

Company: Southern California Gas Company (U 904 G)
Proceeding: 2024 General Rate Case
Application: A.22-05-015
Exhibit: SCG-40-2R-E

SECOND REVISED
PREPARED DIRECT TESTIMONY OF
KHAI NGUYEN
(POST-TEST YEAR RATEMAKING)

ERRATA

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA



May 2023

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SUMMARY

My testimony sponsors Southern California Gas Company’s (SoCalGas or the Company) request to authorize a post-test year (PTY) ratemaking mechanism, which would result in revenue requirement increases of:

(\$ in millions)	2025		2026		2027	
Revenue Requirement Increase	6.66%	\$293	5.44%	\$255	7.55%	\$374

- SoCalGas’s proposed ratemaking mechanism adjusts authorized revenue requirements for:
 - Labor and non-labor costs based on IHS Markit Global Insight’s Power Planner (Global Insight) forecast,
 - Medical costs based on Willis Towers Watson’s forecast, and
 - Capital-related revenue requirement using:
 - Five-year average of capital additions escalated based on Global Insight’s forecast,
 - A forecast for the Honor Rancho Compressor Modernization project,
 - A forecast for the Customer Information System (CIS) project, and
 - Forecasts for various Gas Integrity Management Programs (Distribution Integrity Management Program or DIMP, Transmission Integrity Management Program or TIMP, Storage Integrity Management Program or SIMP, Facilities Integrity Management Program or FIMP, and Gas Safety Enhancement Programs or GSEP).

- I also propose
 - A four-year term (2024-2027) for this test year (TY) 2024 General Rate Case (GRC) cycle, consistent with Decision (D.) 20-01-002, with SoCalGas’s next test year in 2028;
 - Continuation of the currently authorized Z-factor mechanism; and
 - Continued use of annual PTY advice letter regulatory filings to update the authorized revenue requirements.

1 **ERRATA SECOND REVISED PREPARED DIRECT TESTIMONY OF**
2 **KHAI NGUYEN**
3 **(POST-TEST YEAR RATEMAKING)**

4
5 **I. INTRODUCTION**

6 My testimony supports SoCalGas’s PTY ratemaking mechanism proposal to provide an
7 appropriate level of authorized revenues in 2025, 2026, and 2027 (the PTY period). The
8 mechanism proposed herein would provide SoCalGas with sufficient revenues to support the
9 principles and policies described throughout this case and summarized in the prepared direct
10 testimony of SoCalGas witness Maryam Brown (Exhibit SCG-01).

11 SoCalGas proposes a PTY ratemaking mechanism to adjust its authorized revenue
12 requirement in the post-test years by applying separate attrition adjustments for operating and
13 maintenance (O&M) expenses (including a separate attrition adjustment for medical expenses¹),
14 capital-related costs and exogenous cost changes (*see* Section III.E). This mechanism is designed
15 to provide SoCalGas with sufficient revenues during the PTY period to continue providing safe
16 and reliable service to its customers, while providing shareholders a reasonable opportunity to
17 earn the rate of return (ROR) previously authorized by the California Public Utilities
18 Commission (CPUC or Commission).

19 SoCalGas proposes:

- 20 (1) A four-year term (2024-2027) for this GRC cycle, consistent with D.20-01-002;
21 (2) Using Global Insight’s utility cost escalation factors to determine PTY O&M
22 escalation (excluding medical expenses²);
23 (3) Adopting Willis Towers Watson’s actuarial forecasts and escalations to determine
24 PTY medical expenses;
25 (4) Calculating PTY capital-related revenue requirements using:
26 • A five-year average capital additions escalated using Global Insight’s
27 utility cost escalation factors;
28 • A forecast for the Honor Rancho Compressor Modernization capital
29 additions;
30 • A forecast for the Customer Information System (CIS) Replacement
31 capital additions;

¹ Escalation is proposed to be applied to net medical expenses (*i.e.*, after reassignments to capital).

² Franchise fees and uncollectible expense are also excluded from O&M escalation.

- Forecasts for the Gas Integrity Management Program capital additions (TIMP, DIMP, SIMP, FIMP, GSEP);
- Continuing the currently authorized Z-Factor mechanism; and
- Continuing the use of annual PTY advice letter regulatory filings to update the authorized revenue requirements.

