

Application of SOUTHERN CALIFORNIA GAS )  
COMPANY for authority to update its gas )  
revenue requirement and base rates )  
effective January 1, 2008 (U 904-G) )

Application No. 06-12-\_\_\_\_  
Exhibit No. (SCG-22) \_\_\_\_\_

PREPARED DIRECT TESTIMONY  
OF SCOTT R. WILDER  
ON BEHALF OF SOUTHERN CALIFORNIA GAS COMPANY

BEFORE THE PUBLIC UTILITIES COMMISSION  
OF THE STATE OF CALIFORNIA

DECEMBER 2006

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

2 SoCalGas' labor escalation index is a weighted-average of three Global Insight  
3 wage and salary cost indexes: JCEU4422000006, "Utility Service Workers" (weighted  
4 55.4%); ECIWSPWMGRNS, "Managers and Administrative Workers" (weighted  
5 18.8%); and ECIWSPWP&TNS, "Professional and Technical Workers" (weighted  
6 25.8%). The weightings are based on the most recent three years of actual labor earnings  
7 for the three corresponding categories of combined SoCalGas and SDG&E employees:  
8 all represented and clerical workers; non-represented supervisory employees including  
9 managers, directors, and executives; and non-represented, non-supervisory employees.  
10 The utility service workers' portion incorporates wage increases already stipulated in  
11 labor contracts for SoCalGas' represented employees for 2006 and 2007.

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

13 To estimate non-labor escalation, SoCalGas used multiple Global Insight utility  
14 cost series in order to apply indexes to particular O&M expenses. Table SCG-SRW-1  
15 shows the index names and their corresponding definitions.

16 **TABLE SCG-SRW-1: SOUTHERN CALIFORNIA GAS COMPANY**  
17 **NON-LABOR O&M COST INDEX DEFINITIONS**

<u>Series Name</u>	<u>Description</u>
<b>JGS807MS</b>	Gas Supply, Purchased Natural Gas Non-Fuel Expense
<b>JGUSOMMS</b>	Gas Storage (underground)
<b>JGTOMMS</b>	Gas Transmission
<b>JGDOMMS</b>	Gas Distribution
<b>JGCAOMS</b>	Gas Customer Accounts
<b>JGCSIOMS</b>	Gas Customer Service & Information
<b>JGADGOMMS_X926</b>	Gas Admin & General, excluding Pensions & Benefits

18 All of the cost escalators in Table SCG-SRW-1 come from Global Insight's  
19 utility O&M cost model, with the exception of two. First, JG807MS is based on Global  
20 Insight's 4<sup>th</sup> Quarter 2005 Pricing and Purchasing model forecast of WPIP117,  
21 "Producers' Price Index - Electrical Machinery and Equipment," as the Global Insight  
22 utility O&M cost model does not have a specific escalator for costs in FERC

1 Account 807--purchased natural gas non-fuel expense; most of SoCalGas' expenses in  
2 this area are for operations of gas measuring stations. Second, most of SoCalGas'  
3 pensions and benefits costs (FERC Account 926) are treated separately and are therefore  
4 excluded from regular cost escalations. Pensions have separate balancing account  
5 treatment, as discussed in the Pensions testimony of witness Joseph Householder.  
6 Employee medical expenses (in FERC Account 926.3) are also treated separately, and  
7 are discussed in the testimony of Human Resources witness Joyce Rowland. The  
8 Pensions and Benefits cost component was removed from Global Insight's utility A&G  
9 cost series JGADGOMMS. The resulting adjusted series JGADGOMMS \_X926 was  
10 used to escalate SoCalGas' non-labor, non-Account 926 A&G costs.

11 The single cost escalation series for SoCalGas' shared services and working cash  
12 was based on a weighted-average of labor and non-labor O&M indexes. Weights were  
13 based on a three-year average of 2003, 2004, and 2005 actual shared-service cost charges  
14 by FERC account to labor and to the non-labor cost categories shown in Table SCG-  
15 SRW-1.

### 16 **C. Capital Cost Escalation**

17 The construction cost index used by SoCalGas and forecasted by Global Insight  
18 is based on the recorded Handy-Whitman cost series for the Pacific Region  
19 (encompassing the states of California, Oregon, and Washington). The forecasted  
20 Global Insight utility construction cost series JUG@PCF, "Total Gas Plant—Pacific  
21 Region" was used to escalate SoCalGas' capital construction costs.

### 22 **III. Post-Test-Year Cost Escalators**

23 Beyond 2008, SoCalGas proposes that its base margin revenue requirements be  
24 updated each year according to the PTY ratemaking mechanism described in the  
25 testimony of Michael Schneider. A gas O&M utility input price index (GOMPI) is  
26 calculated and used to adjust O&M expenses to reflect the expected cost inflation of  
27 goods and services that SoCalGas will incur to serve its customers. For capital costs, the  
28 forecasted Global Insight utility construction cost series JUG@PCF, "Total Gas Plant—  
29 Pacific Region" is applied to plant additions as described in Michael Schneider's  
30 testimony.

