TURN DATA REQUEST
TURN-SCG-DR-28
SOCALGAS 2012 GRC – A.10-12-006
SOCALGAS RESPONSE
DATE RECEIVED: AUGUST 17, 2011
DATE RESPONDED: SEPTEMBER 13, 2011

1. At page RCL-2 to RCL-4, SCG describes the proposed revenue sharing for existing NTP&S.
    a. Please describe in detail the currently-existing ratemaking treatment for existing NTP&S costs and revenues. For example, are any NTP&S costs or revenues subject to ratemaking all NTP&S costs and revenues included in a test year forecast for GRC purposes
    b. Please describe in detail why SCG selected the 90/10 gross revenue sharing ratio adopted in D.99-09-070 rather than the 70/30 sharing ratio adopted in that decision. In particular, please explain in detail how SCG determined that the factors that led to the 70/30 sharing ratio for some of SCE's NTP&S do not warrant use of the same ratio for any of SCG's new or expanded NTP&S.
    c. Please provide a copy of all documents associated with SCG's analysis of different revenue sharing ratios considered in the process of developing its proposed 90/10 gross revenue sharing ratio.

SoCalGas Response 01:

a. NTP&S revenues are currently treated as Miscellaneous revenues. These revenues are forecast for the 2012 TY GRC and are used to offset the company's overall GRC revenue requirement. The incremental costs of offering the existing NTP&S are not included in the base margin revenue requirement. The cost of the capacity otherwise used and useful for the provision of utility service is included in the 2012 TY GRC forecast.

b. SoCalGas also proposed an entirely different sharing mechanism for NTP&S than that adopted as part of the settlement approved in D.99-09-070. SoCalGas is not proposing that services be divided into "active" or "passive". SoCalGas proposed the 90/10 gross revenues sharing mechanism for all existing services rather than the framework of 90/10 for some, and 70/30 for others (as determined by D.99-09-070 for SCE) in order to keep it simple and straightforward. Additionally, the use of a single sharing mechanism sends a balanced signal to the company that it should seek to grow all revenues of these services equally instead of creating different incentive levels for some existing services over others.

   Finally, the use of a single sharing mechanism sends a balanced signal to the company that it should seek to grow all revenues of these services equally instead of creating different incentive levels for some services over others.

c. SoCalGas objects to this question to the extent it requests information protected by the attorney-client privilege, the attorney work product doctrine, or any other applicable privilege or evidentiary doctrine. Subject to and without waiving this objection, SoCalGas responds as follows: No such documents exist.

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2. When did SCG first develop its proposal for a 90/10 gross revenue sharing ratio for existing NTP&S? Please describe in detail each step of the process from the initial development of this proposal to the determination that SCG would include the proposal in this GRC, including the name and job title of each person involved with each step, the approximate date for each step, and the name and job title of each person within SCG who reviewed or approved the proposal at each step of its development. Please also provide a copy of all documents associated with the SCG review and approval of the 90/10 gross revenue sharing ratio for existing NTP&S.

SoCalGas Response 02:

SoCalGas objects to this question as it is overly burdensome, not reasonably tailored to lead to the discovery of admissible evidence, and to the extent that it seeks information protected by the attorney-client privilege, the attorney work product doctrine, or any other applicable privilege or evidentiary doctrine. No information protected by such privileges or evidentiary doctrines will be knowingly disclosed.

SoCalGas Revised Response 02:

SoCalGas objects to this question to the extent that it seeks information protected by the attorney-client privilege, the attorney work product doctrine, or any other applicable privilege or evidentiary doctrine. Notwithstanding this objection, SoCalGas responds as follows:

Work on developing the 2012 GRC NTP&S proposal began in April 2010. The proposal was developed by Mr. Lane and was presented to and reviewed by senior management in late May 2010 (see attached presentation, which is considered ***confidential material pursuant to the signed NDA in this proceeding***). SoCalGas does not have a complete list of who was involved in that review but it included most of the senior management of SoCalGas. Mr. Lane also prepared several drafts of GRC testimony between June and August 6, 2010 (when SCG's NOI was filed); however theses drafts were not retained. SoCalGas did not maintain lists of who reviewed drafts of Mr. Lane's GRC testimony.

