

Applications : A.06-12-009 / 010  
Exhibit Number : DRA-31-R  
Commissioner : Bohn  
ALJ : Long  
Witness : Lee



**DIVISION OF RATEPAYER ADVOCATES  
CALIFORNIA PUBLIC UTILITIES COMMISSION**

**Report on the Results of Operations  
for  
San Diego Gas & Electric Company  
Southern California Gas Company  
General Rate Case  
Test Year 2008**

**SoCalGas Gas Distribution, Transmission,  
Underground Storage, and Engineering  
Capital Expenditures**

San Francisco, California  
August 15, 2007

## TABLE OF CONTENTS

I.	INTRODUCTION.....	31-1
II.	SUMMARY OF RECOMMENDATIONS .....	31-2
III.	DISCUSSION / ANALYSIS OF GAS DISTRIBUTION.....	31-4
	A. NEW BUSINESS (BUDGET CODE 151) .....	31-6
	B. PRESSURE BETTERMENT PROJECTS (BUDGET CODE 251).....	31-7
	C. CATHODIC PROTECTION (BUDGET CODE 273) .....	31-8
	D. OTHER DISTRIBUTION CAPITAL PROJECTS (BUDGET CODES 264 AND 270).....	31-8
	E. METERS AND REGULATORS (BUDGET CODES 163,164,180, 181, 280,281).....	31-9
	F. FIELD CAPITAL SUPPORT (BUDGET CODE 903) .....	31-10
	G. INFORMATION TECHNOLOGY (BUDGET CODE 766.2) .....	31-10
IV.	DISCUSSION / ANALYSIS OF GAS ENGINEERING .....	31-10
	A. DISTRIBUTION PIPELINE INTEGRITY (BUDGET CODE 276) .....	31-13
	B. TRANSMISSION COMPRESSOR STATION (BUDGET CODE 305) .....	31-14
	C. Transmission Measurement Regulation Station (Budget Code 308) .....	31-15
	D. BTU Districts - LNG Impact (Budget Code 318) .....	31-16
	E. Information Technology (Budget Codes 756) .....	31-17

**Note:** Changes reflect consideration of rebuttal testimony from Exhibits SCG-214 and SCG-217.

1                                   **SOUTHERN CALIFORNIA GAS COMPANY**  
2                                   **GAS DISTRIBUTION, TRANSMISSION, UNDERGROUND STORAGE,**  
3                                   **AND ENGINEERING CAPITAL EXPENDITURES**  
4

5                   **I.       INTRODUCTION**

6                   This exhibit presents DRA's analysis and recommendations regarding  
7                   Southern California Gas Company's (SCG or SoCalGas) gas distribution,  
8                   transmission, underground storage, and engineering capital expenditures for 2006-  
9                   2008.

10                  In its testimony, SCG has separated its capital expenditures into four overall  
11                  budget areas: gas distribution, gas transmission, gas underground storage, and gas  
12                  engineering. One witness testified on gas distribution, while another witness  
13                  testified on gas transmission, gas underground storage, and gas engineering. The  
14                  budget areas of gas transmission, gas underground storage, and gas engineering  
15                  are collectively referred to as Gas Engineering in the SCG testimony. The Gas  
16                  Distribution group includes only gas distribution capital expenditures. To ensure  
17                  consistency, DRA used identical groupings for its analysis.

18                  SCG's testimony and workpapers for the gas distribution capital expenditures  
19                  are presented in Exhibit SCG-2<sup>1</sup> and Exhibit SCG-2-CWP,<sup>2</sup> respectively. Its  
20                  testimony and workpapers for gas engineering capital expenditures are presented in  
21                  Exhibit SCG-5<sup>3</sup> and Exhibit SCG-5-CWP,<sup>4</sup> respectively.

---

<sup>1</sup> Exhibit SCG-2, Prepared Direct Testimony of Daniel J. Rendler on Behalf of Southern California Gas Company dated December 2006.

<sup>2</sup> Exhibit SCG-2-CWP, Workpapers to Prepared Direct Testimony of Daniel J. Rendler on Behalf of Southern California Gas Company, Capital Spending, dated December 2006.

<sup>3</sup> Exhibit SCG-5, Prepared Direct Testimony of Joseph M. Rivera on Behalf of Southern California Gas Company dated December 2006.

<sup>4</sup> Exhibit SCG-5-CWP, Workpapers to Prepared Direct Testimony of Joseph M. Rivera on Behalf of Southern California Gas Company, Capital Spending, dated December 2006.

## Exhibit DRA-31-R (Revised August 15, 2007)

1 DRA studied and analyzed SCG's testimony and workpapers, its responses  
2 to DRA's data requests, e-mails, and telephone inquires. Based on the results of its  
3 analyses, DRA recommends capital expenditure adjustments in several budget  
4 categories. DRA's overall recommendation of capital expenditures for gas  
5 distribution and gas engineering are contained in the next section, Section II, of this  
6 exhibit. The recommendations in this exhibit do not include capital expenditures for  
7 information technology. Capital expenditures for information technology business  
8 applications in gas distribution and gas engineering are addressed in Exhibit DRA-  
9 17.