1           This proposal is an improvement from SoCalGas' current inflation adjustment  
2 mechanism, which is based on bounded changes in the U.S. Consumer Price Index  
3 (CPI). The proposal made in this filing better reflects inflation in costs of goods and  
4 services actually used by utilities. CPI is a far less appropriate indicator, as it is heavily  
5 weighted to reflect price changes in household goods such as housing costs,  
6 transportation, food and beverages – areas that do not generally correspond to utilities'  
7 spending needs.

8           The GOMPI's underlying PTY escalation indexes are the same O&M indexes  
9 described in Section II for escalations from 2005 to TY 2008. The gas labor and non-  
10 labor O&M cost indexes are weighted together to form a single GOMPI, according to  
11 Table SCG-SRW-2. For implementation in PTY adjustments, the values of GOMPI and  
12 its component indexes will be re-benched to TY 2008 = 1.0000.

13           If a CPUC decision in this GRC changes the level of expenses in base margin  
14 O&M cost categories for TY 2008 from these proposed allocations, then these filed  
15 weightings will be updated using the expenses ultimately adopted by the CPUC. The  
16 weights are multiplied by the respective O&M price indexes to calculate the overall  
17 O&M GOMPI index, and remain fixed through the PTY period.

18           Table SCG-SRW-3 shows year-to-year percentage changes for each cost  
19 escalation component, as well as for the currently estimated composite GOMPI.

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**TABLE SCG-SRW-2: SOUTHERN CALIFORNIA GAS COMPANY  
POST TEST YEAR ESCALATORS**

O&M OMPI Weights	Cost Escalation Expense Category	Escalation Index (Global Insight Variable Names)
100.0%	<u>O&amp;M Gas Utility Input Price Index (GOMPI):</u>	---
58.39%	SoCalGas Labor O&M	(weighted average)
0.08%	Gas Supply, Non-Labor Purchased Gas Non-Fuel	JGS807MS
2.43%	Gas Non-Labor Storage (underground) O&M	JGUSOMMS
3.29%	Gas Non-Labor Transmission O&M	JGTOMMS
7.92%	Gas Non-Labor Distribution O&M	JGDOMMS
5.12%	Gas Non-Labor Customer Accounts O&M	JGCAOMS
1.77%	Gas Non-Labor Customer Service & Information	JGCSIOMS
21.02%	Gas Non-Labor A&G O&M (excl. P&B)	JGADGOMMS_X926
	<u>Capital Construction Escalator (Pacific Region)</u>	
---	Total Gas Plant	JUG@PCF

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**TABLE SCG-SRW-3: SOUTHERN CALIFORNIA GAS COMPANY  
SUMMARY OF COST ESCALATION INDEXES**

<u>Annual Percentage Changes</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
<b>Gas O&amp;M Cost Indexes</b>												
Gas O&M Price Index (GOMPI)	2.06%	3.02%	2.96%	3.70%	3.36%	3.04%	2.99%	3.07%	3.19%	3.21%	3.07%	3.10%
SoCalGas Labor	2.30%	3.32%	3.10%	3.42%	3.46%	3.74%	3.46%	3.59%	3.66%	3.54%	3.48%	3.49%
Non-Labor Purchased Gas, Non-Fuel Exp.	-0.89%	-1.36%	-1.13%	-0.13%	0.05%	-0.71%	-1.06%	-0.72%	-0.59%	-0.58%	-0.39%	-0.14%
Non-Labor Storage (underground)	0.67%	2.77%	3.49%	5.28%	3.02%	0.94%	1.73%	1.78%	1.83%	2.22%	2.26%	2.31%
Non-Labor Transmission	0.73%	3.05%	4.41%	6.07%	3.14%	0.33%	1.31%	1.33%	1.45%	1.99%	1.91%	2.04%
Non-Labor Distribution	0.90%	2.44%	3.37%	5.75%	2.93%	0.77%	1.35%	1.36%	1.44%	1.93%	1.91%	2.00%
Non-Labor Customer Accounts	1.32%	2.14%	1.66%	3.31%	2.72%	1.53%	1.74%	1.81%	2.47%	2.70%	1.77%	1.81%
Non-Labor Customer Services and Info.	1.45%	2.43%	1.71%	3.42%	2.67%	1.06%	1.38%	1.35%	2.21%	2.65%	1.70%	1.76%
Non-Labor A&G (excl. pensions & benefits)	2.47%	2.74%	2.60%	3.33%	3.55%	3.17%	3.13%	3.08%	3.16%	3.17%	2.94%	2.99%
Shared Services (labor & non-labor O&M)	---	2.98%	3.15%	4.04%	3.37%	2.62%	2.76%	---	---	---	---	---
<b>Capital Cost Index (Pacific Region)</b>												
Total Gas Plant	2.05%	3.32%	15.18%	17.59%	-0.19%	0.35%	1.87%	1.62%	2.59%	2.94%	2.70%	2.61%

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8 This concludes my prepared direct testimony.

1 **IV. Qualifications**

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

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

13 I received a Bachelor of Science degree in Agricultural & Managerial Economics  
14 from the University of California at Davis in 1982, and a Masters of Science degree in  
15 Agricultural Economics from U.C. Davis in 1986. I have previously submitted  
16 testimony before the California Public Utilities Commission.