DOCUMENT REMOVED DUE TO CONFIDENTIALITY

3. At page RCL-3, SCG states, "It is appropriate to exclude existing forecasted NTP&S revenues from the new sharing mechanism because the incentive should be structured to induce incremental activity by the utility that causes incremental revenue from existing NTP&S."
   a. Please define "incremental activity" as used in the testimony.
   b. Please define "incremental revenue" as used in the testimony.

SoCalGas Response 03:

a. Incremental activity would be additional activity related to increasing the revenues of the service such as increasing marketing, offering the services to more customers or increasing pricing for these non-tariffed products where market conditions would allow.
b. Incremental revenue is revenue in excess of that included in the 2012 TY GRC forecast adopted by the Commission.

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4. At page RCL-3, SCG states, "it is appropriate to award 90% of the benefit to shareholders because they bear the risk that the revenues, after ratepayers 10% share is taken, are insufficient to cover the incremental costs incurred by the utility to offer the service."
   a. Please define "incremental cost" as used in the testimony. In particular, please explain how utility overheads and other common or general costs would be treated in the calculation of such incremental costs.
   b. For the existing NTP&S offered in 2009 and 2010, please state the amount of "incremental cost" the utility incurred to offer each service in that year.
   c. For the existing NTP&S forecast for 2012, please state the forecast of the amount of "incremental cost" the utility expects to incur to offer each service in that year.

SoCalGas Response 04:

a) Incremental costs are costs that SoCalGas would otherwise not incur if the NTP&S were not offered. Such costs would include but are not limited to:
- Marketing material and other collateral developed to market the service
- Specialized equipment purchased to provide the service (for example, the testing devices used to test the emissions as part of an emission testing NTP&S)
- New software purchased to provide the NTP&S
- Specific infrastructure constructed to provide the service
- Consulting and design work performed by 3rd parties specific to the provision of the service (for example, the design work required for the installation of a bio-gas condition plant)
- Specialized training of utility employees in order for them to provide the service
- Travel expenses directly attributable to the providing the service
- Labor costs of employees that spend 100% of their time providing the NTP&S
- All incremental costs carry appropriate loadings for common costs.

b) See attached NTP&S Reports:

2009_SCG_NTP&S Let&Reprt.pdf

2010 SCG NTPS Report.pdf

c) SoCalGas does not have a forecast of 2012 incremental costs for each existing NTP&S service in 2012. Such costs are not included in forecast of 2012 TY costs in this GRC.

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5. At page RCL-3, SCG describes the proposed sharing mechanism for existing services as giving the utility the incentive "to maintain, at a minimum the current level of revenues from these existing NTP&S, because the utility is at risk for any decrease in these revenues below that forecast in TY 2012."
   a. Does SCG agree that under the existing ratemaking treatment of NTP&S revenues the utility faces a risk of any decrease in recorded revenues from existing services below the level forecast in TY 2012?
   b. Please explain how the risk to the utility, as described in SCG's testimony, is different under its proposed sharing mechanism for existing services as compared to the existing ratemaking treatment for the forecast of NTP&S revenues from existing services.
   c. Please provide a copy of any analysis or other support that SCG relied upon for the assertion that "it is appropriate to award 10% of the benefit to ratepayers." RCL-3, lines 18-19.
   d. Please describe in detail the analysis that led SCG to conclude that the protection from downside risk and benefit from incremental dollars under its proposed sharing mechanism for existing NTP&S would be different than was the case for SCE when the Commission adopted a 30% share of gross revenues for ratepayers for many of SCE's NTP&S.

SoCalGas Response 05:

a. Yes.

b. The risk for any decrease in revenues below TY 2012 forecast for existing services is the same. The sharing mechanism only applies to revenue that exceeds existing forecast levels. SCG would retain 100% of revenues under existing ratemaking until the next GRC, at which time a new forecast level would be adopted.

c. Mr. Lane's assertion that "it is appropriate to award 10% of the benefit to ratepayers" is based on Mr. Lane's judgement as an expert witness, in light of Commission precedent, and is explained in his testimony. For example, see RCL-3, lines 9-18.

d. The sharing mechanism, regardless of the ratio does not protect against downside risk. Regardless of the sharing mechanism, shareholders bear the downside risk.. The protection against downside risk for ratepayers is provided not by the sharing mechanism, but rather by the accounting safeguards required by the affiliate transaction rules that ensure ratepayers do not bear the risk that incremental costs would not cover incremental revenues generated.