This proposal is designed to align PTY revenue requirements: (a) to account for unique cost escalation issues, such as expected higher growth medical costs,³ and (b) to account for SoCalGas’s capital investments that mitigate risk and improve safety and reliability of the utility infrastructure. This proposal does not cover all anticipated expenses and capital-related investments that are expected to be incurred during the post test year period; however, the PTY ratemaking mechanism is designed to provide the level of funding necessary to support important safety, reliability, and technology projects, while promoting productivity and efficiencies during the next GRC cycle.

Using the proposed PTY mechanism for 2025, 2026, and 2027, SoCalGas’s proposal would result in the following attrition year revenue requirement increases:

TABLE KN-1
Summary of Revenue Requirement Request

(\$ in millions)	2025		2026		2027	
Revenue Requirement Increase	6.66%	\$293	5.44%	\$255	7.55%	\$374

II. PROPOSED GRC TERM

D.20-01-002 adopted revisions to the Rate Case Plan (RCP), including moving the investor-owned utilities, such as SoCalGas, to a four-year GRC cycle schedule (test year and three attrition years). According to the schedule adopted in D.20-01-002, SoCalGas’s next test year would be 2028. SoCalGas proposes a four-year term of 2024-2027 for this GRC, with its next GRC cycle beginning with TY 2028. Accordingly, I propose no changes to the term and schedule adopted in D.20-01-002.

III. POST-TEST YEAR RATEMAKING MECHANISM

A. Background

SoCalGas is proposing a four-year TY 2024 GRC cycle with attrition adjustments in the second, third and fourth years (2025, 2026, and 2027). The traditional GRC framework provides

³ Escalation is proposed to be applied to net medical expenses (*i.e.*, after reassignments to capital).

1 for an annual attrition mechanism for interim adjustments to the test-year revenue requirements
2 in the post-test years. Attrition mechanisms should provide reasonable and sufficient funding for
3 operating expenses and capital investments. The proposed attrition increases in 2025, 2026, and
4 2027 account for expected increases in costs due to inflation and increased capital investments
5 (capital additions). Without an explicit attrition adjustment, SoCalGas would not have an
6 opportunity to cover its reasonable costs and expenses and earn its authorized ROR after TY
7 2024.

8 In the TY 2019 GRC application, SoCalGas proposed a PTY ratemaking mechanism
9 that would adjust its authorized revenue requirements by applying separate attrition rates to
10 O&M and capital-related revenue requirements, consistent with the current proposal. In
11 adopting this two-part attrition mechanism as reasonable, the Commission noted:

12 Since O&M expenses and capital expenditures affect the revenue requirement
13 differently, we find that a two-part attrition mechanism, where O&M expenses
14 and capital-related revenues are separately escalated, is reasonable. Therefore, we
15 find it reasonable to apply different PTY mechanisms for O&M and for capital
16 additions.⁴

17 SoCalGas expects to make significant annual capital investments in the TY 2024 GRC.
18 As described in the prepared direct testimony of SoCalGas witness Deana Ng (Exhibit SCG-03,
19 Chapter 1), SoCalGas's capital program will continue to focus on investments necessary to build
20 and maintain safe and reliable infrastructure and to mitigate safety risks identified in its 2021
21 RAMP Report.⁵ This commitment is emphasized throughout the testimony of all SoCalGas
22 witnesses sponsoring TY 2024 cost forecasts and aligns with SoCalGas's mission to maintain
23 and enhance its safety-focused culture. In line with investing in safety and reliability, SoCalGas
24 presents in this GRC its sustainability and resiliency objectives discussed in the testimony of
25 SoCalGas witnesses Jonathan Peress and Michelle Sim (Exhibit SCG-02, Chapters 1 and 2).
26 Consequently, the level of estimated capital expenditures leading up to and including TY 2024
27 are part of an ongoing investment effort, which will continue beyond the test year period.
28 Therefore, the PTY attrition mechanism should reflect the anticipated growth in capital additions
29 in excess of depreciation in the PTY period.

⁴ D.19-09-051 at 707.

⁵ Available at <https://www.socalgas.com/regulatory/2021-ramp-report>.