10 Sections III and IV present DRA's Discussion/Analysis of Gas Distribution and  
11 Gas Engineering, respectively.  
12

### 13 **II. SUMMARY OF RECOMMENDATIONS**

14 DRA's recommendations are as follows:

- 15 1. That the Commission reject SCG's forecasted capital expenditures in Gas  
16 Distribution and Gas Engineering for 2006, and instead adopt SCG's 2006  
17 adjusted recorded capital expenditures as tabulated below in Table 31-1.  
18 Adopting SCG's adjusted recorded capital expenditures will increase  
19 SCG's capital expenditures in Gas Distribution and Gas Engineering  
20 relative to SCG's proposed capital expenditures by \$27 million in 2006.
- 21 2. That the Commission reject SCG's forecasted capital expenditures in Gas  
22 Distribution and Gas Engineering, and instead adopt DRA's recommended  
23 capital expenditures in those areas for the years 2007 and 2008, as  
24 tabulated below in Table 31-2 and Table 31-3. Adopting DRA's  
25 recommendations will reduce SCG's requested capital expenditures in  
26 Gas Distribution and Gas Engineering by \$70 million for the 2007-2008  
27 period.  
28

29 Table 31-1 compares SCG's 2006 adjusted recorded capital expenditures  
30 with SCG's proposed estimates:

## Exhibit DRA-31-R (Revised August 15, 2007)

**Table 31-1**  
**Comparison of SCG's Adjusted Recorded and Proposed Capital Expenditures**  
**for 2006\***  
(In Thousands of 2005 Dollars)

Description (a)	SCG Adjusted Recorded <sup>5</sup> (b)	SCG Proposed <sup>6</sup> (c)	Amount Rec'd>Prop. (d=b-c)	Percentage Rec'd>Prop. (e=d/b)
Gas Distribution	\$212,862	\$184,034	\$28,828	13.54%
Gas Engineering	\$102,083	\$103,944	(\$1,861)	(1.82%)
Total	\$314,945	\$287,978	\$26,967	8.56%

\*Capital expenditures do not include expenditures for information technology, which are addressed in Exhibit DRA-17.

For 2006, DRA accepts SCG's 2006 adjusted recorded capital expenditures for both Gas Distribution and Gas Engineering as shown in column (b) of Table 31-1.

Table 31-2 compares DRA's recommended with SCG's proposed estimates for 2007:

**Table 31-2**  
**Comparison of DRA Recommended and SCG Proposed Capital Expenditures**  
**for 2007\***  
(In Thousands of 2005 Dollars)

Description (a)	DRA Recommended (b)	SCG Proposed (c)	Amount SCG>DRA (d=c-b)	Percentage SCG>DRA (e=d/b)
Gas Distribution	\$172,136	\$193,499	\$21,363	12.41%
Gas Engineering	\$105,283	\$113,783	\$8,500	8.07%
Total	\$277,419	\$307,282	\$29,863	10.77%

\*Capital expenditures do not include expenditures for information technology, which are addressed in Exhibit DRA-17.

The differences in capital expenditures between DRA and SCG in Table 31-2 for 2007 include (a) adjustments that DRA has made in the Gas Distribution group to New Business, Pressure Betterment Projects, Other Distribution Capital Projects, Meters and Regulators, Field Capital Support, and Information Technology, and (b)

<sup>5</sup> Attachment SCG\_capex\_2006\_DRA.xls in an e-mail from SCG to DRA on March 21, 2007.

<sup>6</sup> Table SCG-NSS\_DJR-15, Pg DJR-49 of Exhibit SCG-2 (Ref. 1) for Gas Distribution, and Table JMR-NSS-12, Pg JMR-42 of Exhibit SCG-5 (Ref. 3) for Gas Engineering.

## Exhibit DRA-31-R (Revised August 15, 2007)

1 adjustments that DRA has made in the Gas Engineering group to Distribution  
2 Pipeline Integrity, Transmission Compressor Station, Transmission Measurement &  
3 Regulation Station, BTU Districts-LNG Impact, and Information Technology.

4 Table 31-3 compares DRA's recommended with SCG's proposed estimates  
5 for Test Year (TY) 2008:

6 **Table 31-3**  
7 **Comparison of DRA Recommended and SCG Proposed Capital Expenditures**  
8 **for 2008\***  
9 **(In Thousands of 2005 Dollars)**

Description (a)	DRA Recommended (b)	SCG Proposed (c)	Amount SCG>DRA (d=c-b)	Percentage SCG>DRA (e=d/b)
Gas Distribution	\$179,039	\$202,231	\$23,192	12.95%
Gas Engineering	\$91,432	\$108,732	\$17,300	18.92%
Total	\$270,471	\$310,963	\$40,492	14.97%

10 \*Capital expenditures do not include expenditures for information technology, which are  
11 addressed in Exhibit DRA-17.  
12

13 The differences in capital expenditures between DRA and SCG in Table 31-3  
14 for 2008 include adjustments that DRA has made to the same budget areas as for  
15 2007 described earlier plus the Cathodic Protection area in the Gas Distribution  
16 group.  
17

