

Company: Southern California Gas Company (U 904 G)
Proceeding: 2024 General Rate Case
Application: A.22-05-_____
Exhibit: SCG-36

PREPARED DIRECT TESTIMONY OF
SCOTT R. WILDER
(COST ESCALATION)

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA



May 2022

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SUMMARY

- Cost escalators are used to adjust for inflation the utility's labor, materials, and services costs from Base Year 2021 nominal dollars into Test Year 2024 nominal dollars, and for annual post-test year (PTY) adjustments.
- IHS/Markit Global Insight is used to forecast external national/regional-level utility industry cost inputs (except for represented labor costs, which use the utility's actual union contract escalations).
- To aggregate escalators, inputs are weighted based on the utility's actual Base Year 2021 expenses.

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**SOCALGAS DIRECT TESTIMONY OF
SCOTT R. WILDER
(COST ESCALATION)**

I. SCOPE AND PURPOSE

My prepared direct testimony presents the cost escalation factors used to reflect the effect of external inflation in Southern California Gas Company’s (SoCalGas) labor operations and maintenance (O&M), non-labor O&M, and capital-related costs in its Test Year (TY) 2024 General Rate Case (GRC) Application. I present these escalations as reasonable forecasts that should be adopted by the California Public Utilities Commission (CPUC or Commission) in determining SoCalGas’s TY 2024 revenue requirement and annual post-test year (PTY) adjustments.

Per the Commission’s 2007 Rate Case Plan, Decision (D.) 07-07-004, the escalation factors discussed in this testimony will be updated after hearings and before implementation, based on the same indexes used in the original presentation during hearings.

II. COST ESCALATION METHODOLOGY TO TEST YEAR 2024

SoCalGas requests to include in its revenue requirement what expenses it expects to incur in 2024 for labor, materials, and services. It is necessary to account for the effects of inflation on SoCalGas’s expenses between 2021 and 2024. Cost escalators were used to adjust for inflation the costs from 2021 nominal dollars into TY 2024 nominal dollars, using various escalation series from IHS/Markit Global Insight’s (Global Insight) Utility Cost Information Service (UCIS). The SoCalGas forecast incorporates utility cost escalators from Global Insight’s 4th Quarter 2021 Power Planner Forecast published on January 25, 2022.¹ The Global Insight O&M escalators are based on recorded utility cost data gathered by the Federal Energy Regulatory Commission (FERC) according to its Uniform System of Accounts (FERC accounts), then forecasted by Global Insight by functional categories (*e.g.*, gas distribution, customer services, etc.) of grouped FERC accounts. Further details of data and weighting calculations are in the workpapers for this testimony, Exhibit (Ex.) SCG-36-WP. The following sections provide additional details regarding the escalation methodologies, and the resulting labor O&M, non-

¹ IHS/Markit Global Insight is an internationally recognized econometric forecasting firm. The firm’s utility cost forecasts have been used and approved in many regulatory proceedings, including SoCalGas’s TY 2019 GRC.

1 labor O&M, and capital cost annual escalators are summarized in Table SRW-2 in Section III of
2 my testimony.

3 **A. Labor O&M Escalation**

4 SoCalGas’s labor escalation index is a weighted average of three Global Insight wage and
5 salary cost indexes: CEU4422000008, “Utility Service Workers” (weighted 44.485%);
6 ECIPWMBFNS, “Managers and Administrators” (weighted 22.320%); and ECIPWPARNs,
7 “Professional and Technical Workers” (weighted 33.195%). The weightings are based on latest
8 recorded-year 2021 labor earnings for the three corresponding categories of SoCalGas
9 employees: (1) represented employees; (2) non-represented supervisory employees including
10 managers, directors, and executives; and (3) non-represented, non-supervisory employees. The
11 utility service workers’ portion incorporates wage increases already stipulated by labor contracts
12 for SoCalGas’s represented employees from 2009 through 2024.

13 **B. Non-Labor O&M Escalation**

14 In the 2008 GRC Decision, D.08-07-046, SoCalGas was ordered to file subsequent GRCs
15 using the “cost center” system of internal accounting and control rather than convert and allocate
16 the O&M data to approximate the FERC accounts.² To be consistent with the cost center
17 presentation requirements, SoCalGas has combined various weighted Global Insight utility cost
18 series to develop a single escalation index for non-labor O&M expenses, labeled as
19 “JGTOTALMSX_SCG.” This index’s component weights are based on SoCalGas’s recorded
20 Base Year 2021 expenses. Table SRW-1 shows each component’s weighting in
21 JGTOTALMSX_SCG, its series name, and description.

² D. 08-07-046 at 10-11, 106 (Ordering Paragraph 22).

Table SRW-1
Global Insight Series Components in Southern California Gas Company's
Non-Labor O&M Cost Index JGTOTALMSX_SCG

<u>Weight</u>	<u>Series Name</u>	<u>Description</u>
100.00%	JGTOTALMSX_SCG	SoCalGas Composite Gas Non-Labor
		O&M Index
8.37%	JGUSOMMS	Gas Storage (underground)
34.30%	JGTOMMS	Gas Transmission
26.86%	JGDOMMS	Gas Distribution
6.70%	JGCAOMS	Gas Customer Accounts
1.81%	JGCSIOMS	Gas Customer Service & Information
21.96%	JGADGOMMS_X926	Gas Admin & General, excluding Pensions & Benefits

