

Company: Southern California Gas Company (U 904 G)
Proceeding: 2024 General Rate Case – Track 3
Application: A.22-05-15
Exhibit: SCG-T3-PSEP-02

PREPARED DIRECT TESTIMONY OF
SAKIF WASIF
(REVENUE REQUIREMENTS)

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA



April 30, 2025

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I. PURPOSE

The purpose of my testimony is to sponsor the Pipeline Safety Enhancement Plan (PSEP) revenue requirement associated with the PSEP projects presented for review in this proceeding and that are recorded in Southern California Gas Company's (SoCalGas) Safety Enhancement Expense Balancing Accounts (SEEBAs), Safety Enhancement Capital Cost Balancing Accounts (SECCBAs), PSEP Memorandum Account – Line 44 Subaccount (PSEPMA), and PSEP-Phase 2 Memorandum Account (PSEP-P2MA).

II. PSEP REVENUE REQUIREMENT

A. SUMMARY OF COSTS

As described in the testimony of Bill Kostelnik (Exhibit (Ex.) SCG-T3-PSEP-01), SoCalGas has presented \$454 million in capital expenditures and \$45 million in operations and maintenance (O&M) expenditures, recorded as of December 2024, for reasonableness review. These expenditures form the basis for the revenue requirement requested as part of Track 3 of this proceeding, reduced by the 50% interim recovery authorized by Decision (D.) 16-08-003 and incorporated in rates through December 2024. The cost references and their corresponding regulatory accounts are detailed in Table SW-1 below.

**Table SW-1
Summary of SoCalGas Costs (in \$000s)**

Regulatory Account	Cost	Reference¹
Safety Enhancement Capital Cost Balancing Account (SECCBA)	\$428,820	BK-48, BK-49, BK-50, BK-51, BK-52
Safety Enhancement Balancing Account (SEEBA)	\$40,702	BK-48, BK-49, BK-51, BK-52
PSEP Memorandum Account – Line 44 Subaccount (PSEPMA)	\$25,040	BK-2
PSEP-Phase 2 Memorandum Account (PSEP-P2MA)	\$4,542	BK-52
Total	\$499,105	

¹ Reference the testimony of Bill Kostelnik (Ex. SCG-T3-PSEP-01).

B. INDIRECT COSTS

The Capital and O&M costs of completing a project consist of both direct costs and indirect costs, where the sum amounts to the fully loaded cost.

1. Overheads

Direct costs are for those activities and services that support a specific project, such as labor costs, which include salaries of staff employees, and non-labor costs, which include contract labor, purchased services, and materials required for a specific project. These costs are charged directly to the project since they are readily identifiable and can be directly traced.

Indirect costs are for those activities and services associated with direct costs, such as payroll taxes, benefits,² and pension, which benefit a project but are not directly charged. Indirect costs are incorporated into the costs presented for review in Track 3 of this proceeding.

The following overheads are allocated to PSEP projects and included for recovery:

**Table SW-2
Overhead Types**

Type of Overheads	Description
Payroll Tax	Represents SoCalGas's portion of required contributions to the state and federal governments for State Unemployment Insurance, Federal Unemployment Insurance, and Federal Retirement and Medical Insurance
Vacation and Sick	Represents costs paid by SoCalGas for employees' non-productive time, such as vacation and sick days, holidays, and jury duty
Benefits (non-balanced only)³	Represents benefits such as medical and dental
Workers' Compensation	Represents the cost of expected payments to employees for work-related injuries, plus the cost of workers' compensation

² Non-balanced benefits exclude Pension and Post-Retirement Benefits Other Than Pensions (PBOPs), which are subject to separate balancing account treatment. Non-balanced benefits include employee benefits such as medical and dental.

³ Non-balanced benefits exclude Pension and PBOPs which are subject to separate balancing account treatment.

Type of Overheads	Description
	insurance premiums to cover claims over a certain dollar amount
Public Liability / Property Damage	Represents the cost of expected payments to third parties for liability and property damage claims submitted to SoCalGas, plus the cost of insurance premiums
Incentive Compensation Plan	Represents the incentive compensation plan costs paid to employees based on individual and company performance as compared to pre-established goals
Purchasing	Represents the costs related to the procurement activity in obtaining goods and services for SoCalGas
Administrative and General	Represents the cost of administrative and general support provided by functional areas such as Accounting and Finance, Human Resources, Information Technology, and Tax
PSEP Insurance	Represents additional insurance obtained for PSEP work performed by third party contractors and allocated to PSEP Capital and O&M projects through a separate insurance overhead loader