### 18 **III. DISCUSSION / ANALYSIS of GAS DISTRIBUTION**

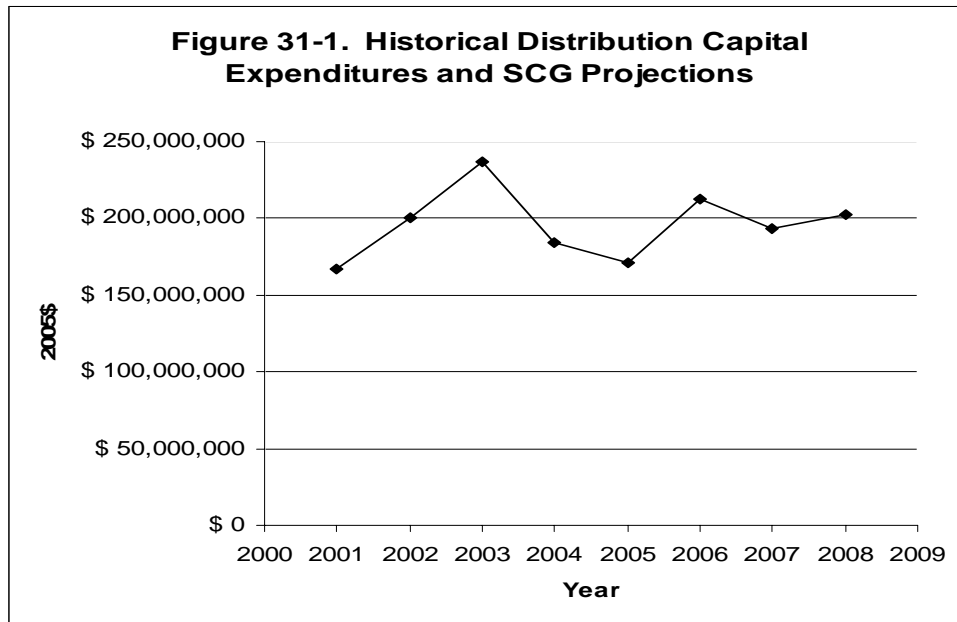
19 DRA analyzed SCG's historical trends and yearly averages of Gas  
20 Distribution capital expenditures for the different budget codes/FERC accounts using  
21 information provided by SCG. This information includes historical data from 2001 to  
22 2005, adjusted recorded capital expenditures for 2006, and capital expenditure  
23 projections for 2006, 2007, and 2008. The historical data for the relevant budget  
24 codes were provided by SCG in an e-mail attachment.<sup>7</sup> The projections are  
25 documented in Exhibits SCG-2 and SCG-2-CWP. The 2006 adjusted recorded data

---

<sup>7</sup> Attachment DRA\_Capital\_history\_SCG\_2\_append.xls in an e-mail from SCG to DRA on November 30, 2006.

## Exhibit DRA-31-R (Revised August 15, 2007)

1 were provided by SCG in another e-mail attachment. DRA recommends adopting  
2 SCG's 2006 adjusted recorded capital expenditures for Gas Distribution. The total  
3 yearly historical capital expenditures from 2001 to 2006 and SCG's estimated  
4 expenditures for 2007 and 2008 extracted from these three references are shown in  
5 Figure 31-1. These yearly totals exclude capital expenditures for information  
6 technology (IT), which are addressed in detail in Exhibit DRA-17; DRA's  
7 recommended changes in Gas Distribution IT will only be briefly addressed in this  
8 exhibit.



9  
10  
11 As a result of its analyses, DRA recommends capital expenditure adjustments  
12 to several budget codes under Gas Distribution as shown in Tables 31-4 to 31-5 for  
13 2007 and 2008, respectively. These adjustments are discussed in the following  
14 subsections.  
15

**Exhibit DRA-31-R (Revised August 15, 2007)**

1  
2  
3  
4

**Table 31-4  
DRA Recommended and SCG Proposed Capital Expenditures for Selected  
Gas Distribution Budget Categories for 2007  
(In Thousands of 2005 Dollars)**

Description (a)	DRA Recommended (b)	SCG Proposed (c)	Amount SCG>DRA (d=c-b)	Percentage SCG>DRA (e=d/b)
A. New Business	\$26,766	\$41,283	\$14,517	54.24%
B. Pressure Betterment	\$8,512	\$11,047	\$2,535	29.78%
C. Cathodic Protection	-	-	-	-
D. Other Distribution Proj	\$3,900	\$4,200	\$300	7.69%
E. Meters & Regulators	\$27,044	\$28,593	\$1,549	5.73%
F. Field Support	\$38,386	\$40,848	\$2,462	6.41%
<b>Total A to F</b>	<b>\$104,608</b>	<b>\$125,971</b>	<b>\$21,363</b>	<b>20.42%</b>
G. Information Technology	\$0	\$700	\$700	N/A

5  
6  
7  
8  
9

**Table 31-5  
DRA Recommended and SCG Proposed Capital Expenditures for Selected  
Gas Distribution Budget Categories for 2008  
(In Thousands of 2005 Dollars)**

