

Application of Southern California Gas Company
for authority to update its gas revenue requirement
and base rates effective on January 1, 2012.
(U904G)

Application 10-12-____
Exhibit No.: (SCG-32)

**PREPARED DIRECT TESTIMONY OF
TODD J CAHILL
ON BEHALF OF SOUTHERN CALIFORNIA GAS COMPANY**

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

DECEMBER 2010



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**PREPARED DIRECT TESTIMONY
OF TODD J. CAHILL
ON BEHALF OF SOUTHERN CALIFORNIA GAS COMPANY
(MISCELLANEOUS REVENUES)**

I. SUMMARY OF MISCELLANEOUS REVENUES

Miscellaneous revenues are comprised of fees and revenues collected by the utility for the provision of specific products or services from non-rate sources. They include such revenues as service establishment charges, collection fees and rents. Miscellaneous revenues also reflect certain credits to be returned to ratepayers pursuant to previous California Public Utilities Commission (“CPUC”) Decisions. Miscellaneous revenues are incorporated in rates as a reduction to the base margin revenue requirement charged to customers for gas utility service.

Shown below is a summary of the recorded (base year 2009) and proposed (test year 2012) Southern California Gas Company (“SoCalGas”) miscellaneous revenues in thousands of dollars (\$000’s) by Federal Energy Regulatory Commission (“FERC”) account:

FERC Acct. - Description	2009 Recorded	2012 Test Year	Net Change
488 – Cust. Service Revenues	34,965	33,722	(1,243)
493 – Rent from Gas Property	3,457	586	(2,871)
495 – Other Gas Revenues	31,228	65,918	34,690
Other Adjustments (See items 20 through 22)	8,215	2,972	(5,243)
Total	77,865	103,197	25,332

II. OVERVIEW OF 2012 FORECAST

For purposes of forecasting test year 2012 (“TY 2012”) miscellaneous revenues, SoCalGas performed an item by item analysis of miscellaneous revenue accounts, including a review of prior-year recorded results as well as the factors that could impact future results. The forecasts were developed using methodologies that reflect the drivers for each miscellaneous revenue item. For many items, such as service establishment charges, where SoCalGas has multiple years of recorded activity, the forecast was developed using a multi-year recorded average adjusted by estimated customer or sales growth factors, where applicable. In circumstances where the charge is based on a per customer basis, a customer growth factor was applied to adjust historical results to develop the 2012 forecast.

1 Where the charge is based on a per therm basis, a sales growth factor was applied in deriving the
2 forecast. Generally, unless otherwise specified, the customer or sales growth factors were applied at a
3 system-wide level for simplicity and consistency purposes. In instances where the multi-year recorded
4 results are not available or recent factors have caused the multi-year results to no longer reflect a
5 reasonable expectation of the future, SoCalGas used the most recent recorded year (base year 2009) to
6 develop the forecast. In other cases, such as for rents from property, the forecast is based on executed
7 lease agreements adjusted for applicable escalation clauses. Finally, for other miscellaneous revenue
8 items not reflected in the categories described above, a forecasting methodology was applied to reflect
9 the unique circumstances of the particular activity. The increase in miscellaneous revenue forecasted
10 for 2012 compared to the 2009 recorded amount is primarily due to the increase in shared asset
11 revenue.

12 **III. COMPONENTS OF MISCELLANEOUS REVENUES**

13 SoCalGas forecasts TY 2012 Miscellaneous Revenues of \$104,120,000. The following
14 provides an account-by-account summary and description of miscellaneous revenue items recorded in
15 2009, estimated for 2012, and the net change.

16 a) Customer Service Revenues – Account 488

17 These revenues reflect fees collected by the utility for Service Establishment Charges (“SECs”),
18 Reconnection Charges, Pipeline Services and other service related fees.

19 **1. SECs (\$000’s)**

2009 Recorded	2012 Test Year	Net Change
26,489	25,557	(932)

21
22 The SEC is \$25 for all customers, except electric generation and wholesale customers, to
23 establish gas service pursuant to SoCalGas’ Commission-approved Tariff Rule No. 10. Low-income
24 customers who qualify for the CPUC-approved California Alternate Rates for Energy (“CARE”)
25 program are charged \$10.00, and the \$15.00 difference is recovered through the CARE portion of the
26 Public Purpose Program (“PPP”) charge. The amount recorded to miscellaneous revenue reflects the
27 \$25 charge before the CARE discount. The 2012 forecast is based on the five-year historical average
28 (2005-2009) adjusted for the annual customer growth factors for the period 2010-2012. Additional

1 information on service establishment charges is presented in the direct testimony of Edward Fong
2 (Exh. SCG-07).