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6. At RCL-3, lines 26-27, SCG states that NTP&S that are currently authorized but did not record any revenues in 2009 are not included in the TY 2012 Misc. Revenues forecast.
   a. Please provide SCG's recorded costs and revenues for 2010 for each NTP&S that is currently authorized but did not record any revenues in 2009.
   b. Please provide SCG's most recent forecast of costs and revenues for 2011 and 2012 for each NTP&S that is currently authorized but did not record any revenues in 2009.
   c. Please provide the amount of costs and revenues recorded to date for pipeline services in 2011, as those services are described in Exhibit 32, p. 4.
   d. On January 1, 2009, what was the amount of costs and revenues forecasted for pipeline services in 2009?
   e. On January 1, 2010, what was the amount of costs and revenues forecasted for pipeline services in 2010?
   f. On January 1, 2011, what was the amount of costs and revenues forecasted for pipeline services in 2011?

SoCalGas Response:

a. Only one service had no recorded costs in 2009, but had recorded costs in 2010
   Environmental Software Services:
   2010 Revenues = $16,243
   2010 Incremental Costs = $ 8,638
b. The most recent forecast is that contained in the testimony and workpapers of Mr. Cahill SCG-32 and SCG WP-32
c. 2011 financial information will not be available until after SDG&E (or SoCalGas) makes its 10-K filing with the SEC in early 2012.
d. SoCalGas does not forecast costs or revenues for Pipeline Services.
e. SoCalGas does not forecast costs or revenues for Pipeline Services.
f. SoCalGas does not forecast costs or revenues for Pipeline Services

7. At RCL-3 to RCL-4, SCG describes a revenue sharing mechanism that would apply to new non-tariffed products and services that do not require significant additional shareholder expenditure.
    a. When did SCG first develop its proposal for the gross revenue sharing ratio for new non-tariffed products and services that do not require significant additional shareholder expenditure?
    b. Please describe in detail each step of the process from the initial development of this proposal to the determination that SCG would include the proposal in this GRC, including the name and job title of each person involved with each step, the approximate date for each step, and the name and job title of each person within SCG who reviewed or approved the proposal at each step of its development.
    c. Please also provide a copy of all documents associated with the SCG review and approval of the revenue sharing mechanism that would apply to new non-tariffed products and services that do not require significant additional shareholder expenditure.

SoCalGas Response 07:

SoCalGas objects to this question as it is overly burdensome, not reasonably tailored to lead to the discovery of admissible evidence, and to the extent that it seeks information protected by the attorney-client privilege, the attorney work product doctrine, or any other applicable privilege or evidentiary doctrine. No information protected by such privileges or evidentiary doctrines will be knowingly disclosed.

SoCalGas Revised Response 07:

SoCalGas objects to this question to the extent that it seeks information protected by the attorney-client privilege, the attorney work product doctrine, or any other applicable privilege or evidentiary doctrine. Notwithstanding this objection, SoCalGas responds as follows:

Work on developing the 2012 GRC NTP&S proposal began in April 2010. The proposal was developed by Mr. Lane and was presented to and reviewed by senior management in late May 2010 (see attachment to Response 02 above). SoCalGas does not have a complete list of who was involved in that review but it included most of the senior management of SoCalGas. Mr. Lane also prepared several drafts of GRC testimony between June and August 6, 2010 (when SCG's NOI was filed); however theses drafts were not retained. SoCalGas did not maintain lists of who reviewed drafts of Mr. Lane's GRC testimony.