Description (a)	DRA Recommended (b)	SCG Proposed (c)	Amount SCG>DRA (d=c-b)	Percentage SCG>DRA (e=d/b)
A. New Business	\$28,210	\$42,927	\$14,717	52.17%
B. Pressure Betterment	\$8,512	\$11,047	\$2,535	29.78%
C. Cathodic Protection	\$5,357	\$5,357	\$0	0%
D. Other Distribution Proj	\$3,900	\$4,200	\$300	7.69%
E. Meters & Regulators	\$27,450	\$30,628	\$3,178	11.58%
F. Field Support	\$39,103	\$41,565	\$2,462	6.30%
<b>Total A to F</b>	<b>\$112,532</b>	<b>\$135,724</b>	<b>\$23,192</b>	<b>20.61%</b>
G. Information Technology	\$0	\$2,100	\$2,100	N/A

10

**A. New Business (Budget Code 151)**

11  
12  
13  
14  
15  
16

This budget category includes changes and additions to the existing gas distribution system to connect new residential, commercial and industrial customers. The cost of materials for meters and regulators are included in budgets codes under another category, "Meters and Regulators." SCG forecasted expenditures of \$40.9 million for 2006, \$41.283 million for 2007, and \$42.927 million for 2008.<sup>8</sup>

<sup>8</sup> Table SCG-NSS\_DJR-15, Pg DJR-49 of Exhibit SCG-2 (Ref. 1).



## Exhibit DRA-31-R (Revised August 15, 2007)

1 In a data request response, SCG states “While completing this data request it  
2 became apparent that there was a formula error in the adjustment to the 2005 New  
3 Business non-labor component. The adjusted figure is overstated by approximately  
4 \$6.2 million. Since the forecast methodology is based on the 2005 value, this  
5 correction impacts the forecast.....The corrected figures for New Business are as  
6 follows (*tabulations*).”<sup>9</sup> DRA used these corrected figures, without accounting for  
7 the 2006 recorded capital expenditures, to develop its initial estimate which results in  
8 a reduction of the capital expenditure projections by \$5.1 million for 2006, \$5.2  
9 million for 2007, and \$5.4 million for 2008. DRA’s initial estimate of New Business  
10 capital expenditures is \$35.8 million for 2006, \$36.1 million for 2007, and \$37.5  
11 million for 2008.

12 However, the 2006 adjusted recorded expenditures for this budget code is  
13 \$54.433 million, which is \$18.633 million over DRA’s forecasted amount of \$35.8  
14 million. DRA accepts the 2006 recorded figure but recommends that the 2007 and  
15 2008 budget be reduced evenly by \$9.317 million per year. Thus, DRA’s final  
16 estimate of the New Business budget is \$26.783 million for 2007 and \$28.183 million  
17 for 2008. As a result, DRA recommends a \$14.517 million<sup>10</sup> adjustment in 2007  
18 and a \$14.717 million<sup>11</sup> adjustment in 2008.

### 19 **B. Pressure Betterment Projects (Budget Code 251)**

20 Pressure Betterment Projects category includes gas distribution pressure  
21 betterment projects performed on an on-going basis to maintain system reliability  
22 and service to all customers. SCG’s forecasted expenditures for these projects are  
23 \$11.047 million per year in 2006, 2007, and 2008. However, the 2006 adjusted  
24 recorded expenditures for the budget code is \$16.117 million, which is \$5.070 million  
25 over forecasted. DRA accepts the 2006 recorded figure but recommends that the

---

<sup>9</sup> Response to Question 1 of data request DRA-SCG-011-KCL dated October 16, 2006.

<sup>10</sup> \$5.2 million added to \$9.317 million equals \$14.517 million.

<sup>11</sup> \$5.4 million added to \$9.317 million equals \$14.717 million

## Exhibit DRA-31-R (Revised August 15, 2007)

1 2007 and 2008 budget be reduced by \$2.535 million per year to offset SCG's higher  
2 recorded expenditures for 2006. Thus, DRA's estimate of the Pressure Betterment  
3 Project budget is \$8.512 million per year for 2007 and 2008 as compared to SCG's  
4 forecast of \$11.047 million per year.

### 5 **C. Cathodic Protection (Budget Code 273)**

6 The Cathodic Protection (CP) category includes capital expenditures related  
7 to the installation of new and replacement CP systems and equipment. SCG  
8 forecasted expenditures of \$5.357 million in 2007 and 2008. DRA did not make any  
9 adjustment to SCG's 2007 forecasted capital expenditures.

10 In response to a DRA data request on FERC Account 887, Main  
11 Maintenance, SCG shows in Table 2, CP Capital Forecast Data that the CP capital  
12 forecast for 2008 is \$3.31 million.<sup>12</sup> SCG clarifies in its rebuttal testimony SCG-217  
13 that the \$3.31 million is only for Budget Code 263, which is a component of the total  
14 expenditures. DRA will not adjust the 2008 SCG forecasted expenditures.

### 15 **D. Other Distribution Capital Projects (Budget Codes 264 16 and 270)**

17 Other Distribution Capital Projects is a catch-all category that includes capital  
18 expenditures for facilities not specifically covered in other categories of work and  
19 meter guard installations. SCG forecasts annual expenditures of \$4.2 million from  
20 2006-2008.