1 **B. Proposed Post-Test Year O&M Margin Escalation**

2 SoCalGas’s proposed PTY ratemaking mechanism comprises two adjustment
3 components:

- 4 • O&M margin and medical expense escalation (excluding franchise fees and
5 uncollectible expense); and
- 6 • Growth in capital-related margin.

7 Appendix B provides calculations of the 2025, 2026, and 2027 revenue requirements
8 using the current forecasted 2025, 2026, and 2027 O&M and capital cost escalation factors.

9 As part of this framework, SoCalGas proposes to absorb increased operating costs from
10 customer growth through productivity improvements.

11 **1. Escalatable O&M Margin**

12 Revenue requirement is a term used for the calculation of total O&M and capital-related
13 costs necessary to support SoCalGas’s rate base to be collected from utility ratepayers. The
14 revenue requirement is collected in two components: miscellaneous revenues and base margin.
15 This section describes how SoCalGas’s PTY mechanism escalates the TY 2024 base margin
16 component of revenue requirement, which is described in the Summary of Earnings testimony of
17 Ryan Hom, Ex. SCG-39. The O&M portion of base margin includes the direct and indirect O&M
18 expenses. The base to which SoCalGas’s proposed O&M escalation factor will be applied is
19 called “escalatable O&M margin.” SoCalGas proposes to escalate total O&M margin, excluding
20 medical expenses, franchise fees and uncollectible expense. SoCalGas also proposes to
21 separately escalate medical expenses (*see* Section III.B.3). Escalation on miscellaneous revenues
22 will not be requested because miscellaneous revenues are proposed to be fixed amounts for the
23 post-test year period, and franchise fees and uncollectible expense items are not subject to
24 escalation because they are proposed to be applied as fixed rates for the post-test year period.

25 **2. O&M Margin Escalation Factors**

26 SoCalGas is proposing a PTY ratemaking mechanism that escalates O&M costs using
27 Global Insight’s utility-specific forecast, as described in the Cost Escalation testimony of Scott
28 Wilder (Ex. SCG-36). Mr. Wilder’s testimony describes using the Global Insight forecast to
29 develop separate weighted average labor and non-labor O&M escalation factors, then creating a
30 single weighted average labor and non-labor O&M escalation factor based on 2021 recorded
31 expenses. For PTY attrition calculation purposes (*see* Appendix B), SoCalGas has used the

1 Global Insight 4th Quarter 2021 forecast (released in January 2022), which resulted in a single
2 weighted average O&M escalation factors. The associated revenue requirements are:

3 **TABLE KN-2**
4 **O&M Margin Escalation Summary**

(\$ in millions)	2025		2026		2027	
O&M Margin Escalation	2.14%	\$38	2.36%	\$42	2.45%	\$45

5
6 The Commission has adopted Global Insight as the preferred index to use in
7 escalating attrition year revenue requirement in multiple recent GRC decisions, including in
8 SDG&E's and SoCalGas's TY 2019 GRC cycle, because it more accurately reflects how
9 utilities incur costs.⁶ In assessing the reasonableness of SDG&E's and SoCalGas's PTY
10 ratemaking mechanism for the years 2022 and 2023 (in the petition for modification of
11 D.19-09-051, filed in April 2021, in compliance with D.20-01-002), the Commission
12 concluded:

13 The Commission has considered the reasonableness of using the IHS Markit
14 Global Insight Index instead of other indices, such as CPI [Consumer Price Index]
15 in this GRC cycle. In D.19-09-051, the Commission found that applying a
16 percentage increase based on the CPI does not reflect how utilities incur costs
17 because it is a broad wholesale pricing index which reflects price increases for
18 goods and services in general and does not sufficiently capture the O&M
19 escalation inputs of SDG&E and SoCalGas. These facts have not changed since
20 adopting the decision, and we have no new findings on escalation factors that
21 would justify replacing the IHS Global Insight Index.⁷

22 Most recently, in Southern California Edison Company's (SCE) TY 2021 GRC, the
23 Commission made similar findings:

24 With respect to O&M expenses, consistent with our determination in nearly every
25 SCE GRC since 2003, we approve use of the utility-specific indices proposed by
26 SCE because they more accurately reflect how utilities incur costs. Both Cal
27 Advocates and TURN offer proposals which are based on CPI-U or CPI-U plus a
28 premium. As we have previously explained, the CPI reflects consumer retail price
29 changes and does not reflect how utilities incur costs.⁸

⁶ D.19-09-051 at 708 (“We find that Global Insight escalation rates are specific to the utility industry and more accurately reflects SDG&E's and SoCalGas' inflationary cost increases.”).