3 **2. Reconnection Charge (\$000's)**

2009 Recorded	2012 Test Year	Net Change
1,707	1,919	212

4
5 The Reconnection Charge is \$16 to re-establish service subsequent to the closing of a customer
6 account for non-payment pursuant to SoCalGas' Commission-approved Tariff Rule No. 10. The 2012
7 estimate is based on the five-year historical average (2005-2009) adjusted for the annual customer
8 growth factors for the period 2010-2012. Additional information on Reconnection Charges is
9 presented in the direct testimony of Edward Fong (Exh. SCG-07).

10 **3. Residential Parts Program (\$000's)**

2009 Recorded	2012 Test Year	Net Change
1,576	1,521	(55)

11
12 The Residential Parts Program provides limited parts replacement for residential-type gas
13 appliances (such as ranges, water heaters, and space heaters). The parts replaced include such items as
14 appliance connectors, shut-off valves, thermocouples, pilot tubing, and gas light mantles. The 2012
15 forecast is based on the five-year historical average (2005-2009) adjusted for the annual customer
16 growth factors for the period 2010-2012.

17 **4. Commercial Parts Program (\$000's)**

2009 Recorded	2012 Test Year	Net Change
2,984	3,063	79

18
19
20 The Commercial Parts Program provides parts replacement for food industry-type appliances
21 located in restaurants, hospitals, rest homes, sanitariums, schools, churches, and in-plant food
22 preparation facilities. These appliances include dishwashers, broilers, griddles, hot food tables, ovens,
23 braising pans, deep fat fryers, pressure fryers, steam cookers, and other similar equipment. The parts
24 offered to these customers include thermostats, connectors, and control valves. The 2012 forecast is

1 based on the five-year historical average (2005-2009) adjusted for the annual customer growth factors
2 for the period 2010-2012.

3 **5. Connect Appliance Program (\$000's)**

2009 Recorded	2012 Test Year	Net Change
131	264	133

4
5 The Connect Appliance Program provides for, upon customer request, the connection of new
6 and used portable appliances such as gas ranges, dryers, and barbecues pursuant to SoCalGas'
7 Commission-approved Tariff Rule No. 10. The parts utilized to perform this service are shut-off
8 valves and connectors. The 2012 forecast is based on the five-year historical average (2005-2009)
9 adjusted for the annual customer growth factors for the period 2010-2012.

10 **6. Natural Gas Vehicle ("NGV") Maintenance (\$000's)**

2009 Recorded	2012 Test Year	Net Change
120	150	30

11
12 SoCalGas receives revenues for providing maintenance services at customer-owned NGV
13 facilities. SoCalGas provides a comprehensive set of routine services that are paid for by the customer
14 at a fixed monthly fee based upon asset requirements. This service can include the changing of oil and
15 filters, minor mechanical adjustments, the replacement of hoses and other vehicle maintenance related
16 items. The 2012 estimate is based on an expectation that demand and therefore revenues will increase
17 slightly for this service.

18 **7. Pipeline Services (\$000's)**

2009 Recorded	2012 Test Year	Net Change
925	0	(925)

19
20 Pipeline services revenues are received for providing installation and maintenance of gas
21 facilities primarily for commercial customers, school districts, cities, and counties. The number of
22 projects range from 80 to 100 jobs annually and vary in size. Due to unknown future work
23 requirements for Pipeline Services work, forecasting has been set to zero. Moreover, construction
24 performed in areas of military installations and campus style projects have greatly decreased due to
25 economic factors.
26

1 **8. Late Payment Charges (\$000's)**

2009 Recorded	2012 Test Year	Net Change
523	632	109

2
3 In D.04-12-015, the Commission adopted a Settlement Agreement in the revenue requirement
4 phase of SoCalGas' 2004 Cost of Service. The Settlement Agreement adopted SoCalGas' proposal for
5 a late payment charge for non-residential customers. The monthly charge was equal to 1/12 of
6 SoCalGas' authorized rate of return on rate base applied to the unpaid balance. The 2012 forecast
7 reflects the four year average booked revenue (2006-2009), as activity did not start until 2006 based on
8 D.04-12-015.

9 **9. Other Customer Service Revenues - Net**

2009 Recorded	2012 Test Year	Net Change
508	614	106

10
11 Other Customer Service Revenues consist of miscellaneous programs, including customer air
12 quality and environmental programs, demonstration projects, timed appointments, and other service
13 offerings. These programs, which contain individual items of \$50 thousand or less, are consolidated
14 herein.