8. At RCL-4, lines 1-2, SCG states that where less than 50% of the total utility cost to offer the services are incremental costs borne by shareholders, the NTP&S should be defined as not having significant incremental shareholder expenditures and subject to the 90/10 gross revenue sharing.
    a. Would the total utility cost used for the purpose of determining whether a NTP&S does not have significant incremental shareholder expenditures be calculated as a forecast or a recorded cost basis? Please explain in detail how this would work, including but not limited to whether such total utility cost forecast would be included in the advice letter proposing the new NTP&S and how SCG proposes that the Commission determine the reasonableness of the forecast.

    b. Would the incremental costs borne by shareholders for the purpose of determining whether a NTP&S does not have significant incremental shareholder expenditures be on a forecast or a recorded cost basis? Please explain in detail how this would work, including but not limited to whether such total utility cost forecast would be included in the advice letter proposing the new NTP&S and how SCG proposes that the Commission determine the reasonableness of the forecast.

    c. Please describe the process or analysis by which SCG considered any gross revenue sharing ratio other than 90/10 for such new non-tariffed products and services that do not require significant additional shareholder expenditure, and explain in detail each reason for SCG's determination that the 90/10 ratio is preferable to other ratios. Please provide all documentation supporting this process or analysis SCG performed in preparation of its GRC testimony.

    d. Please describe the process or analysis by which SCG considered anything other than 50% of incremental costs as the trigger or threshold for such new non-tariffed products and services that do not require significant additional shareholder expenditure being subject to the 90/10 gross revenue sharing. Please also explain in detail each reason for SCG's determination that the 50% of incremental costs is preferable to other potential triggers or thresholds such as a fixed level of shareholder investment. Please provide all documentation supporting this process or analysis SCG performed in preparation of its GRC testimony.

SoCalGas Response 08:

a. The total utility cost used for the purpose of determining whether a NTP&S does not have significant incremental shareholder expenditures would be calculated as a forecast cost basis. When the utility sought approval of a new NTP&S via advice letter filing the utility would forecast the total cost of offering the service as well as the incremental costs that would be incurred to bring the service to market. The CPUC would review the forecast in conjunction with the Advice Letter filing.

Response to Question 8 (Continued)

b. The incremental costs borne by shareholders for the purpose of determining whether a NTP&S does not have significant incremental shareholder expenditures would be on a forecast cost basis. When the utility sought approval of a new NTP&S via advice letter filing the utility would forecast the total cost of offering the service as well as the incremental costs that would be incurred to bring the service to market. The CPUC would review the forecast in conjunction with the Advice Letter filing

c. SoCalGas considered a 70/30 gross revenue sharing mechanism but decided to propose a gross revenue sharing ratio of 90/10 because the NTP&S generally envisioned under this category would meet the definition of "active" as it is used in D.99-09-070.

d. SoCalGas did not review each potential iteration of a sharing mechanism. SoCalGas proposed a 50/50 sharing of net revenues, as described in Mr. Lane's testimony, for the reasons contained in that testimony.

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9. At RCL-4 to RCL-5, SCG describes a revenue sharing mechanism that would apply to new non-tariffed products and services that require significant additional shareholder expenditure.
    a. When did SCG first develop its proposal for the gross revenue sharing ratio for new non-tariffed products and services that require significant additional shareholder expenditure?
    b. Please describe in detail each step of the process from the initial development of this proposal to the determination that SCG would include the proposal in this GRC, including the name and job title of each person involved with each step, the approximate date for each step, and the name and job title of each person within SCG who reviewed or approved the proposal at each step of its development.
    c. Please also provide a copy of all documents associated with the SCG review and approval of the revenue sharing mechanism that would apply to new non-tariffed products and services that require significant additional shareholder expenditure.

SoCalGas Response 09:

SoCalGas objects to this question as it is overly burdensome, not reasonably tailored to lead to the discovery of admissible evidence, and to the extent that it seeks information protected by the attorney-client privilege, the attorney work product doctrine, or any other applicable privilege or evidentiary doctrine. No information protected by such privileges or evidentiary doctrines will be knowingly disclosed.

SoCalGas Revised Response 09:

SoCalGas objects to this question to the extent that it seeks information protected by the attorney-client privilege, the attorney work product doctrine, or any other applicable privilege or evidentiary doctrine. Notwithstanding this objection, SoCalGas responds as follows:

Work on developing the 2012 GRC NTP&S proposal began in April 2010. The proposal was developed by Mr. Lane and was presented to and reviewed by senior management in late May 2010 (see attachment to Response 02 above). SoCalGas does not have a complete list of who was involved in that review but it included most of the senior management of SoCalGas. Mr. Lane also prepared several drafts of GRC testimony between June and August 6, 2010 (when SCG's NOI was filed); however theses drafts were not retained. SoCalGas did not maintain lists of who reviewed drafts of Mr. Lane's GRC testimony.