1 The incremental overheads discussed above, with totals provided below, are the only
 2 overheads sought to be reviewed in this track of this proceeding. SoCalGas is not seeking
 3 recovery of non-incremental overheads currently recovered in base rates. Examples of non-
 4 incremental overheads for which SoCalGas does not seek review in this proceeding include:
 5 Warehouse, Fleet, Shop, Small Tools, Supervision/Engineering, and Department Overhead –
 6 Replacement. In addition, PSEP O&M and capital costs are reduced for Pension, Post-
 7 Retirement Benefits Other Than Pensions (PBOPs), and certain liability insurance costs that are
 8 subject to separate balancing account mechanisms. SoCalGas's Pension, PBOPs, and liability
 9 insurance premiums are balanced in the Pension Balancing Account, PBOP Balancing Account,

and Liability Insurance Premium Balancing Account, respectively.⁴ The adjustments to SoCalGas's fully loaded PSEP O&M and capital costs for Pensions, PBOPs, and other cost exclusions are detailed in the accompanying workpapers.⁵

Table SW-3
SoCalGas Overhead Costs (in \$000s)

Overhead	Capital	O&M	Total
Payroll Taxes	\$3,008	\$296	\$3,304
Vacation & Sick	\$4,929	\$486	\$5,415
Benefits (non-balanced)	\$6,124	\$596	\$6,720
Workers Compensation	\$579	\$55	\$634
Public Liability/ Property Damage	\$1,386	\$135	\$1,521
Incentive Compensation Plan	\$5,275	\$495	\$5,770
Purchasing	\$1,130	\$151	\$1,281
Administrative & General	\$6,463	-	\$6,463
PSEP Insurance	\$2,996	\$760	\$3,756
Total Overhead Costs	\$31,890	\$2,974	\$34,864

On a monthly basis, the Affiliate Billing and Costing teams at SoCalGas review overhead activity and set overhead rates that take into account the particular overhead's loading base, pool activity, and historical and budgeted data. Once reviewed and approved, overhead rates are input into the SAP accounting system. Through the accounting system, overhead rates are applied to Capital and O&M direct costs monthly in accordance with their classification, i.e., company labor, contract labor, purchased services, and materials.

2. AFUDC and Capitalized Property Tax

Allowance for Funds Used During Construction (AFUDC) is a generally accepted regulatory accounting practice whereby the cost of financing capital construction projects is added to the cost of the asset while in construction. Projects in the development or construction phase are classified as construction work in progress (CWIP) until such time that the project(s) is completed and placed into rate base. An AFUDC rate is applied to the ending CWIP balance in a given month to calculate the AFUDC cost which is then added to CWIP. The calculation of the AFUDC rate follows the Federal Energy Regulatory Commission (FERC) Code of Federal Regulations found under item 17 of the Gas Plant Instruction of Part 201. SoCalGas's actual

⁴ D.24-12-074.

⁵ Refer to workpapers supporting my Prepared Direct Testimony, Ex. SCG-T3-PSEP-02-WP1.

1 AFUDC rate is derived by weighting its actual capital structure by the authorized cost of equity
2 and embedded cost of debt.

3 The following illustrative example shows how AFUDC is calculated. Assuming a
4 construction project is estimated to cost \$100 annually and will take two years to complete. The
5 AFUDC rate in this example is 10% at the time of estimation. In the first year, the \$100
6 construction cost and the 10% AFUDC rate produces \$10 of AFUDC cost and a CWIP balance
7 of \$110. By the end of the second year, the 10 percent AFUDC rate would be applied to the
8 previous year's CWIP balance (\$110) plus the \$100 of construction in year two to produce a total
9 project cost of \$231 $[(0.10 \times (110 + 100)) + 100 + 110]$. This project had an AFUDC cost of \$10
10 in year one and \$21 of AFUDC cost in year 2.

11 When developing estimated PSEP project costs, SoCalGas uses the latest actual AFUDC
12 rate as a reasonable proxy for the AFUDC rate applied to CWIP. Any changes to direct costs,
13 AFUDC rate, and project timeline from when estimated costs are developed to when actual costs
14 are incurred can lead to change in AFUDC costs.

15 Capitalized property tax represents property tax incurred during construction.⁶ The
16 property tax rate is updated annually and developed using the full assessed value of the entire
17 plant and the total amount of assessed property taxes. The formula for calculating monthly
18 property tax is: Current Month CWIP Balance x (Annual Property Tax Rate/12). Any variance
19 between estimated and actual costs, as well as changes to a project timeline, can increase or
20 decrease property tax costs. Additionally, similar to AFUDC, the current month's capitalized
21 property tax is then added to CWIP.