15 (b) Rents from Gas Property – Account 493

16 These revenues reflect payments received by the utility for the rental of gas property.

17 **10. Rent from Property Used in Operations (\$000's)**

2009 Recorded	2012 Test Year	Net Change
3,457	586	(2,871)

18
19 Rent from Property Used in Operations is received by SoCalGas from outside parties for use of
20 utility-owned properties. The 2012 forecast is based on the rents received from existing lease
21 agreements adjusted for applicable escalation clauses. The significant reduction forecasted for 2012 is
22 based on the expiration of the Gas Company Tower Agreement on November 8, 2011, which will
23 result in a reduction in revenues related to the expiration of lease-back agreements currently in effect.
24

1 (c) Other Gas Revenue – Account 495

2 Other gas revenues include the provision of various goods and services to other parties,
3 including shared asset charges to affiliates, crude oil sales, returned check charges, training programs,
4 line item billing and other items.

5 **11. Shared Assets (\$000's)**

2009 Recorded	2012 Test Year	Net Change
19,468	53,694	34,226

6
7 Revenue from shared assets reflects the use of SoCalGas assets, primarily hardware, software
8 and communication equipment, by San Diego Gas & Electric Company (“SDG&E”), Sempra Energy
9 Corporate Center (“SECC”) and its unregulated affiliates. On an on-going basis, SoCalGas and
10 SDG&E follow a Shared Asset Policy whereby the company that receives the majority of the benefits
11 from the shared assets shall own such assets and bill the affiliates for their use. This policy was
12 implemented for new shared assets acquired or constructed on or after November 1, 2002.

13 The forecast of the 2012 charges billed to affiliates reflects the development of a revenue
14 requirement associated with these assets, including depreciation, property taxes, federal and state
15 income taxes and a return on rate base. The portion of the shared asset costs allocated to SDG&E,
16 SECC and its unregulated affiliates is based on methodologies used to measure utilization. For each
17 type of shared asset, an assignment of a causal/beneficial relationship is determined (e.g., number of
18 users, square footage, etc.). The asset is then allocated to affiliates based on their share of the benefit
19 from that asset according to the applicable utilization methodology. More detailed information on the
20 nature of the shared assets, including the methodology used to allocate the charges between SDG&E,
21 SECC and its unregulated affiliates is presented in the direct testimony of Patrick Moersen (Exh. SCG-
22 25). The amounts billed to the affiliates are recorded as SoCalGas miscellaneous revenue, and are net
23 of the billings to SECC charged back to SoCalGas. Since these assets are being established on
24 SoCalGas’ financial records, a significant revenue requirement is allocated back to SDG&E.

25 **12. Crude Oil Sales (\$000's)**

2009 Recorded	2012 Test Year	Net Change
6,259	5,562	(697)

26
27 Crude Oil Sales represents the revenue from the sale of crude oil produced at the Company’s
28 Aliso, Honor Rancho, and Playa Del Rey underground storage fields. The 2012 estimate is based on

1 the most recent U.S. Energy Information Administration (“EIA”) price forecasts, adjusted for the
2 historical differentials between the benchmark West Texas Intermediate price and the price received at
3 the various storage fields. The price varies by storage field because of the differences in the quality of
4 oil.

5 **13. Goleta Storage Emission Credit Lease (\$000’s)**

2009 Recorded	2012 Test Year	Net Change
1,023	1,023	0

6
7 Goleta Storage Emission Credit revenues result from the lease of emission-offset credits at
8 SoCalGas’ Goleta natural gas storage facility. The 2012 forecast is based on the continuation of a
9 contractual agreement with Chevron U.S.A. Corporation relating to the Point Arguello Project
10 executed on February 5, 1988. The agreement provides for a fixed annual fee paid on a quarterly
11 basis.

12 **14. Returned Check Charge (\$000’s)**

2009 Recorded	2012 Test Year	Net Change
563	604	41

13
14 The returned check charge is \$7.50, which is assessed to customers whose checks are returned
15 from the bank for insufficient funds pursuant to SoCalGas’ Commission-authorized Rule 12 tariff.
16 The 2012 estimate is based on a five year historical average (2005-2009) adjusted for annual customer
17 growth for 2010-2012.

18 **15. ITCC (“Income Tax Component of CIAC”) (\$000’s)**

2009 Recorded	2012 Test Year	Net Change
2,710	4,101	1,391

19
20 ITCC represents the tax gross-up for contributions-in-aid-of-construction (“CIAC”) which
21 became taxable under the Tax Reform Act of 1986. These tax gross-up amounts reflect the present
22 value cost of tax paid upon receipt of CIAC offset by the future tax benefits to be received through tax
23 depreciation over the tax life of the constructed property. ITCC is included as a reduction to rate base
24 and is amortized to miscellaneous revenue over the tax life of the constructed property as ordered in
25 D.87-09-026. The 2012 forecast is based on the ongoing amortization of the ITCC collected from

1 1987 through 2009 and the amortization of the forecasted ITCC to be collected from 2010-2012.

