and
14 CPPMA, justifying the incrementality of all line items over \$500,000."³ As such, SoCalGas has
15 provided the line-item detail for the CEMA account in Attachment A. CPPMA line items have
16 also been added to Attachment A, following CEMA Subaccount F, but are addressed separately
17 in the Supplemental Testimony of Ashok Lad (Chapter 4).

18 A. INCREMENTALITY

19 In the Prepared Testimony of Leslie F. Hayles (Chapter 3), SoCalGas states that
20 incremental costs are "...Operation and Maintenance (O&M) expenses and capital expenditures
21 incurred by SoCalGas as a result of, and due solely to, the CEMA events outlined in [the]
22 application."⁴ In other words, if the CEMA-eligible catastrophic event had not occurred,
23 SoCalGas would not have incurred the related expenses. Furthermore, the Prepared Testimony
24 of Leslie F. Hayles (Chapter 3) states that because the CEMA was established "...for utilities to
25 recover unforeseen costs caused by catastrophic events, SoCalGas does not include [CEMA

¹ See: <https://docs.cpuc.ca.gov/PublishedDocs/Efile/G000/M524/K929/524929875.PDF>.

² An errata to the Prepared Testimony of Leslie F. Hayles (Chapter 3) is being served concurrently with this supplemental testimony. The errata reflects a correction to non-incremental capital expenditures.

³ *Id.* at 2.

⁴ A.23-11-003, Prepared Testimony of Leslie F. Hayles (Chapter 3) at LH-2. Available at: https://www.socalgas.com/sites/default/files/Ch_03-Testimony_of_Leslie_Hayles_CEMA_Accounting_PDFA.pdf.

1 costs] when developing its O&M and capital forecast in General Rate Cases (GRC). Therefore,
2 the incremental costs related to these CEMA events are not included in SoCalGas’s normal
3 business operating rates.”⁵ As such, the CEMA costs included in this Application were not
4 forecasted for inclusion in any of SoCalGas’s GRC proceedings, or any other proceeding, and
5 therefore are incremental to amounts authorized.

6 Further, in the Assigned Commissioner’s Scoping Memo and Ruling issued in this
7 proceeding on February 13, 2024, the Commission reiterated principles of incrementality from
8 Decision (D.) 23-02-027 which states:

9 Generally, costs are incremental if, in addition to completing the planned work that
10 underlines the authorized costs, the utility had to procure additional resources, be they in
11 labor or material, to complete the new activity. The existence and completion of a new
12 activity by itself does not prove the cost was incremental. If a new activity is completed
13 by redirecting existing resources in a related work category, no incremental cost was
14 incurred, despite the activity itself being “incremental.”⁶

15 SoCalGas incurred several expenses in response to the CEMA events included in the
16 Application and, where resources were redirected, SoCalGas did not consider those costs
17 incremental, such as in the case of straight-time labor. Straight-time labor for the existing
18 workforce is forecasted in the GRC and, even if used to respond to a CEMA event, it is not
19 considered incremental and therefore not recorded to the CEMA. Conversely, overtime labor
20 (time and one-half, double time) for responding to CEMA events is not forecasted in the GRC
21 nor reallocated from any other activity and therefore is considered incremental and recorded to
22 the CEMA.

23 Furthermore, in response to the CEMA events, SoCalGas did not redirect non-labor
24 resources that were forecasted in the GRC. As such, all non-labor costs included in the
25 Application, except for the capital expenditures related to the Cost of Removal (COR) discussed
26 in Section III.8 of the Prepared Testimony of Leslie F. Hayles (Chapter 3), are new, were not

⁵ *Id.* at LH-3.

⁶ February 13, 2024, Assigned Commissioner’s Scoping Memo and Ruling at 4. Available at:
<https://docs.cpuc.ca.gov/PublishedDocs/Efile/G000/M525/K381/525381147.PDF>.

1 reallocated from another authorized activity, are in addition to amounts previously authorized to
2 be recovered in rates, and are considered incremental.