⁷ D.21-05-003 at 15.

⁸ D.21-08-036 at 547 (citations omitted).

1 SoCalGas’s proposed use of Global Insight indices to escalate costs in its PTY
2 mechanism in the TY 2024 GRC cycle is reasonable and consistent with PTY attrition
3 mechanisms authorized in several recent Commission decisions.

4 The Commission’s GRC Rate Case Plan, D.07-07-004, requires SoCalGas to update
5 its cost escalation forecasts, as part of its Update Testimony. SoCalGas plans to use the latest
6 Global Insight forecast to determine the TY 2024 labor and non-labor O&M escalation
7 indexes in its Update Testimony, continuing into the PTY period.

8 3. Medical Cost Escalation

9 The second component of the O&M PTY ratemaking mechanism is an adjustment to
10 medical costs. Medical costs have grown at a higher rate than the broad-based inflation in the
11 general economy. Because SoCalGas’s medical costs are expected to increase above general
12 utility cost inflation, medical costs are escalated separately based on actuarial forecasts, as
13 described in the testimony of Debbie Robinson (Exhibit SCG-25/SDG&E-29). The actuarial
14 forecast by Willis Towers Watson, which is based on preliminary 2021 renewal rates, is more
15 reflective of the cost trends in Southern California. SoCalGas notes that this forecasted rate is
16 similar to the post-test year medical expense escalation rate mechanism that was adopted in
17 SCE’s TY 2018 and TY 2021 GRCs.⁹

18 The proposed medical expense escalation based on Willis Towers Watson’s actuarial
19 forecast and the associated revenue are presented below in Table KN-3:

20 **TABLE KN-3**
21 **O&M Medical Component Summary**

(\$ in millions)	2025		2026		2027	
Medical Cost Escalation	6.00%	\$6	5.50%	\$6	5.00%	\$5

22 C. Base Business Capital Additions

23 For the capital component of the proposed PTY ratemaking mechanism, SoCalGas
24 proposes to adjust capital-related revenue requirements to reflect the cost of plant additions. The
25 capital-related portion of the revenue requirement consists of authorized returns on rate base,
26

⁹ D.19-050-20 at 418 (Conclusion of Law [COL] 114) and D.21-08-036 at 668 (COL 184).

1 depreciation expense, and taxes.¹⁰ Growth in capital-related costs (depreciation, taxes and
2 authorized return) are primarily determined by the relationship between capital additions and
3 depreciation. Capital additions in excess of depreciation will drive rate base growth and therefore
4 the growth in capital-related costs. SoCalGas proposes that during the post-test years its rate base
5 and associated revenue requirements be adjusted to reflect the impact of forecasted capital
6 additions. SoCalGas is not proposing to adjust the rate base elements of materials and supplies,
7 customer advances or working cash. SoCalGas expects to continue to make significant annual
8 capital investments during the TY 2024 GRC term; therefore, SoCalGas proposes that the TY
9 2024 GRC PTY capital-related margin adjustment mechanism should also reflect the anticipated
10 growth in capital additions in excess of depreciation in the PTY period.

11 SoCalGas proposes to use the five-year average level of capital additions (2020-2021
12 recorded and 2022-2024 forecast, as presented in this TY 2024 GRC) as a proxy for the annual
13 PTY 2025, 2026, and 2027 actual level of capital additions. This five-year methodology is
14 similar to the PTY mechanism approved for SDG&E's and SoCalGas's TY 2019 GRC cycle, as
15 well as in the TY 2014 and TY 2017 PG&E GRC proceedings, which relied on a seven-year
16 average of capital additions to derive attrition adjustments for PG&E's capital revenue
17 requirement.¹¹ In this application, SoCalGas is requesting to use a five-year average of capital
18 additions instead of a seven-year average because doing so better captures the current utility
19 business environment. SoCalGas's capital program is continuing to evolve, with a primary focus
20 on increasing investment in utility safety, reliability, and sustainability, by supporting
21 California's energy and environmental initiatives. The five-year average includes recorded and
22 forecasted capital additions, which incorporates the company's recent historical capital trend but
23 is also forward looking – focusing on the critical improvements within SoCalGas's service
24 territory that are aimed at mitigating safety risk and providing clean and reliable energy. A five-