2 Additional information on ITCC is contained in the direct testimony of Randall Rose (Exh. SCG-28).

3 **16. Training Activity (\$000's)**

2009 Recorded	2012 Test Year	Net Change
103	73	(30)

4
5 SoCalGas receives revenues for providing distribution and customer services field training,
6 particularly welding training, to various third party companies/contractors and other utilities involved
7 in such activities. The 2012 forecast is based on the five-year historical average for the period 2005-
8 2009, as activity has varied from year-to-year depending on the outside requests for these services.

9 **17. Line Item Billing (\$000's)**

2009 Recorded	2012 Test Year	Net Change
214	259	45

10
11 This service is offered to third parties providing energy-related and home safety-related
12 products and/or services to residential and small commercial industrial customers within SoCalGas'
13 service territory. The billing statement displays the charges for the product or service provided by the
14 third-party client on a single line item. For example, Company X provides X and the charge for this
15 service is included in the customer's bill as a single line item. SoCalGas then charges the third-party
16 client a predetermined fee for this billing service.

17 **18. Federal Energy Retrofit Program ("FERP") (\$000's)**

2009 Recorded	2012 Test Year	Net Change
731	440	(291)

18
19 Under Executive Order 13132, the U.S. Government is authorized and encouraged to enter into
20 contracts with local utilities to expedite and facilitate the implementation of cost effective energy and
21 water conservation measures. SoCalGas currently performs project management under infrastructure
22 improvement contracts. The amount recorded to miscellaneous revenue reflects the difference
23 between the revenues collected from the government agencies less the costs incurred to perform the
24 work. The 2012 forecast is based on the forecasted net revenue from existing contracts with federal
25 entities.

1 **19. Miscellaneous Other Gas Revenues (\$000's)**

2009 Recorded	2012 Test Year	Net Change
157	161	4

2
3 Miscellaneous Other Revenues consist of items not reflected above, including mapping
4 services, Aliso Canyon property revenue, RECLAIM and emission credits, Anaheim parking revenue,
5 and meter repair revenue.

6 **Other Adjustments**

7 These items include authorized adjustments relating to SoCalGas' interest in the Gas Tower
8 and an adjustment to account for the unamortized portion of gains from the sale of utility property.

9 **20. Gas Tower Equity Interest (\$000's)**

2009 Recorded	2012 Test Year	Net Change
2,487	0	(2,487)

10
11 The Gas Tower Equity Interest is the pass through to ratepayers for the value of the equity
12 interest pursuant to D.92-07-080. Ordering Paragraph ("OP") 1 of D.92-07-080 states that "SoCalGas
13 is authorized to hold a 15% equity interest in the Gas Company Tower for the benefit of its
14 shareholders. In consideration for this asset, SoCalGas shall credit to ratepayers the net savings from
15 the equity interest, as specified in the decision." SoCalGas is required to flow through to ratepayers
16 the estimated net present value of the 15% equity interest of \$34.4 million over 20 years as specified in
17 D.92-07-080, Appendix C and Exhibit No. 300. The 2012 estimate is based upon the above
18 referenced decision.

19 **21. Gas Tower Equity Income (\$000's)**

2009 Recorded	2012 Test Year	Net Change
2,756	0	(2,756)

20
21 The Gas Tower Equity Income is the pass through to ratepayers for the annual reduction in
22 cash flow from the equity income pursuant to D.92-07-080, Exhibit No. 300. The 2012 estimate is
23 based on the above referenced decision. Pursuant to D.92-07-080, the amortization period of the
24 equity income will terminate at the end of 2010. Prior to December 31, 2010, SoCalGas will file an
25 advice letter to adjust its base margin revenue requirement to reflect the removal of the \$2.756 million
26 from authorized miscellaneous revenues effective January 1, 2011

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22. Gain on Sale of Property (\$000's)

2009 Recorded	2012 Test Year	Net Change
2,972	2,972	0

SoCalGas is requesting to return 100% of the previously realized gain-on-sale of non-depreciable property (\$17.8 million) through 2013. Consequently, SoCalGas will file an advice letter prior to December 31, 2013 to remove this component from 2014 rates.

This concludes my prepared direct testimony.

1 **IV. WITNESS QUALIFICATIONS**

2 My name is Todd J. Cahill and my business address is 8330 Century Park Court, San Diego,
3 California 92123. I am currently employed by Sempra Energy Utilities as a Regulatory Case
4 Manager. My responsibilities include managing the groups responsible for SDG&E's electric and gas
5 tariffs and records management, as well as managing certain cases before the CPUC. I assumed my
6 current position in April 2009. Prior to my current position, I served as the Regulatory Tariff Manager
7 for SDG&E from August 2006 through March 2009. I joined Regulatory Affairs in 2000, and have
8 been employed by SDG&E and Sempra Energy since 1999.

9 I received a Bachelors of Arts in Political Science from Brigham Young University in 1998. I
10 also received a Masters in Business Administration from San Diego State University in 2010.

11 I have previously testified before this Commission.