21 DRA's analysis shows that the yearly average projection for 2006 to 2008 of  
22 \$4.2 million is 17 percent higher than the yearly average recorded from 2001 to 2005  
23 of \$3.6 million<sup>13</sup> (with \$5.8 million in 2001, \$2.7 million in 2002, \$4.0 million in 2003,  
24 \$3.5 million in 2004, and \$2.2 million in 2005). DRA notes that the average yearly

---

<sup>12</sup> Response to Question 3 of data request DRA-SCG-031-DAO dated December 1, 2006.

<sup>13</sup> Budget Code 275 was not factored in the initial analysis because SCG did not list this account in its testimony or workpapers. However, after reviewing the updated spreadsheet in Reference 5, inclusion of this account appears to be a consistent and appropriate methodology.

## Exhibit DRA-31-R (Revised August 15, 2007)

1 increase is high relative to recorded data, and should therefore be reduced to a level  
2 consistent with historical levels. DRA recommends reducing the projected capital  
3 expenditure by \$300,000 a year, which would decrease the yearly average increase  
4 to 8 percent versus the 17 percent proposed by SCG. This reduction would still  
5 allow SCG a yearly increase of \$300,000 relative to the 2001 to 2005 average  
6 expenditures to make necessary capital improvements. DRA's estimate of Other  
7 Distribution Capital Projects capital expenditures is therefore \$3.9 million per year for  
8 both 2007 and 2008, and SCG's adjusted recorded is \$4.5 million for 2006, as  
9 compared to SCG's forecast of \$4.2 million per year for 2006 to 2008.

### 10 **E. Meters and Regulators (Budget Codes 163,164,180, 181,** 11 **280,281)**

12 This budget category includes capital expenditures for the purchase of gas  
13 meters and pressure gauges, regulators, electronic gas pressure and temperature  
14 correction equipment, and electronic pressure monitors.

15 SCG has projected capital expenditures of \$27.332 million for 2006, \$28.593  
16 million for 2007, and \$30.628 million for 2008. These forecasts represent increases  
17 of 4.1 percent in 2006 relative to the 2005 recorded figure of \$26.251 million, of 4.6  
18 percent in 2007 relative to forecasted 2006 levels, and of 7.1 percent in 2008 relative  
19 to forecasted 2007 levels. Exhibit DRA-29 shows that the customer growth rate is  
20 less than 1.5 percent per year from 2005 to 2008, which is much lower than the  
21 growth rates SCG incorporated into the proposed capital expenditures for 2006 to  
22 2008 shown above. DRA recommends that the forecast of capital expenditures for  
23 meters and regulators should be based on a yearly growth rate of 1.5 percent from  
24 the 2005 capital expenditures of \$26.251 million. This results in an estimate for  
25 capital expenditures of \$26.645 million for 2006, \$27.044 million for 2007, and  
26 \$27.450 million for 2008. For 2006, DRA accepts the 2006 adjusted recorded  
27 capital expenditures of \$27.840 million, but for 2007 and 2008 DRA's estimates  
28 result in adjustments of \$1.549 million and \$3.178 million to the SCG forecasts.

## Exhibit DRA-31-R (Revised August 15, 2007)

### 1           **F. Field Capital Support (Budget Code 903)**

2           Field Capital Support provides labor and non-labor funding for a broad range  
3 of services to support Gas Distribution field capital asset construction. SCG's  
4 forecasted expenditures for this budget area are \$39.071 million in 2006, \$40.848  
5 million in 2007, and \$41.565 million in 2008. However, the 2006 adjusted recorded  
6 expenditures for the budget code is \$43.995 million, which is \$4.924 million over  
7 forecasted. DRA accepts the 2006 recorded figure but recommends that the 2007  
8 and 2008 budget be reduced by \$2.462 million per year to offset SCG's higher  
9 recorded expenditures for 2006. Thus, DRA's estimate of the Field Capital Support  
10 budget is \$38.386 million for 2007 and \$39.103 million for 2008.

### 11           **G. Information Technology (Budget Code 766.2)**

12           This budget code includes capital expenditure for automation of work  
13 scheduling and dispatch project. SCG proposes expenditures of \$700,000 in 2006,  
14 \$700,000 in 2007, and \$2,100,000 in 2008.<sup>14</sup> Exhibit DRA-17 addresses the  
15 information technology (IT) projects proposed in this GRC, and discusses how they  
16 must go through the Sempra IT Project Review and Approval Process and the IT  
17 Product Lifecycle Management Process. Exhibit DRA-17 indicates that an approved  
18 business case was not available for this project, which means this project has not  
19 been reviewed and approved by Sempra management. Therefore, DRA  
20 recommends that the Commission deny these proposed expenditures for 2006-  
21 2008.