¹⁰ We call the Depreciation, Tax, and Return associated with Capital “capital-related costs” and distinguish that from the actual or forecasted spend of capital itself. When capital dollars are spent and become rate base, they are recovered through revenue requirement as capital-related costs.

¹¹ D.14-08-032 at 656 and 659-660; *see also* A.15-09-001, Ex. ORA-21, *Report of the Results of Operations for Pacific Gas and Electric Company, Test Year 2017 General Rate Case* at 3 (“To estimate post-test year capital additions, ORA recommends that the Commission adopt the same methodology from PG&E’s 2014 GRC. Thus, for this GRC, post-test year capital additions would be based on using an escalated 7-year (2011-2017) average level of capital additions as a proxy for the post- test year (2018, 2019, and 2020) levels of capital additions.”).

1 year average also provides adequate time to normalize year-to-year variability in utility spending
2 and eliminates the administrative burden of conducting line-by-line reviews of forecasted capital
3 spending.

4 To describe the calculation methodology related to capital, SoCalGas’s 2020-2024 capital
5 additions are escalated to the appropriate PTY dollars and then averaged. Capital escalation is
6 based on Global Insight gas plant indices, as described in Mr. Wilder’s Cost Escalation
7 testimony (Exhibit SCG-36). For example, the 2020-2024 capital additions would be escalated
8 into 2024 dollars and then averaged. This process escalates the five-year average of capital
9 additions to 2024 dollars. To determine the capital additions for 2025, 2026, and 2027, the five-
10 year average capital addition amount is escalated to the appropriate PTY dollars using the above-
11 mentioned Global Insight indices. A weighting factor is applied to the plant additions to
12 determine the weighted average plant additions to be included in rate base for the PTY period.
13 Incremental net depreciation, amortization and deferred taxes are also calculated using the TY
14 ratios, in order to determine the weighted average rate base for each PTY. SoCalGas developed
15 its PTY calculation of the capital-related revenue requirements using a consistent methodology
16 (authorized return, depreciation and taxes) and consistent escalation factors, used throughout this
17 GRC request.

18 SoCalGas’s proposed incremental capital-related revenue requirements derived through
19 the methodology described above are summarized in Table KN-4:

20 **TABLE KN-4**
21 **Capital-Related Component Summary**

(\$ in millions)	2025		2026		2027	
Capital-Related Revenue Requirements Increase ¹²	7.60%	\$178	4.13%	\$104	4.04%	\$106

22
23 **IV. POST-TEST YEAR CAPITAL EXCEPTIONS**

24 SoCalGas proposes that the capital-related costs for projects not fully reflected in the
25 TY 2024 revenue requirement be included as part of the PTY attrition, so that SoCalGas is
26 authorized adequate revenue to execute such projects and initiatives that are largely needed
27 for safety and reliability. The adjustment is necessary because the majority of the capital

¹² Annual revenue requirement adjustments include the rate base impacts of the subject attrition year estimated capital additions plus the residual weighting of the prior year estimated capital additions.

1 expenditures related to these projects are expected to close to plant in service in 2025, 2026,
 2 and 2027, and therefore the associated capital-related costs will not be fully reflected in the
 3 TY 2024 revenue requirement. SoCalGas is not proposing exceptions from the proposed
 4 post-test year mechanism for O&M.

5 The detail for the following projects and the associated costs are discussed primarily in
 6 the prepared direct testimony and workpapers, as noted in Table KN-5 below. Table KN-6
 7 provides the capital-related revenue requirement for each of capital projects listed in Table
 8 KN-5.