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10. At RCL-4 to -5, SCG states that where more than 50% of the total utility cost to offer the services are incremental costs borne by shareholders, the NTP&S should be defined as having significant incremental shareholder expenditures and subject to the 50/50 sharing of after-tax net earnings above a rate of return benchmark.

    g. Please describe the process or analysis by which SCG considered any net revenue sharing ratio other than 50/50 for such new non-tariffed products and services that require significant additional shareholder expenditure, and explain in detail each reason for SCG's determination that the 50/50 ratio is preferable to other ratios. Please provide all documentation supporting this process or analysis SCG performed in preparation of its GRC testimony.

    h. To SCG's knowledge, has the Commission ever adopted a 50/50 sharing of after-tax net earnings above a rate of return benchmark for part or all of any other utility's non-tariffed products and services? If so, please identify with specificity each instance where the Commission has adopted such a net earnings sharing mechanism, including a citation to the decision or resolution adopting that mechanism, and briefly describe SCG's understanding of that mechanism.

SoCalGas Response 10:

a. SoCalGas objects to this question to the extent that it is overly burdensome, not reasonably tailored to lead to the discovery of admissible evidence, and to the extent that it seeks information protected by the attorney-client privilege, the attorney work product doctrine, or any other applicable privilege or evidentiary doctrine. No information protected by such privileges or evidentiary doctrines will be knowingly disclosed. Subject to and without waiving this objection, the rationale and analysis behind the sharing mechanism for "New Non Tariffed Products and Services that Require Significant Additional Shareholder Expenditure" is described in Mr. Lane's testimony at pages RCL-4 – RCL-8. See, for example, RCL-5 Line 14 through RCL-7 Line 4.

SoCalGas Revised Response 10:

a. The rationale and analysis behind the sharing mechanism for "New Non Tariffed Products and Services that Require Significant Additional Shareholder Expenditure" is described in Mr. Lane's testimony at pages RCL-4 – RCL-8. See, for example, RCL-5 Line 14 through RCL-7 Line 4.

b. To the best of SoCalGas's knowledge the Commission has not yet adopted a 50/50 sharing of after tax net earnings above a rate of return benchmark for part or all of any other utilities non-tariffed products and services. SoCalGas believes that this innovative proposal will allow it to provide customers with beneficial energy solutions and other beneficial products and services while allowing the general body to benefit from the additional revenues generated (on either a net or gross basis) while protecting ratepayers from downside risk.

11. RCL-3, lines 9-14 refer to the risks borne by either shareholders or ratepayers.
    a. The testimony states, "ratepayers are protected from any downside risk." Please describe in detail the "downside risk" that SCG is referring to here. In particular, please explain whether the "downside risk" is purely financial, or if it also includes the risk of diversion of management attention and other non-financial risks.

    b. How is the risk of incremental cost recovery for the incremental costs incurred by the utility in providing NTP&S different than the risk of incremental cost recovery for other non-NTP&S activities covered by the GRC? Please explain your answer in detail.

    c. Is the risk of incremental cost recovery for the incremental costs incurred by the utility in providing NTP&S different for capital costs rather than expenses? Please explain your answer in detail.

SoCalGas Response 11:

a. The downside risk that SoCalGas, not customers, would bear is that incremental revenues from new NTP&S would not cover their incremental costs. Customers would not see their rates increase as a result of an NTP&S project whose incremental costs exceeded its incremental revenues. Customers would, under the sharing mechanisms proposed, have some opportunity for decreased rates due to the flow through of the shared revenues to customers. As used in Mr. Lane's testimony, the term "downside risk" is limited to financial risk.

b. Incremental costs incurred by the utility in providing NTP&S would not be included in the forecast of costs in the subsequent GRC. Incremental costs incurred to provide general utility service would, if expected to continue into the future, be included in the revenue requirement in the subsequent GRC.

c. Yes, capital expenditures generally have to be recovered over a longer period of time, as the underlying asset has a longer life. The risk, borne entirely by shareholders for incremental capital expenditures incurred to provide an NTP&S, is that the asset could become stranded. To mitigate this risk, SoCalGas most likely would seek a long term contract with its NTP&S customers. This is one reason why these services are best offered as NTP&S, because the contracting process is not consistent with a "tariffed" service.

