

Application No.: A.08-09-023  
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Date: May 7, 2009  
Witness: Allison F. Smith

**SOUTHERN CALIFORNIA GAS COMPANY**  
**ADVANCED METERING INFRASTRUCTURE**  
**REBUTTAL TESTIMONY**

**CHAPTER 8**  
**SOCALGAS AMI COST RECOVERY AND RATE IMPACTS**

**Prepared Rebuttal Testimony**  
**of**  
**Allison F. Smith**

**BEFORE THE PUBLIC UTILITIES COMMISSION**  
**OF THE STATE OF CALIFORNIA**

**May 7, 2009**

**TABLE OF CONTENTS**

**I. INTRODUCTION..... 2**

**II. RATE BASING OF AMI METERS ..... 2**

**III. COST ALLOCATION ..... 2**

**IV. EPMC PERCENTAGES..... 4**

1 **I. INTRODUCTION**

2 My name is Allison F. Smith. My business address is 555 West Fifth Street, Los  
3 Angeles, California, 90013-1011. I have previously submitted testimony in this proceeding.

4 The purpose of my rebuttal testimony is to address assertions and the cost allocation  
5 proposal made by the Division of Ratepayer Advocates (DRA) witness, Mr. Blunt.

6 **II. RATE BASING OF AMI METERS**

7 Mr. Blunt states on page 8-1 that, “SoCalGas proposes to add AMI meters to rate base 5  
8 months after they are installed and functional.” This is not correct. SoCalGas proposes to lag  
9 O&M benefits by 5 months, but AMI meters will be recorded to rate base once they are both  
10 installed and operating.<sup>1</sup>

11 **III. COST ALLOCATION**

12 Mr. Blunt recommends allocating costs based on the current Long-Run Marginal Cost  
13 (LRMC) distribution cost allocation methodology rather than on a per meter basis. Mr. Blunt  
14 explains that the LRMC-based Equal Percent of Marginal Costs (EPMC) cost allocation  
15 methodology is more appropriate for the AMI costs for the following reasons:

- 16 • The Commission first adopted the LRMC methodology for California gas utilities in  
17 D. 92-12-058, and in several subsequent cost allocation decisions for both gas and  
18 electric utilities.
- 19 • There is no just and reasonable reason for the Commission to treat AMI costs  
20 differently than other components of the distribution revenue requirement.
- 21 • The allocation of costs on a per customer basis ignores the cost differences between  
22 meters and modules that would serve different customer types, resulting in allocating  
23 a disproportional amount of AMI costs to the residential customer class.

24 This reasoning overlooks the fundamental and underlying philosophy applicable to all  
25 cost allocation methodologies established in the 1992 LRMC decision - the concept of cost  
26 causation. The essential element in deriving reasonable cost of service allocation methods is the

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27 <sup>1</sup> SoCalGas Response to DRA Data Request #31 (Question 1a and 1d).

1 establishment of operating relationships between customer service requirements and the cost  
2 incurred by the utility in meeting those requirements. Allocation based on number of meters is a  
3 better reflection of cost causation for AMI costs, especially when compared to Mr. Blunt's  
4 recommendation of using EPMC for allocating AMI costs.

5 EPMC is only used to allocate costs when a direct relationship to cost causation cannot  
6 be indentified. For example, changes in base margin that occur between cost allocation  
7 proceedings are allocated to customer classes based on EPMC. Some regulatory accounts, such  
8 as the Pension Balancing Account, are allocated EPMC because these costs are overhead costs  
9 that are not directly attributable to a particular function.

10 Mr. Blunt's assertion that distribution costs are allocated based on EPMC overlooks the  
11 simple fact that measurement costs are one of the costs used to develop the EPMC factors. The  
12 EPMC factor is actually a reflection of the Transmission, Storage, and Distribution marginal  
13 costs allocated to each customer class. Transmission and Storage costs are allocated based on  
14 demand (or throughput) measures adopted by the Commission in the 1992 LRMC decision.  
15 Distribution costs are split into two functions, Demand-related and Customer-related costs.