All the component cost escalators in Table SRW-1 come from Global Insight's utility O&M cost model, except for the Administrative & General (A&G) series. Most of SoCalGas's pensions and benefits costs (FERC Account 926) are treated separately and are therefore excluded from regular cost escalations. Pensions have separate balancing account treatment, as discussed in the Corporate Center – Pensions and PBOPs testimony of Pete Andersen (Ex. SCG-26/SDG&E-30). Employee medical expenses (FERC Account 926.3) are also treated separately and are discussed in the Corporate Center – Compensation and Benefits testimony of Debbie Robinson (Ex. SCG-25/SDG&E-29). The Pensions and Benefits cost component was removed from Global Insight's utility A&G cost series JGADGOMMS. The resulting adjusted series JGADGOMMS_X926 was used to escalate SoCalGas's non-labor, non-FERC Account 926 A&G costs. The single cost escalation series for SoCalGas's shared services and working cash was based on a weighted average of labor and non-labor O&M indexes. Weights were based on actual 2021 SoCalGas shared-service cost charges by FERC account to labor (weighted 45.51%) and to the six non-labor cost categories (weighted an aggregate total of 54.49%) described above in Table SRW-1.

1 **C. Capital Cost Escalation**

2 The construction cost index used by SoCalGas and forecasted by Global Insight is based
3 on the recorded Handy-Whitman³ cost series for the Pacific Region (encompassing the states of
4 California, Oregon, and Washington). The forecasted Global Insight utility construction cost
5 series JUG@PCF, “Total Gas Plant, Pacific Region,” was used to escalate SoCalGas’s capital
6 construction costs.

7 **III. POST-TEST YEAR COST ESCALATORS**

8 Beyond TY 2024, SoCalGas proposes that its base margin revenue requirements be
9 updated each year according to the PTY ratemaking mechanism described in the Post-Test Year
10 Ratemaking testimony of Khai Nguyen (Ex. SCG-40). A gas O&M utility input price index
11 (GOMPI) is calculated by SoCalGas and used to adjust O&M expenses to reflect the expected
12 cost inflation of goods and services comprising inputs that SoCalGas will use to serve its
13 customers. The GOMPI’s underlying PTY escalation indexes are the same O&M indexes
14 described in Section II for escalations from 2021 to TY 2024. Based on SoCalGas’s recorded
15 2021 expenses, the gas labor index is weighted 56.08%, and the non-labor O&M cost index
16 JGTOTALMSX_SCG is weighted 43.92%, to form a single GOMPI. For implementation and
17 ease of calculation in PTY adjustments, the values of GOMPI and its component indexes will be
18 re-based from BY 2021 = 1.0000 to TY 2024 = 1.0000.

19 Table SRW-2 shows annual percentage changes for each cost escalator.

³ Handy-Whitman indexes track recorded cost trends for different types of utility construction. They are updated and published every six months by the firm of Whitman, Requardt and Associates (WRA) of Baltimore, Maryland.

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Table SRW-2
Southern California Gas Company
Summary of Cost Escalation Indexes

<i>Annual Percent Changes</i>	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
<u>Shared Services</u>	2.30 %	2.32 %	1.39 %	4.27 %	2.84 %	2.08 %	2.17 %	2.13 %	2.27 %	2.34 %
<u>Operations & Maintenance</u>										
Labor O&M Index	2.76 %	2.76 %	2.56 %	2.97 %	3.46 %	3.13 %	3.08 %	2.79 %	2.85 %	2.89 %
Gas Nonlabor O&M Index	3.17 %	1.75 %	- 0.40 %	7.64 %	4.23 %	- 0.18 %	0.58 %	1.27 %	1.69 %	1.84 %
Post-Test Year GOMPI	2.94 %	2.32 %	1.27 %	4.97 %	3.80 %	1.67 %	2.00 %	2.14 %	2.36 %	2.45 %
<u>Capital-Related</u>										
Total Gas Plant	5.91 %	4.77 %	4.99 %	15.04 %	7.58 %	- 4.98 %	- 3.40 %	- 0.89 %	1.71 %	2.24 %

4 **IV. CONCLUSION**

5 This concludes my prepared direct testimony.

1 **V. WITNESS QUALIFICATIONS**

2 My name is Scott R. Wilder. I am employed by SoCalGas as a Business/Economics
3 Advisor in the Gas Regulatory Affairs Department for SoCalGas and SDG&E. My business
4 address is 555 West Fifth Street, Los Angeles, California 90013-1011.

5 I have held my current position since February 2004. Since 1993, I have been employed
6 at SoCalGas in various forecasting and analysis positions of increasing responsibility. From
7 1986 to 1993, I was employed by Pacific Gas and Electric Company in San Francisco in various
8 positions involving demand and economic forecasting, planning, and analysis. From 1982 to
9 1984, I worked as a Development Project Manager with the Southern Baptist International
10 Mission Board, working with farmers and engineers to build irrigation aqueducts in the Andes
11 Mountains of Peru.

12 I received a Bachelor of Science degree in Agricultural & Managerial Economics from
13 the University of California at Davis in 1982 and a Master of Science degree in Agricultural
14 Economics from U.C. Davis in 1986.

15 I have previously testified before the California Public Utilities Commission.

APPENDIX A
GLOSSARY OF TERMS

APPENDIX A
Glossary of Terms

ACRONYM	DEFINITION
A&G	Administrative & General
BY	Base Year
CPUC	California Public Utilities Commission
FERC	Federal Energy Regulatory Commission
GOMPI	Gas O&M utility price index
GRC	General Rate Case
O&M	Operations and Maintenance
PBOP	Post-Retirement Benefits Other Than Pensions
PTY	Post-Test Year
SoCalGas	Southern California Gas Company
TY	Test Year
UCIS	Utility Cost Information Service