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12. For each item designated "NTP&S subject to sharing mechanism" in the workpapers for SCG-33, please identify the corresponding item in the attachment to SCG-33. Please also explain in detail any difference in the 2009 recorded figure presented in each document.

SoCalGas Response:

Answer to TURN 28
Question 12.xls

SoCalGas does not have a reconciliation between the recorded figures in each document.

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13. Are any of the items identified in the attachment to SCG-33 that are not going to be treated as existing NTP&S under SCG's proposal for NTP&S in this GRC? If so, please identify each such item and briefly explain why it is not going to be treated as existing NTP&S.

SoCalGas Response 13:

No. All of the items in Appendix RCL-B to SCG -33 are going to be treated as existing NTP&S under SoCalGas' proposal in this GRC.

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14. For each NTP&S described in SCG's 2009 and 2010 annual reports, please identify where the NTP&S appears in the Attachment to SCG-33 and the workpapers to SCG-33, and state whether the product or service will be subject to proposed revenue sharing for "existing" NTP&S.

SoCalGas Response:

See Attached

Answer to TURN 28
Question 14.xls

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15. Please describe in detail the "accounting safeguards" referred to on page 1, line 22 of SCG-33. Please also identify where in SCG's GRC testimony or workpapers these "accounting safeguards" are described.

SoCalGas Response15:

Below describes the current accounting method utilized to track the incremental dollars which are, per the affiliate transactions rules, shareholder expenses. There are no incremental ratepayer expenses.

1. After CPUC approval of a new NTP&S, accounting and reporting activities are the responsibility of the assigned business manager(s). The assigned manager works with the accounting department to set-up the appropriate accounting process following established procedures. These procedures are summarized as follows.

2. Work Order Authorization (WOA) – A SAP internal order (I/O) is set up to capture all incremental costs (both labor and non-labor) associated with the specific product or service. The WOA requires management approval prior to the establishment of the I/O by the accounting department.

3. As costs are incurred, the responsible manager, or designate(s), records each expense item to the appropriate internal order, cost center, and cost element. The use of the established SAP accounting process and coding allows for the periodic review of the incurred costs. This review ensures applicable program costs have been recorded properly.

4. As part of the monthly accounting close the costs recorded to the I/O are subject to overhead loading which ensures that all incremental costs associated with the product or service are included in the IO setup to track incremental costs.

5. The business manager is responsible for the review of expenses on a monthly basis to ensure accurate accounting of the related activity. Business managers are required to provide periodic reports for products and services under their area of responsibility.

6. A General Ledger (G/L) account is also established to record revenues associated with the specific product or service. The accounting department sets up the revenue account at the request of the responsible business manager.

These accounting safeguards are not included in SoCalGas's GRC testimony or application. They are established under existing utility accounting practices consistent with the Commission's affiliate transaction rules.

16. For each "existing" NTP&S, please provide the recorded costs in 2009 and 2010, and the forecasted costs for 2011 and 2012. If these figures appear anywhere in SCG's testimony or workpapers, please provide the cite to the figures.

SoCalGas Response 16:

Only the incremental costs of existing NTP&S are tracked separately. Incremental costs are reported in the 2009 and 2010 NTP&S reports provided in response to TURN DR 28.4.b. SoCalGas is not seeking recovery of these incremental costs in rates.

17. Please describe in detail Mr. Lane's involvement in the development, review or approval of NTP&S in each of the positions he has held since joining the Sempra Energy family of companies in April of 2007.

SoCalGas Response 17:

From April 23, 2007 until April 3, 2010. Mr. Lane was Manager, Corporate Regulatory Policy at Sempra Energy Corporate. In that role he provided regulatory support as needed to SoCalGas and SDG&E as needed. In the first quarter of 2010, Mr. Lane began to work with utility employees tasked with developing new opportunities for growth within the utility. One of these areas was NTP&S that would allow the utilities to offer new innovative services to their customers while protecting ratepayers from risk. Mr. Lane provided expertise regarding utility regulation, CPUC policies and regulatory theory to the groups working on various new opportunities.