## 22           **IV. DISCUSSION / ANALYSIS of GAS ENGINEERING**

23           DRA analyzed SCG's historical trends and averages of Gas Engineering<sup>15</sup>  
24 capital expenditures for the different budget codes/FERC accounts using information  
25 provided by SCG. SCG provided historical data from 2001 to 2005, adjusted

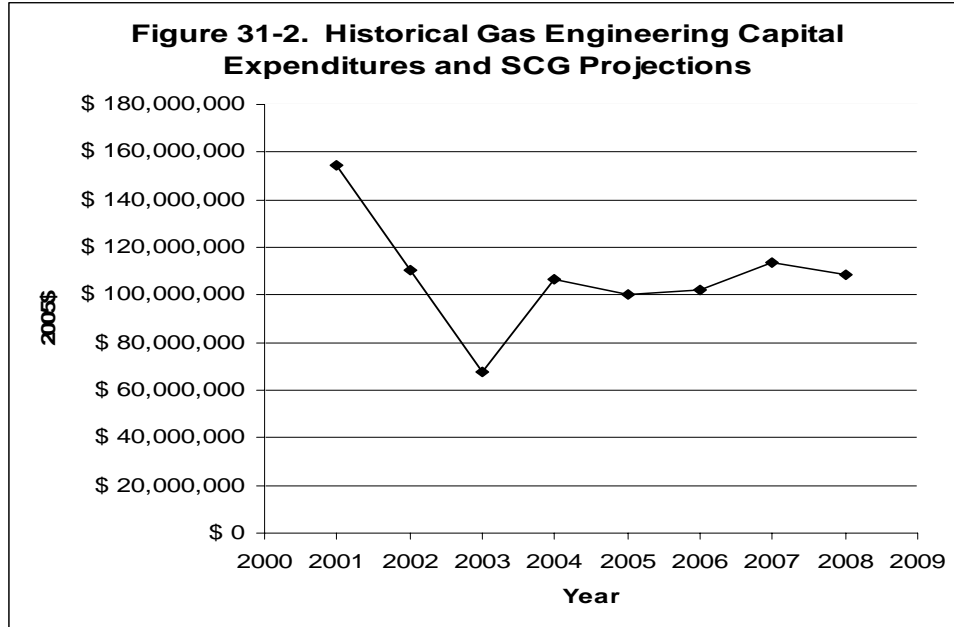
---

<sup>14</sup> Exhibit SCG-2 (Ref. 1), pg. DJR-79.

<sup>15</sup> Gas Engineering comprises the engineering, underground storage, and transmission functions.

## Exhibit DRA-31-R (Revised August 15, 2007)

1 recorded capital expenditures for 2006, and capital expenditure projections for 2006,  
2 2007, and 2008. Examination of the 2006 recorded data in Reference 5 and SCG's  
3 response to a data request on Transmission Capital<sup>16</sup> shows that the 2006 recorded  
4 capital expenditures of \$102.083 million for Gas Engineering is very close to SCG's  
5 forecast of \$103.944 million for 2006. The similarity of the recorded data and the  
6 forecasted amount makes it unnecessary to adjust 2007 and 2008 capital  
7 expenditures because of under-spending or over-spending in 2006. DRA  
8 recommends adopting SCG's 2006 adjusted recorded capital expenditures for Gas  
9 Engineering. The total yearly historical capital expenditures from 2001 to 2006 and  
10 SCG's project expenditures for 2007 and 2008 extracted from these three  
11 references are shown in Figure 31-2. These yearly totals exclude capital  
12 expenditures for information technology, which is addressed in detail in Exhibit DRA-  
13 17, and DRA's recommended changes in Gas Engineering IT will therefore only be  
14 briefly addressed in this exhibit.  
15



16

<sup>16</sup> April 23, 2007 Response to Question 1 of data request DRA-SCG Verbal-KCL, dated April 9 & 12, 2007.

**Exhibit DRA-31-R (Revised August 15, 2007)**

1

2           As a result of its analyses, DRA recommends capital expenditure adjustments  
3 to several budget codes under Gas Engineering. These adjustments are discussed  
4 in the following subsections, and shown in Tables 31-6 to 31-7 for 2007 and 2008,  
5 respectively.

**Exhibit DRA-31-R (Revised August 15, 2007)**

1  
2  
3  
4

**Table 31-6  
DRA Recommended and SCG Proposed Capital Expenditures for Selected  
Gas Engineering Budget Categories for 2007  
(In Thousands of 2005 Dollars)**

<b>Description (a)</b>	<b>DRA Recommended (b)</b>	<b>SCG Proposed (c)</b>	<b>Amount SCG&gt;DRA (d=c-b)</b>	<b>Percentage SCG&gt;DRA (e=d/b)</b>
A. Distribution Pipeline Integrity	\$5,900	\$13,600	\$7,700	130.51%
B. Transmission Compressor Station	\$5,900	\$5,900	\$0	0%
C. Transmission M&R Station	\$3,400	\$3,900	\$500	14.71%
D. BTU District-LNG Impact	\$300	\$600	\$300	100.00%
<b>Total A to D</b>	<b>\$15,500</b>	<b>\$24,000</b>	<b>\$8,500</b>	<b>54.84%</b>
E. Information Technology (GIS)	\$1,000	\$1,500	\$500	50.00%

