

Application: A.25-04-XXX
Proceeding: Microgrid Optional Tariff
Exhibit No.: SCG-03
Witness: Victor R. Garcia

CHAPTER 3
PREPARED DIRECT TESTIMONY OF
VICTOR R. GARCIA
ON BEHALF OF
SOUTHERN CALIFORNIA GAS COMPANY

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

April 16, 2025

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1 **DIRECT TESTIMONY OF VICTOR R. GARCIA**

2 **I. PURPOSE**

3 The purpose of this testimony is to describe the tracking of costs and associated cost
4 recovery methodology associated with Southern California Gas Company’s (SoCalGas)
5 Microgrid Optional Tariff (MOT). The tracking and cost recovery proposal will appropriately
6 track and allocate embedded costs to MOT customers. This testimony will outline how costs
7 will be tracked, the request to establish a tracking and balancing account, and the regulatory
8 treatment of the MOT assets.

9 **II. TRACKING OF MICROGRID OPTIONAL TARIFF**

10 The cost of completing an activity or project consists of both direct costs, as charged to
11 that activity, and a share of indirect or overhead costs. The sum of direct costs and overhead
12 costs make up fully-loaded costs. Direct costs are those activities and services that benefit a
13 specific project, such as salaries of staff employees (labor costs), materials and services required
14 for a specific project (non-labor costs). These costs are charged directly to the project since they
15 are readily identifiable and can be directly traced. Overhead costs are those activities and
16 services that are associated with direct costs—such as payroll taxes and pension and benefits—or
17 are costs which benefit a project, but which cannot be economically and efficiently direct-
18 charged.

19 Direct costs are defined as the specific labor and/or non-labor costs of each specific work
20 activity performed in the delivery of the MOT. There are two accounting methods available for
21 capturing the direct costs associated with providing the proposed tariff: (1) direct charging,
22 where the actual labor and non-labor spent in providing or supporting the MOT are recorded; and
23 (2) allocation, where the costs associated with provision of labor and non-labor activities are
24 determined by formula, such as percentage of some portion of direct costs. SoCalGas will use
25 direct charging as the primary method for capturing direct costs related to the MOT, and since
26 many associated activities are identifiable and can be easily tracked, direct charging is the
27 preferable method to account for the costs. For example, the majority of costs associated with the
28 provision of the MOT will be incremental charges from third-party service providers and the
29 procurement of equipment; these charges will be recorded directly to the appropriate internal
30 order. To properly identify and segregate costs associated with the MOT, specific internal orders

1 will be created within the SAP financial system. For example, a specific internal order will be
2 created to track the costs associated with an individual MOT customer. This process provides
3 SoCalGas with the accounting data needed to validate that all costs incurred in providing
4 services under the MOT are properly tracked and will be paid for by customers receiving the
5 services. On a periodic basis the internal orders created for tracking specific MOT project costs
6 will be reviewed to validate appropriate incremental labor and non-labor charges. Embedded
7 labor costs that were previously authorized in SoCalGas's General Rate Case (GRC) for base
8 business purposes but are incurred in association with MOT projects will be credited to the
9 balancing account and refunded to ratepayers.

10 **III. REGULATORY ACCOUNTING TREATMENT OF MICROGRID OPTIONAL** 11 **TARIFF COSTS**

12 SoCalGas is requesting, in this application, the creation of MOT tracking and balancing
13 accounts. The purpose of the MOT balancing account (MOTBA) is to credit ratepayers for any
14 GRC embedded costs used in providing the MOT. All MOT project costs will be recovered
15 directly from MOT customers receiving MOT services. Embedded labor costs that were
16 previously authorized in SoCalGas's General Rate Case (GRC) for base business purposes but
17 are incurred in association with MOT projects will be credited to the balancing account and
18 refunded to ratepayers. The MOTBA will be an interest-bearing account recorded on SoCalGas's
19 financial statements. In each annual October regulatory account balance update filing, SoCalGas
20 will amortize the projected year-end balance effective January 1 of the following year.

21 In addition, SoCalGas will establish a MOT tracking account (MOTTA) which will allow
22 SoCalGas to track the difference between the revenue collected from MOT services,¹ and the
23 actual operations and maintenance (O&M) and capital revenue requirements associated with
24 providing the MOT. The MOTTA will be mainly used by SoCalGas to monitor the effectiveness
25 of providing the MOT to customers. The MOTTA will not be reflected on SoCalGas's financial
26 statements.

27 SoCalGas will capitalize the assets used in providing the MOT, to the degree owned by
28 SoCalGas and not the MOT customer, as non-utility plant. By recording the asset as non-utility
29 plant, the MOT asset will be excluded from utility rate base assets that are recovered in the GRC

¹ Prepared Direct Testimony of Armando Infanzon (Chapter 2) includes additional details regarding MOT services.

1 and/or other applicable proceedings, thereby holding base utility ratepayers neutral and having
2 only MOT end users bear their associated costs.

3 SoCalGas's currently authorized 2024 GRC filing contains no requests for funding for
4 the MOT activities described herein. SoCalGas did not undertake such activities or incur such
5 costs in the prior GRC cycle. Additionally, since the recovery of costs associated with the MOT
6 services will be collected directly from MOT customers, these costs and revenues will be
7 excluded from recovery in SoCalGas's future GRCs.

8 In compliance with Ordering Paragraph 15 of Decision (D.) 15-10-049,² SoCalGas
9 created a MOT internal order on July 29, 2024 to track employee time and resources associated
10 with developing the tariff proposal. Costs charged to the internal order will not be borne by
11 ratepayers. Upon approval of this Application, the MOTBA will be credited for the balance
12 recorded in the MOT internal order as of July 29, 2024, to refund such amount to ratepayers.

13 **IV. CONCLUSION**

14 This concludes my prepared direct testimony.

² D.15-10-049 at 124-125 (OP 15).

1 **V. QUALIFICATIONS**

2 My name is Victor R. Garcia. I am the Principal Accountant Supervisor of Financial
3 Accounting for SoCalGas. My business address is 555 West Fifth Street, Los Angeles, California
4 90013. I graduated from California State University, Los Angeles in 2015 with a Bachelor of
5 Science degree in Business Administration and a Bachelor of Arts degree in Applied Economics,
6 and I graduated from the University of Southern California in 2024 with a Master of Business
7 Administration. I have been in the Financial Accounting department since September 2019.
8 Previously, I worked in the Regulatory Accounts department since July 2017, the PSEP Budgets
9 and Planning department since July 2016, and the Plant Accounting department since July 2015.

10 I have not previously testified before the California Public Utilities Commission.