22 C. REVENUE REQUIREMENT

23 The PSEP revenue requirement, as recorded in the SEEBA, SECCBA, PSEP-P2MA, and
24 Line 44 subaccount of the PSEPMA, and requested for recovery in rates, totaled \$132 million as
25 of December 31, 2024, for SoCalGas. As described in my testimony, the revenue requirement is
26 based on fully-loaded costs and includes O&M, capital-related costs, and regulatory account
27 interest. Upon Commission approval of costs presented in this request, the revenue requirement
28 will also be trued-up for such items as: (1) regulatory account interest; (2) the ongoing capital-
29 related revenue requirement associated with approved PSEP capital projects that were recorded

⁶ Capitalization of property tax for SoCalGas was ordered by the CPUC in D.13-05-010.

to the SECCBA and Line 44 subaccount of the PSEPMA subsequent to December 2024 through the date that rates are adjusted; and (3) a reduction for previously authorized interim cost recovery incorporated in current rates subsequent to December 2024.

The table below specifies the ending balance in each account as of December 31, 2024, by revenue requirement component, which SoCalGas is requesting to recover in customer rates.

Table SW-4
PSEP Revenue Requirements (in \$000s)

Regulatory Account	O&M Expense	Capital Revenue Requirement	Interim Recovery	Interest	Balance as of December 31, 2024
SECCBA	-	\$301,904	\$(204,181)	\$14,785	\$112,508
SEEBA	\$38,774	-	\$(38,739)	\$1,342	\$1,376
PSEPMA	-	\$12,146	-	\$989	\$13,135
PSEP-P2MA	\$4,357	-	-	\$878	\$5,235

The ongoing capital-related revenue requirements, associated with the reasonably incurred capital expenditures approved in this proceeding, will continue to be recorded in SoCalGas's SECCBA and PSEPMA. SoCalGas proposes to continue filing annual Tier 2 Advice Letters to incorporate these ongoing capital-related revenue requirements into rates until the corresponding costs are incorporated in base rates in connection with SoCalGas's next General Rate Case (GRC) proceeding. To the extent the presented PSEP projects are found reasonable, the remaining capital-related revenue requirement will be fully recovered and will no longer be subject to a 50% interim rate recovery.

Interest is recorded in each account in accordance with the CPUC-approved tariff schedules. Interest is calculated and recorded on a monthly basis and follows the calculation prescribed in the Preliminary Statement, Part I, Section J.1:

The calculation will be based on the average of the beginning and ending balance of such accounts at the rate of 1/12 of the most recent month's interest rate on Commercial Paper (prime, 3-month), published in the Federal Reserve Statistical Release, H.15.

The Preliminary Statements approved by the CPUC for SEEBA, SECCBA, PSEP-P2MA, and PSEPMA⁷ state that each account is interest-bearing, and SoCalGas will record an entry for

⁷ Preliminary Statement - Safety Enhancement Capital Cost Balancing Account (SECCBA) <https://tariffsprd.socalgas.com/view/tariff/?utilId=SCG&bookId=GAS&tarfKey=499>.

1 interest at the end of each month. In compliance with CPUC directive in D.16-08-003,
2 SoCalGas included its reasonableness review of PSEP costs in A.22-05-015, SoCalGas's Test
3 Year (TY) 2024 GRC application.

4 SoCalGas will file Tier 1 Advice Letters within 30 days of the effective date of the
5 decision authorizing recovery to incorporate the updated revenue requirements into rates on the
6 first day of the next month following advice letter submission or in connection with other
7 authorized rate changes implemented by SoCalGas. These revenue requirements will be
8 allocated to functional areas and amortized over a 12-month period, as discussed in the testimony
9 of Michael Foster (Ex. SCG_SDG&E-T3-PSEP-03).

10 **III. CONCLUSION**

11 This concludes my prepared direct testimony.

Preliminary Statement - Safety Enhancement Expense Balancing Account (SEEBA)
<https://tariffsprd.socalgas.com/view/tariff/?utilId=SCG&bookId=GAS&tarfKey=500>.

Preliminary Statement - Pipeline Safety Enhancement Plan – Phase 2 Memorandum Account (PSEP-
P2MA) <https://tariffsprd.socalgas.com/view/tariff/?utilId=SCG&bookId=GAS&tarfKey=543>

Preliminary Statement - Pipeline Safety Enhancement Plan Memorandum Account (PSEPMA)
<https://tariffsprd.socalgas.com/view/tariff/?utilId=SCG&bookId=GAS&tarfKey=593>.

1 **IV. WITNESS QUALIFICATIONS**

2 My name is Sakif Wasif. My business address is 555 West Fifth Street, Los Angeles,
3 California, 90013-1011. I am currently employed by SoCalGas as a Principal Business Analyst
4 in the Financial and Strategic Analysis group. I am responsible for completing financial analysis
5 and developing the revenue requirement forecasts for SoCalGas projects and programs. I joined
6 SoCalGas in 2018. I received a Bachelor of Science degree in Finance from California State
7 University, Long Beach.

8 I have previously testified before this Commission.