5  
6  
7  
8  
9

**Table 31-7  
DRA Recommended and SCG Proposed Capital Expenditures for Selected  
Gas Engineering Budget Categories for 2008  
(In Thousands of 2005 Dollars)**

<b>Description (a)</b>	<b>DRA Recommended (b)</b>	<b>SCG Proposed (c)</b>	<b>Amount SCG&gt;DRA (d=c-b)</b>	<b>Percentage SCG&gt;DRA (e=d/b)</b>
A. Distribution Pipeline Integrity	\$12,100	\$27,500	\$15,400	127.27%
B. Transmission Compressor Station	\$5,900	\$5,900	\$0	0%
C. Transmission M&R Station	\$3,400	\$3,900	\$500	14.71%
D. BTU District-LNG Impact	\$1,200	\$2,600	\$1,400	116.67%
<b>Total A to D</b>	<b>\$22,600</b>	<b>\$39,900</b>	<b>\$17,300</b>	<b>76.55%</b>
E. Information Technology (GIS)	\$500	\$6,112	\$5,612	1,122.40%

10

**A. Distribution Pipeline Integrity (Budget Code 276)**

11  
12  
13  
14  
15  
16  
17  
18

This category includes SCG's proposed distribution plant investments to comply with the Department of Transportation's (DOT) transmission pipeline integrity rule and the anticipated distribution integrity rule. This category consists of three sub-categories: distribution integrity main replacement, transmission integrity downstream impacts, and distribution plant DOT transmission line retrofit and in-line inspection. SCG forecasts expenditures of \$6.2 million for 2006, \$13.6 million for 2007, and \$27.5 million for 2008.<sup>17</sup>

<sup>17</sup> Table JMR-NSS-12, Pg JMR-42 of Exhibit SCG-5 (Ref. 3).

## Exhibit DRA-31-R (Revised August 15, 2007)

1 Two sub-categories, transmission integrity down stream impacts and  
2 distribution plant DOT transmission line retrofit and in-line inspection are currently  
3 covered under the existing Transmission Pipeline Integrity Rules (49 CFR, Part 192,  
4 Subpart O). The remaining sub-category, distribution integrity main replacement,  
5 will be covered under the proposed Distribution Pipeline Integrity Rules, which are in  
6 the process of being developed and have not yet been adopted. It could be at least  
7 another year before these rules will be officially adopted and implemented.<sup>18</sup> DRA  
8 recommends that the capital expenditures forecast for this sub-category (Budget  
9 Code 276-13) be removed from this GRC and a memorandum account be  
10 established for recovery of actual capital expenditures. This recommendation for  
11 memorandum account treatment is addressed in detail in Exhibit DRA-30. DRA  
12 recommends adjustments of \$7.7 million for 2007 and \$15.4 million for 2008<sup>19</sup> to  
13 SCG's forecast for this budget category. This proposed adjustment results in a DRA  
14 estimate of \$5.9 million for 2007 and \$12.1 million for 2008 for Distribution Pipeline  
15 Integrity capital expenditure in contrast to SCG's forecast of \$13.6 million for 2007  
16 and \$27.5 million for 2008.

### 17 **B. Transmission Compressor Station (Budget Code 305)**

18 This category includes capital expenditures associated with installing and  
19 replacing compressor station equipment used in connection with SCG's transmission  
20 system operations. SCG forecasts annual expenditures of \$5.7 million for 2006, and  
21 \$5.9 million each year for 2007 and 2008.

22 DRA's analysis of the historical data and the SCG's proposed capital  
23 expenditures in Exhibit SCG-5 shows that the yearly average of SCG's 2006 to 2008  
24 proposed expenditure of \$5.8 million (with \$5.7 million for 2006, \$5.9 million each  
25 year for 2007 and 2008) is similar to the yearly average of the 2003 to 2006

---

<sup>18</sup> See detailed description in Exhibit DRA-30.

<sup>19</sup> SCG's projected capital expenditures for sub-category Distribution Integrity Main Replacement, as shown in Exhibit SCG-5-CWP, pg. JMR-CWP-47.



## Exhibit DRA-31-R (Revised August 15, 2007)

1 historical data of \$5.7 million<sup>20</sup> (with \$6.7 million in 2003, \$4.6 million in 2004, \$6.2  
2 million in 2005, and \$5.1 million in 2006). DRA does not propose any adjustment for  
3 this budget code.

### 4 C. Transmission Measurement & Regulation Station (Budget 5 Code 308)

6 This category includes forecasted expenditure for meter and regulator station  
7 additions and/or replacements required to increase capacity or serve and expanding  
8 customer base. SCG forecasts annual expenditures of \$3.9 million from 2006-2008.