9 **TABLE KN-5**
 10 **Project Sponsors of Capital Post-Test Year Exceptions**

Project	Witness	Exhibit
Gas Integrity Management Programs (DIMP, TIMP, SIMP, FIMP, and GSEP)	Amy Kitson and Travis Sera	SCG-09
CIS Replacement Program	Evan Goldman	SCG-13
Honor Rancho Compressor Modernization (HRCM)	Larry T. Bittleston and Steve Hruby	SCG-10

11 **TABLE KN-6**
 12 **Capital Post-Test Year Exceptions Revenue Requirement Summary**
 13

(\$ in millions)	2025	2026	2027
DIMP	\$46.7	\$85.3	\$124.9
TIMP	\$21.4	\$44.8	\$66.8
SIMP	\$2.9	\$6.8	10.7
FIMP	\$0.3	\$0.6	\$0.9
GSEP	\$16.3	\$39.1	\$66.1
CIS Replacement Program	-	\$11.5	\$40.9
Honor Rancho Compressor Modernization (HRCM)	-	-	\$92.4
Total	\$87.6	\$188.1	\$402.7

In SoCalGas’s TY 2019 GRC final decision (D.19-09-051), the Commission authorized a separate PTY revenue requirement (capital exception) for the Pipeline Safety Enhancement Plan (PSEP), based on capital additions forecasted beyond TY 2019:

We also find SoCalGas’ proposal that PSEP capital-related costs not fully reflected in the TY2019 revenue requirement be included as part of the PTYs reasonable and we approve it. This is because PSEP is being incorporated into the GRC for the first time and timing and completion of the proposed projects should not be delayed. We find the adjustment necessary in order to fully reflect the capital costs we are authorizing but will not be fully reflected in the TY.¹³

Similarly, in SCE’s 2012 GRC final decision (D.12-11-051), the Commission found reasonable and adopted a PTY adjustment for costs not fully reflected in the test year:

It is reasonable to adopt a separate 2013 forecast for CSBU O&M to reflect integration of SmartConnect deployment costs into general rates because the PTYR would not adequately adjust for the unique set of costs transferred.¹⁴

Furthermore, the Commission added:

A PTYR is reasonable and adopted which includes the following: Separately adopted 2013 CSBU O&M and capital expenditures escalated in 2014.¹⁵

SoCalGas’s proposed incremental total capital-related revenue requirements are summarized in Table KN-7:

TABLE KN-7
Total Incremental Capital-Related Revenue Requirement Summary

(\$ in millions)	2025	2026	2027
Capital-Related Revenue Requirements Increase	\$178	\$104	\$106
Post-Test Year Capital Exceptions Revenue Requirements Increase ¹⁶	\$67	\$99	\$212
Total Capital-Related Revenue Requirements Increase	\$245	\$204	\$319

¹³ D.19-09-051 at 215-216.

¹⁴ D.12-11-051 at 847, COL 254.

¹⁵ D.12-11-051 at 876, COL 524.

¹⁶ Potential upstream changes may require the updating of incremental IMPs at the next earliest opportunity.

1 The capital projects identified in Table KN-5 are either going into service in the post-test
2 years or are proposed to be balanced in balancing accounts for which revenue requirement for
3 each post-test year is needed for tracking of costs, as discussed in the Regulatory Accounts
4 testimony of Rae Marie Yu (Exhibit SCG-38). Accordingly, the PTY revenue requirement for
5 this limited set of capital projects is reasonable and enables visibility of authorized revenues for
6 each project. The incremental capital exception adjustments identified in Table KN-6 above are
7 reasonable and should be approved as part of SoCalGas’s post-test year revenue requirements.

8 **V. Z-FACTOR MECHANISM**

9 SoCalGas proposes to continue the currently authorized Z-factor mechanism, unchanged
10 for this 2024-2027 GRC term.¹⁷ The Z-factor mechanism uses a series of eight criteria outlined
11 in D.94-06-011 and related decisions to identify exogenous cost changes that qualify for rate
12 adjustments prior to the next GRC test year.¹⁸ If all eight criteria are met, the Z-factor
13 mechanism allows for rate adjustments for only the portion of the Z-factor costs not already
14 contained in SoCalGas’s annual revenue requirement and only for costs that exceed a \$5 million
15 deductible per event.