16 The Customer-related Marginal Unit cost<sup>2</sup> would typically reflect the AMI costs for each  
17 customer class. The allocator adopted by the Commission in the LRMC decision for Customer-  
18 related costs is the number of customers per class. Once, the AMI costs are part of Authorized  
19 Margin, these costs will be included in the utility's cost allocation study. The capital and O&M  
20 costs for AMI will be part of the Customer Marginal unit cost. This unit cost would then be  
21 multiplied by the number of customers in the class to develop the Customer-related marginal cost  
22 for each customer class.

23 Under SoCalGas' proposal, we are approximating how the AMI costs would be allocated  
24 across the Core customer classes in a BCAP. Whereas, the EPMC factor that DRA proposes,  
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27 <sup>2</sup> The Customer-related unit cost reflects the capital and O&M costs associated with the customer's Service Line,  
Regulatory, and Meter (SRM).

1 reflects a broader allocation factor, which is based on the proportion of distribution, transmission  
2 and storage costs allocated to each Core class.

3 Mr. Blunt appears concerned that too much of the cost is allocated to Residential  
4 customers because SoCalGas has not reflected the cost differences for the equipment installed  
5 for different size customers. A further refinement could be made to use the weighted cost of  
6 meters by class. However, the simple fact that SoCalGas has over 5.6 million Residential meters  
7 compared to less than 0.3 million non-Residential meters makes this weighting immaterial.

8 Mr. Blunt suggests that SoCalGas proposes no allocation of costs to non-Residential Air  
9 Conditioning, Gas Engine or Natural Gas Vehicles, who are non-core customers.<sup>3</sup> Customers in  
10 these three classes are Core customers, however, these are very small classes compared to the  
11 Residential and Core Commercial & Industrial classes.<sup>4</sup> As such, the allocation of AMI costs  
12 based on the number of meters results in percentages that are less than the significant digits  
13 shown in the table presented on page VIII-4 of SoCalGas' Errata to Prepared Direct Testimony  
14 for two of these classes. A review of SoCalGas' workpapers will show that SoCalGas does  
15 propose to allocate a proportionate share of costs to these classes based on the number of meters.

16 SoCalGas does agree, however, with Mr. Blunt's conclusion that noncore customers have  
17 already paid for comparable equipment and therefore should not be required to pay for the costs  
18 of the AMI for Core customers.

#### 19 **IV. EPMC PERCENTAGES**

20 Mr. Blunt's proposed cost allocation percentages based on the current adopted LRMC  
21 EPMC distribution allocation for core customers does not agree with our current cost allocation  
22 model. The percentages SoCalGas calculates based on the current adopted LRMC EPMC  
23 distribution applied to core customers only is:

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26 <sup>3</sup> Mr. Blunt, page 8-3

27 <sup>4</sup> As shown in SoCalGas' workpapers for Chapter 8, there are 16 Gas A/C, 1,025 Gas Engine, and 221 NGV meters.  
Whereas, there are 5.6 million Residential and 0.28 million Core C/I meters.

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**TABLE 1**

**SoCalGas' Calculation of DRA's Cost Allocation Proposal**

<u>Customer Class</u>	<u>DRA's Calculation</u>	<u>SoCalGas' Calculation</u>
Residential	84.57%	84.95%
Core C&I	15.40%	14.94%
NR AC	0.00%	0.01%
Gas Eng	0.03%	0.10%
NGV	0.00%	0.00%
<b>Total Core</b>	100.00%	100.00%
Non-Core C&I	0.00%	0.00%
<b>System Total</b>	100.00%	100.00%

It should also be noted that SoCalGas has a pending application, A. 08-02-001, to update its current cost allocation. If the Commission adopts DRA's proposal to use core EPMC factors, these factors will be updated once the Commission issues a decision on A. 08-02-001.

This concludes my rebuttal testimony.