From April 3, 2010, until November, 2010 Mr. Lane was Director of Regulatory Strategy at SDG&E and was a shared service employee between SoCalGas and SDG&E. In this role, Mr. Lane provided expert regulatory advice and counsel regarding the NTP&S services. Mr. Lane worked with the teams developing NTP&S services to propose the regulatory framework and sharing mechanism required by the CPUC affiliate transaction rules. Mr. Lane participated in the development of the Mover Services NTP&S, the Emissions Testing NTP&S, the Bio-Gas conditioning NTP&S and the Bio-Gas Production NTP&S

In November of 2010, Mr. Lane was assigned to oversee the FERC, CAISO and Compliance Department but retained his responsibilities to assist in the development of the regulatory framework for NTP&S and continued sponsorship of SCG-33.

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18. Please describe in detail Mr. Lane's involvement in the development, review or approval of products or services offered through affiliates of SoCalGas or SDG&E that would be subject to the affiliate transaction rules in each of the positions he has held since joining the Sempra Energy family of companies in April of 2007.

SoCalGas Response 18:

SoCalGas objects to this question to the extent that it is overly burdensome, not reasonably tailored to lead to the discovery of admissible evidence, and to the extent that it seeks information protected by the attorney-client privilege, the attorney work product doctrine, or any other applicable privilege or evidentiary doctrine. No information protected by such privileges or evidentiary doctrines will be knowingly disclosed.

Subject to and without waiving this objection, between April 23, 2011 and April 3, 2010, in his role as Manager of Corporate Regulatory Policy in the Corporate Regulatory Policy department at Sempra Energy, Mr. Lane provided regulatory support to Sempra Generation regarding its efforts to develop renewable projects within California and the Western United States. As a shared service employee, Mr. Lane provided Sempra Generation with expertise regarding the Commission's RPS program, how a cap and trade market might develop in California, assisted in the understanding how various tax incentives worked and whether they would be and general advice and counsel regarding California utility regulation and energy policy.

In this capacity, Mr. Lane played no role in the review or approval process of projects under consideration at affiliates of SoCalGas or SDG&E subject to the Affiliate Transaction rules**.**

19. Please provide an organizational chart that indicates the person to whom Mr. Lane directly reports and the chain of command upward to the Senior Vice President level, identifying each level of management between Mr. Lane's level and the Senior Vice President level within the utility.

SoCalGas Response 19:

Mr. Lane reports directly to Lee Schavrien, Senior Vice President of Finance Regulatory & Legislative Affairs.

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20. Please identify and describe in detail each opportunity for offering non-tariffed products and services that SCG considered but chose not to pursue from 2005 to the present, and the most significant reasons behind SCG's decision not to pursue the NTP&S. If it would be unduly burdensome to identify each such opportunity, please identify for each year the five opportunities that SCG believes would have provided the greatest amount of gross revenues.

SoCalGas Response 20:

SoCalGas objects to this question as it is overly burdensome, not reasonably tailored to lead to the discovery of admissible evidence, and to the extent that it seeks information protected by the attorney-client privilege, the attorney work product doctrine, or any other applicable privilege or evidentiary doctrine. No information protected by such privileges or evidentiary doctrines will be knowingly disclosed.

Subject to and without waiving this objection, to the best of SoCalGas's knowledge, there are no opportunities for offering new non-tariffed products and services that SoCalGas considered but chose not to pursue from 2005 to the present.

21. Please describe the accounting policies and procedures that PG&E presently has in place to ensure that incremental costs associated with providing non-tariffed products and services subject to the net revenue sharing mechanism are not charged to ratepayers.

SoCalGas Response 21:

As clarified by TURN, this question should address SoCalGas rather than PG&E.

Below describes the current accounting method utilized to track the incremental dollars which are, per the affiliate transactions rules shareholder expenses. There are no incremental ratepayer expenses.

1. After CPUC approval of a new NTP&S, accounting and reporting activities are the responsibility of the assigned business manager(s). The assigned manager works with the accounting department to set-up the appropriate accounting process following established procedures. These procedures are summarized as follows.