3 **B. CEMA LINE-ITEMS GREATER THAN \$500,000**

Item No.	CEMA Subaccount	CEMA Event	No. of Line Items
1	Subaccount A	2017 Winter Storms	-
2	Subaccount B	2017 Wildfires	8
3	Subaccount C	2018 Wildfires	-
4	Subaccount D	2019 Winter Storms	1
5	Subaccount E	2019 Wildfires	2
6	Subaccount F	COVID-19 Global Pandemic	20
Total			31

4
5 SoCalGas completed Attachment A as instructed and included the line-items for Payroll
6 Tax and Avoided O&M Costs which were not recorded directly to the O&M work orders but
7 were calculated separately and recorded directly to the CEMA. SoCalGas identified 31 line-
8 items (cost elements) within CEMA Subaccounts A-F that were greater than \$500,000 and
9 required an incrementality justification as shown in Table 1 above. The justification for each
10 line-item is provided in column N of the tab labeled "Subaccounts" in Attachment A. Tables 2
11 through 5 below provide a list of the cost elements that were greater than \$500,000 in each
12 subaccount.

1

Table 2	
Subaccount B - 2017 Wildfires	
Incremental Line Items Greater than \$500,000	
Item No.	Cost Element
1	Salaries-Union Time and One-half
2	Salaries-Union Double Time
3	Employee Travel-Hotel/Lodging (Room & Tax Only)
4	Material-Valves
5	Services-Contractors-Major Projects
6	Services-Contractors-Specific Jobs
7	Services-Contractors-Engineering
8	Services-Construction-Gas Pipeline
Total	

2

Table 3	
Subaccount D - 2019 Winter Storms	
Incremental Line Items Greater than \$500,000	
Item No.	Cost Element
1	Services-Contractors-Major Projects

3

Table 4	
Subaccount E - 2019 Wildfires	
Incremental Line Items Greater than \$500,000	
Item No.	Cost Element
1	Service-Contractors-Time and Equipment
2	Service-Consulting-Other
Total	

Table 5
Subaccount F - COVID-19 Global Pandemic
Incremental Line Items Greater than \$500,000
(\$000)

Item No.	Cost Element
1	Salaries-Miscellaneous
2	Salaries-Other Cash Awards
3	Material-Tools
4	Material-Safety
5	Material-Safety Equipment
6	Material Issuances-Non Pipe
7	Purchased Services
8	Service-Contractors-Contract Labor
9	Service-Contractors-Specific Jobs
10	Service-Advertising and Marketing
11	Service-Security
12	Service-Temporary Agency Labor
13	Service-Construction-Other
14	Service-Consulting-Other
15	Service-Medical
16	Service-Vehicle and Equipment Rental
17	Service-Maintenance and Repairs
18	Service-Janitorial
19	Service-Contract Labor
20	Miscellaneous Reimbursements
Total	

1
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In addition to the narrative in column N, SoCalGas also included tabs containing further detail for the O&M and capital charges included in each cost element.⁷ These tabs are labeled with the corresponding subaccount and cost-type designation (*i.e.*, “Sub B – Cap”, “Sub B – O&M”). The cost elements in the supporting tabs are used universally across SoCalGas’s operations and may account for costs incurred for several different activities within the same

⁷ There are no support tabs provided for Subaccounts A and C as there were no line-items greater than \$500,000 for these subaccounts.

1 CEMA event. Each supporting tab shows how the individual cost elements were allocated
2 across the various CEMA activities within a CEMA subaccount.

3 This concludes my supplemental testimony.

4 **III. WITNESS QUALIFICATIONS**

5 My name is Leslie F. Hayles and I am currently employed by the Southern California Gas
6 Company. My business address is 555 W. Fifth Street, Los Angeles, California, 90013. I am
7 currently the Business Innovations and Reporting Manager for the Operational Planning
8 Department of the Accounting and Finance Division. I currently manage enterprise reporting
9 and analysis of operating costs and the development and administration of several cost reporting
10 dashboards.

11 I am a certified public accountant in active status with the state of California and hold a
12 Bachelor of Science degree in Business Administration with an Accounting option. I started my
13 career with the Sempra family of Companies in 1996 and since then have held several leadership
14 positions in Internal Audit, Centralized Business Planning, Asset Management, and Operational
15 Planning. I have a thorough understanding of Generally Accepted Accounting Principles,
16 Regulatory Balancing Accounts, Operational Planning and Analysis, and Sarbanes-Oxley
17 Business Controls.