16 In the case of a potential Z-factor event, SoCalGas will notify the Commission’s
17 Executive Director of the event by letter, providing all relevant and available information about
18 the event, and will activate the Z-factor Memorandum Account for potential entries. Following
19 this notification, SoCalGas would have the option to file an application for a revenue
20 requirement supplement if the Z-factor event exceeds the \$5 million per event deductible.

21 **VI. REGULATORY FILINGS**

22 Currently, SoCalGas updates PTY revenue requirements through an annual advice letter
23 filing. SoCalGas proposes to continue the process authorized in D.19-09-051 to file an annual
24 Tier 1 advice letter on or before November 1 (beginning November 1, 2024) to adjust the
25 revenue requirement for each attrition year according to the adopted PTY ratemaking

¹⁷ See SoCalGas’ current Preliminary Statement (Part VI) for a description of the operation of the Z-factor mechanism, *available at* <https://tariff.socalgas.com/regulatory/tariffs/tm2/pdf/ZFA.pdf>.

¹⁸ In D.97-07-054 (“SoCalGas PBR Decision”), the Commission established a Z-factor mechanism for SoCalGas based on the same nine criteria established for D.94-06-011. In D.05-03-023 at 78 (Ordering Paragraph 2 (“SoCalGas and SDG&E are authorized to file for rate adjustments using the mechanisms as described in the Settlement Agreement and as modified in this decision”)); *see also* D.05-03-023, Appendix C at 12. The eliminated criteria provided that the costs and events are not part of the rate update mechanism.

1 mechanism.¹⁹ The resulting customer rate adjustments to recover the updated revenue
2 requirement would be effective the following January 1. The advice letter will contain all
3 calculations necessary to update the revenue requirement for the subsequent year.

4 **VII. CONCLUSION**

5 SoCalGas's proposal is a fair and reasonable mechanism to provide the level of funding
6 necessary to support important safety, reliability, and sustainability projects in the post-test
7 years. This proposal accounts for the major cost drivers impacting the Company, which allows
8 SoCalGas to provide safe and reliable service to its customers, comply with regulations, and
9 manage its operations as prudent financial stewards.

10 This concludes my prepared direct testimony.

¹⁹ See D.19-09-051 at 713.

1 **VIII. WITNESS QUALIFICATIONS**

2 My name is Khai Nguyen. My business address is 555 West Fifth Street, Los Angeles,
3 California, 90013-1011. I am currently employed by SoCalGas as the Financial & Strategic
4 Planning Manager, responsible for the Company’s financial planning and analysis function. I
5 have held this position since 2020.

6 I received a Bachelor of Science Degree in Accounting from California State University,
7 Northridge. I am a Certified Public Accountant (CPA) and a member of the American Institute
8 of Certified Public Accountants (AICPA) and the California Society of Certified Public
9 Accountants. I was first employed by SoCalGas in 1998 and have held various positions in the
10 Regulatory Affairs, Customer Services, and Accounting & Finance areas of the company;
11 including Cost Accounting, Affiliate Billing & Costing, and Financial Systems.

12 I have previously testified before the Commission.

APPENDIX A

Glossary of Terms

APPENDIX A – GLOSSARY OF TERMS

Commission or CPUC	California Public Utilities Commission
CPI	Consumer Price Index
CIS	Customer Information Systems
D.	Decision
DIMP	Distribution Integrity Management Program
FIMP	Facilities Integrity Management Program
Global Insight or GI	IHS Markit Global Insight
GRC	General Rate Case
GSEP	Gas Safety Enhancement Programs
O&M	Operations and Maintenance
ORA	Office of Ratepayer Advocates
PSEP	Pipeline Safety Enhancement Plan
PG&E	Pacific Gas and Electric Company
PTY	Post-Test Year
RAMP	Risk Assessment and Mitigation Phase
RCP	Rate Case Plan
ROR	Rate of Return
SCE	Southern California Edison Company
SDG&E	San Diego Gas & Electric Company
SIMP	Storage Integrity Management Program
SoCalGas	Southern California Gas Company
TIMP	Transmission Integrity Management Program
TY	Test Year