2. Work Order Authorization (WOA) – A SAP internal order (I/O) is set up to capture all incremental costs (both labor and non-labor) associated with the specific product or service. The WOA requires management approval prior to the establishment of the I/O by the accounting department.

3. As costs are incurred, the responsible manager, or designate(s), records each expense item to the appropriate internal order, cost center, and cost element. The use of the established SAP accounting process and coding allows for the periodic review of the incurred costs. This review ensures applicable program costs have been recorded properly.

4. As part of the monthly accounting close the costs recorded to the I/O are subject to overhead loading which ensures that all incremental costs associated with the product or service are included in the IO setup to track incremental costs.

5. The business manager is responsible for the review of expenses on a monthly basis to ensure accurate accounting of the related activity. Business managers are required to provide periodic reports for products and services under their area of responsibility.

6. A General Ledger (G/L) account is also established to record revenues associated with the specific product or service. The accounting department sets up the revenue account at the request of the responsible business manager.

22. Has the Commission audited SCG's accounting policies and procedures associated with its non-tariffed products and services net revenue sharing mechanism at any time? If so, please describe the date of each such audit and the length of time devoted to the audit, and provide a copy of the written report from each such audit.

SoCalGas Response 22:

The audit was completed in on April 23, 2007. The audits were performed in three distinct phases from October 17, 2006, through April 23, 2007. The auditor's professional staff spent approximately 1,250 hours performing the audit. (See page 2 of the attached SoCalGas Affiliate Audit 2006)

SoCalGas Affiliate Audit 2006.pdf

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23. Please explain in detail how SCG proposes to ensure its employees involved with non-tariffed products and services understand how to identify and record costs as "incremental costs" associated with those products and services. Please include in the response all written communications provided to employees regarding "incremental costs" and non-tariffed products and services.

SoCalGas Response 23:

Below describes the current accounting method utilized to track the incremental dollars which are, per the affiliate transactions rules, shareholder expenses. There are no incremental ratepayer expenses.

Upon CPUC approval of a new NTP&S, the accounting department works with the assigned business manger(s) to set-up the appropriate accounting process to follow, based on established procedures.

These procedures are described in the previous response in to TURN Data Request 28, Question 15.

To track these costs an internal order (referred to as an I/O) is set up to capture all of the incremental costs (both labor and non-labor) associated with the NTP&S. The Business managers are, when the I/O is established, instructed as to costs that should recorded to the I/O. The responsible manager, or designee(s), is instructed to record, as costs are incurred, each expense item or capital expenditure in the appropriate internal order, cost center and cost element. The use of the established SAP accounting process and coding allows for the periodic review of the incurred costs. This review ensures applicable program costs have been recorded properly.

The business manager is informed that he or she is responsible for the review of expenses on a monthly basis to ensure accurate accounting of the related activity. Business managers provide periodic reports for products and services under their area of responsibility.

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24. At SCG-33, p. 5, SCG describes its proposal for treating capital investment as an incremental cost for non-tariffed products and services.

    a. Would capital investment SCG makes to provide non-tariffed products and services be treated as plant in service for ratemaking purposes? If the response is anything other than an unqualified affirmative, please explain it in detail.

    b. Would capital investment SCG makes to provide non-tariffed products and services be included in the utility's rate base for ratemaking purposes? If the response is anything other than an unqualified affirmative, please explain it in detail.

    c. Assume that SCG makes a capital investment in order to provide a non-tariffed product or service, and the investment has an expected service life of twenty years for depreciation purposes. Further assume that after five years SCG stops providing the non-tariffed product or service that required the capital investment, and the investment is not necessary to provide utility service or any other non-tariffed product or service. How would SCG propose to treat the unamortized capital investment under these circumstances?

SoCalGas Response 24:

a. No. Capital investment SoCalGas makes to provide non-tariffed products and services would not be treated as plant in service for ratemaking purposes. Such capital investment would be treated as "below the line" and nor recorded in plant in service for ratemaking treatment.

b. No, the capital investment SoCalGas makes to provide NTP&S would not be included in the utilities rate base for ratemaking treatment. It would be recorded below the line.

c. The unamortized capital investment would remain "below the line" and excluded from utility ratebase. SoCalGas would not seek recovery from ratepayers.