9 DRA's analysis of the historical data and the SCG's proposed capital  
10 expenditures in Exhibit SCG-5 indicates that the yearly average of the 2006 to 2008  
11 proposed expenditures of \$3.9 million is almost 18 percent higher than the yearly  
12 average of the 2003 to 2006 historical data of \$3.3 million<sup>21</sup> (with \$4.1 million in  
13 2003, \$5.3 million in 2004, \$2.1 million in 2005, and \$1.7 million in 2006). The  
14 average yearly increase of 18 percent is high relative to historical recorded data, so  
15 DRA recommends that SCG's proposed expenditures for 2007 and 2008 be reduced  
16 by \$500,000 per year, which still allows SCG a reasonable increase of \$100,000  
17 relative to the 2003-2006 historical average of \$3.3 million. This proposed  
18 adjustment results in a DRA estimate of \$3.4 million per year for 2007 and 2008 for  
19 Transmission Measurement & Regulation Station capital expenditures.  
20  
21

### 22 D. BTU Districts – LNG Impact (Budget Code 318)

---

<sup>20</sup> Budget Codes 315, 325, and 335 were not factored in the initial analysis because SCG did not list these accounts in its testimony or workpapers. However, after reviewing the updated spreadsheet in Reference 5, inclusion of these accounts appear to be a consistent and appropriate methodology.

<sup>21</sup> Budget Codes 318, 328, and 338 were not factored in the initial analysis because SCG did not list these accounts in its testimony or workpapers. However, after reviewing the updated spreadsheet in Reference 5, inclusion of these accounts appear to be a consistent and appropriate methodology.

**Exhibit DRA-31-R (Revised August 15, 2007)**

1           This budget category includes forecasted expenditure of the impact of  
2   Liquified Natural Gas (LNG) deliveries into the transmission system. SCG plans to  
3   modify its system to include 14 District gas chromatographs, 10 District volume  
4   meters, and 30 customer-associated gas chromatographs. The purchase of this  
5   equipment will begin in 2007 and continue through 2009.<sup>22</sup> SCG forecasts  
6   expenditures of \$0.6 million in 2007 and \$2.6 million in 2008.

7           LNG is not expected to flow into the SCG service territory until 2008 from the  
8   Energia Costa Azul LNG Terminal. Even then, the flow into the SCG service  
9   territory may be minimal. Sempra does not have any estimate of the Energia Costa  
10   Azul LNG terminal's future operations for 2008 to 2013. DRA is not assured that any  
11   appreciable amount of LNG will enter the distribution system in 2008. A more  
12   detailed discussion about the prospects of LNG deliveries into SCG's system is  
13   presented in Exhibit DRA-32. DRA recommends adopting SCG's proposal to  
14   purchase 14 District gas chromatographs and 10 District volume meters to be used  
15   in the gas transmission system. However, DRA recommends that SCG's proposal  
16   to purchase 30 customer-associated gas chromatographs to be used in the  
17   distribution system be denied at this time. The resulting capital expenditure  
18   adjustment is \$300,000 in 2007 and \$1,400,000 in 2008. This proposed adjustment  
19   results in a DRA estimate of \$0.3 million for 2007, and \$1.2 million for 2008 for BTU  
20   District-LNG Impact capital expenditures.

21

22

---

<sup>22</sup> Exhibit SCG-5 (Ref. 3), pg. JMR-54.

**Exhibit DRA-31-R (Revised August 15, 2007)**

1           **E. Information Technology (Budget Codes 756)**

2           Budget Code 756, the Pipeline Integrity Geographical Information System  
3 (GIS), includes expenditures for the Transmission Pipeline GIS Project, the Map GIS  
4 Viewer Project, and the Distribution GIS Project. SCG proposes expenditures of  
5 \$1.500 million in 2006, \$1.500 million in 2007, and \$6.112 million in 2008.<sup>23</sup>

6           The Transmission Pipeline GIS Project and Map GIS Viewer Project are  
7 currently covered under the existing Transmission Pipeline Integrity Rules (49 CFR,  
8 Part 192, Subpart O). Table 17-9 in Exhibit DRA-17 shows that actual 2006 capital  
9 expenditures for Gas Engineering IT projects totaled \$1.005 million in 2006; DRA  
10 accepts this figure.

11           The Distribution GIS Project will be covered under the proposed Distribution  
12 Pipeline Integrity Rules, which are in the process of being developed and have not  
13 yet been adopted. It could be at least another year before these rules will be  
14 officially adopted and implemented. DRA recommends that SCG's forecasted  
15 capital expenditures for this project under Budget Code 756 be removed from the  
16 GRC, and a memorandum account be established for recovery of actual capital  
17 expenditures. This recommendation for memorandum account treatment is  
18 addressed in detail in Exhibit DRA-30. DRA recommends adjustments of \$500,000  
19 for 2007 and \$5.612 million for 2008 to SCG's forecasts for this budget category, the  
20 expenditures projected for the Distribution GIS project.<sup>24</sup> The proposed  
21 adjustments result in DRA capital expenditure estimates of \$1.005 million for 2006,  
22 \$1.0 million for 2007, and \$0.5 million for 2008.

23

---

<sup>23</sup> Pg. JCB-CWP-121 of Exhibit SCG-12-CWP, Workpapers to Prepared Direct Testimony of J. Chris Baker on Behalf of Southern California Gas Company, Capital Spending, Dated August 1, 2006.

<sup>24</sup> Pg. JCB-CWP-124 of Exhibit SCG-12-CWP, Workpapers to Prepared Direct Testimony of J. Chris Baker on Behalf of Southern California Gas Company, Capital Spending, Dated August 1, 2006.