APPENDIX B

Post Test Year Escalation Examples

APPENDIX B – POST TEST YEAR ESCALATION EXAMPLES

**SCG/POST-TEST YEAR
SOUTHERN CALIFORNIA GAS COMPANY**
Exemplary Calculation of 2025, 2026, and 2027 Revenue Requirements Assuming No Z-Factor
 (Using GI 4th Quarter 2021 Forecast)
 For Illustrative Purposes Only

Line No.	Description	(\$ in Millions)	
		Rev Req*	Escalation
1	2024 Total Revenue Requirement	\$ 4,398.3	
2	Less: 2024 Misc. Revenues	\$ 117.4	
3	Less: 2024 Capital Related Margin	\$ 2,362.8	
4	Less: 2024 Medical Expense	\$ 97.7	
5	Less: 2024 Franchise & Uncollectible	\$ 65.6	
6	2024 Escalatable O&M	\$ 1,754.7	
7	2025 O&M Escalation Rate	2.14%	
8	2025 O&M Escalation \$ (L6 * L7)	\$ 37.6	\$ 37.6
9	2025 Medical Escalation Rate	6.00%	
10	2025 Medical Escalation \$ (L4 * L9)	\$ 5.9	\$ 5.9
11	2025 Capital Related Costs (as Proposed)	\$ 245.1	\$ 245.1
12	2025 O&M (L6 + L8)	\$ 1,792.2	
13	2025 Medical Expense (L4 + L10)	\$ 103.6	
14	2025 Capital Related Costs (as Proposed) (L3 + L11)	\$ 2,608.0	
15	2025 Misc. Revenue	\$ 117.4	
16	2025 FF&U	\$ 69.8	\$ 4.1
17	2025 Revenue Requirement (Sum of Lines 12 through 16)	\$ 4,691.0	\$ 292.71
18	Less: 2025 Misc. Revenues	\$ 117.4	
19	Less: 2025 Capital Related Costs (as Proposed)	\$ 2,608.0	
20	Less: 2025 Medical Expense	\$ 103.6	
21	Less: 2025 Franchise & Uncollectible	\$ 69.8	
22	2025 Escalatable O&M	\$ 1,792.2	
23	2026 Based Margin Escalation Rate	2.36%	
24	2026 O&M Escalation \$ (L22 * L23)	\$ 42.3	\$ 42.3
25	2026 Medical Escalation Rate	5.50%	
26	2026 Medical Escalation \$ (L20 * L26)	\$ 5.7	\$ 5.7
27	2026 Capital Related Costs (as Proposed)	\$ 203.6	\$ 203.6
28	2026 O&M (L22 + L24)	\$ 1,834.6	
29	2026 Medical Expense (L20 + L26)	\$ 109.3	
30	2026 Capital Related Costs (as Proposed) (L19 + L27)	\$ 2,811.6	
31	2026 Misc. Revenue	\$ 117.4	
32	2026 FF&U	\$ 73.2	\$ 3.4
33	2026 Revenue Requirement (Sum of lines 28 through 32)	\$ 4,946.0	\$ 254.98

34	Less: 2026 Misc. Revenues	\$	117.4		
35	Less: 2026 Capital Related Costs (as Proposed)	\$	2,811.6		
36	Less: 2026 Medical Expense	\$	109.3		
37	Less: 2026 Franchise & Uncollectible	\$	73.2		
38	2026 Escalatable O&M	\$	1,834.6		
39	2027 Based Margin Escalation Rate		2.45%		
40	2027 O&M Escalation \$ (L38 * L39)	\$	44.9	\$	44.9
41	2027 Medical Escalation Rate		5.00%		
42	2027 Medical Escalation \$ (L36 * L41)	\$	5.5	\$	5.5
43	2027 Capital Related Costs (as Proposed)	\$	318.6	\$	318.6
44	2027 O&M (L38 + L40)	\$	1,879.5		
45	2027 Medical Expense (L36 + L42)	\$	114.7		
46	2027 Capital Related Costs (as Proposed) (L35 + L43)	\$	3,130.1		
47	2027 Misc. Revenue	\$	117.4		
48	2027 FF&U	\$	77.7	\$	4.6
49	2027 Revenue Requirement (Sum of lines 44 through 48)	\$	5,319.6	\$	373.6