Application No: A.11-11-002
Exhibit No.:
Witness: Rose Marie Payan and Bruce Wetzel

In the Matter of the Application of San Diego Gas & Electric Company (U 902 G) and Southern California Gas Company (U 904 G) for Authority to Revise Their Rates Effective January 1, 2013, in Their Triennial Cost Allocation Proceeding	A.11-11-002 (Filed November 1, 2011)

REVISED UPDATED PREPARED DIRECT TESTIMONY

OF ROSE MARIE PAYAN AND BRUCE WETZEL

ON COST ALLOCATION OVERVIEW

SAN DIEGO GAS & ELECTRIC COMPANY

AND

SOUTHERN CALIFORNIA GAS COMPANY

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

February 22, 2013

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REVISED UPDATED PREPARED DIRECT TESTIMONY

OF ROSE MARIE PAYAN AND BRUCE WETZEL

I. PURPOSE & OVERVIEW OF COST ALLOCATION

The purpose of this testimony is to allocate the storage capacities settled in the 2009 BCAP Settlement (Settlement) and adopted by the Commission in Decision (D.) 08-12-020 between SoCalGas' and SDG&E's core customers and among the core customer classes in each utility based on the core demand forecasts sponsored by Ms. Payan in this proceeding. As stated by Ms. Musich in her direct testimony, SoCalGas and SDG&E propose a continuation of the storage proposals settled in Phase 1 of the 2009 BCAP for the duration of the TCAP period. This testimony also presents the gas prices used to forecast demand by customer segment, the Core Brokerage Fee, SDG&E's and SoCalGas' Unaccounted-For (UAF) gas percentages and their allocation to the core and noncore customer classes. Mr. Wetzel is sponsoring sections A and D below. Ms. Payan is sponsoring sections B and C.

A. Core Storage

In the Settlement, the core was assigned the following storage capacities indicated in Section 5:

> 5. The combined core customers of SDG&E/SoCalGas shall initially be allocated 79 Bcf of storage inventory capacity and 369 MMcfd of storage injection capacity, with proportionate annual increases to match the growth in inventory capacity addressed below up to a total of 388 MMcfd of storage injection capacity, and 2225 MMcfd of storage withdrawal capacity.

In addition, the core and the unbundled storage program were to receive the following additional capacities once they became available:

> 7. 1.0 Bcf of the 7.0 Bcf expansion capacity shall be added to the combined core's inventory capacity in each of the four years 2010-2013.

Consistent with the provisions of D.08-12-020, the core currently has 81 Bcf of inventory, 379 MMcfd of injection and 2,225 MMcfd of firm withdrawal capacities. Based on the 2009 BCAP Phase I Settlement, the core will have 83 Bcf of inventory, 388 MMcfd of injection, and 2,225 of firm withdrawal capacities assigned to it by April 1, 2013. Since the 2009 BCAP Settlement extends only through 2014, as Ms. Musich states, SoCalGas and SDG&E propose that the 2014 capacity amounts be continued through 2015 to encompass the entire TCAP period. This extension is reasonable because the core demand forecast sponsored by Ms. Payan shows that core gas demand is not expected to grow over the TCAP period. Table 1 shows the allocation of the storage assets for SoCalGas' core customers by customer class and Table 2 shows the resulting storage asset allocation by customer class for SDG&E's core customers. These allocations are based on the monthly core demand forecasts presented in Ms. Payan's testimony. These core storage capacity allocations are used by Mr. Mock and Mr. Lenart in allocating storage costs to SoCalGas' and SDG&E's core customers respectively.

Table 1

SoCalGas Core Storage Allocations by Customer Class

SoCalGas		Nonresidential Core				Total SoCalGas Core
	Residential	G-10	G-AC	G-GE	G-NGV	
Inventory Allocation BCF	61.8	11.4	0.0	0.0	0.5	73.7
Injection MMcfd	289.1	53.1	0.0	0.0	2.1	344.3
Withdrawal MMcfd	1,287.7	680.0	0.0	0.0	22.3	1,990

Table 2

SDG&E Core Storage Allocations by Customer Class

SDG&E		Nonresidential Core		Total SDG&E Core		SoCalGas & SDG&E Core Totals
	Residential	GN-3	G-NGV			
Inventory Allocation BCF	7.6	1.8	0.0	9.3		**83**
Injection MMcfd	35.3	8.3	0.0	43.6		**388**
Withdrawal MMcfd	154.1	79.1	1.8	235.0		**2,225**

B. Gas Price Forecast

The natural gas price forecast used to develop the demand forecasts for SoCalGas and SDG&E in this proceeding was prepared using New York Mercantile Exchange ("NYMEX")-

based natural gas futures prices and other forecast sources. This forecast was prepared in February 2011. Consistent with the gas price forecast methodology used to develop demand forecasts used in the 2009 BCAP Settlement, SoCalGas and SDG&E used this methodology to forecast the cost of gas to be used for determining the cost of Company Use (CU) fuel and UAF.

In preparing this forecast, SoCalGas and SDG&E used the methodology approved by the Commission in Resolution E-4214 for establishing the Market Price Referent by forecasting the near term natural gas prices at the Southern California Border based on NYMEX Henry Hub ClearPort Basis Swap futures prices. The natural gas price forecast at Henry Hub from 2013 through 2015 is based on the then most recent 22-day trading average of NYMEX futures prices from March 1, 2011 to March 31, 2011. Basis swaps trading contract settlements from NYMEX ClearPort[1] were then added to the Henry Hub futures prices to arrive at the natural gas price forecasts used to forecast gas demand for SoCalGas and SDG&E's customers, UAF and CU fuel. Consistent with the integration of the gas procurement function for both SoCalGas and SDG&E set forth in D.07-12-019, a combined core Weighted Average Cost of Gas (WACOG) for both utilities was estimated using 2010 purchase weights by production basin and interstate pipeline receipt points. The final WACOG for purchase also includes the integrated interstate pipeline and Backbone Transmission Service (BTS) charges. The futures-based forecasted gas price used to forecast TCAP gas demand is $5.48/MMBtu. The natural gas price used for pricing out LUAF and Company Use is based on the updated March 2012 Basis swaps trading contract settlements from NYMEX ClearPort[2] at the California Border to arrive at the natural gas price forecasts used to forecast LUAF and Company Use. That price is $4.32/MMbtu. Since the

[1] New York Mercantile Exchange. NYMEX ClearPort Clearing and NYMEX ClearPort Trading Contract Settlements https://www.services.nymex.com/otcsettlement/OTCSettle.jsp.
[2] New York Merchantile Exchange. NYMEX ClearPort Clearing and NYMEX Clearport Trading Contract Settlements https://www.services.nymex.com/otcsettlement/OTCSettle.jsp

LUAF and Company Use gas price forecast is adjusted using NYMEX California Border prices each October for use in pricing out LUAF and Company Use in the subsequent year, using a more recent California Border price is reasonable.

Table 3

SoCalGas and SDG&E Combined SoCalGas Citygate WACOG

	$/MMBtu
2013	4.94
2014	5.24
2015	6.25
Three-Year Average (2013-2015)	5.48

The actual cost of UAF gas purchases will be balanced through the appropriate regulatory accounts. To minimize the likelihood of undercollections or overcollections over the TCAP period, the underlying gas price will be updated through the annual October adjustment to transportation rates using a forecast of Southern California Citygate gas prices for the next year that is based on then current NYMEX ClearPort futures prices at the Southern California Border.

C. Core Brokerage Fee

The SoCalGas and SDG&E Core Brokerage Fee is currently 0.148 cents/therm. Based on the updated Core Brokerage Fee study, the proposed updated TCAP Core Brokerage Fee is 0.157 cents/therm.

Table 4

Brokerage Fee Summary		
Current Brokerage Fee*	**0.148**	cents per therm
Proposed Brokerage Fee* (SoCalGas+SDG&E)	**0.157**	cents per therm

*Before FF&U

This Brokerage Fee is based on a total cost of $6,525,087 to provide core gas acquisition services to SoCalGas and SDG&E's retail core class of customers. The costs of Gas

Acquisition, Demand Forecasting, Case Management, Tariffs, Human Resources, Commercial & Industrial Sales, Information Technology Support and Legal Services are included in the total cost to provide gas acquisition services. The breakdown of these costs is shown in Table 5 below. The complete study is shown in the accompanying workpapers.

Table 5

Total Brokerage Fee Costs						
	Labor	NonLabor	Overheads	Direct Cost	Rent	Total
Gas Acquisition	$2,657,744	$481,115	$1,702,851	$4,841,710	$495,004	$5,336,715
Demand Forecasting	$67,283	$8,989	$64,115	$140,387	$8,353	$148,740
Case Management	$14,426	$1,567	$26,041	$42,034	$1,856	$43,890
Regulatory Tariff	$8,246	$171	$17,082	$25,499	$1,547	$27,045
Human Resources	$25,056	$1,028	$33,195	$59,279	$6,188	$65,467
C&I Sales	$9,116	$1,216	$38,378	$48,710	$1,083	$49,793
IT	$509,017	$46,142	$226,851	$782,011	$46,407	$828,417
Law	$14,126	$1,319	$9,050	$24,495	$524	$25,019
Total	**$3,305,013**	**$541,546**	**$2,117,565**	**$5,964,125**	**$560,962**	**$6,525,087**

D. UAF Gas

The calculation of the volumes related to UAF gas is comprised of the following major elements: accounting corrections and prior period adjustments; measurement adjustments; leakage; theft; and other unexplained unaccounted-for volumes of gas. The recorded UAF gas, as percentages of total gas receipts for the years' April through March production cycle in 2008-2009, 2009-2010 and 2010-2011 for SoCalGas and SDG&E are as shown in Table 6 below.

Table 6

Southern California Gas Company
UAF WACOG Comparison
April 2008 - March 2011

Dates Apr 2008- Mar 2011	Total Receipts	Total Deliveries	UAF (MMBtu)	UAF % of Receipts	Percent Core 71%	Percent Non-Core 29%
36 Months' Total	**2,992,550,150**	**2,970,046,866**	**22,503,284**	**0.752%**	**0.534%**	**0.218%**

** Core - noncore percentages per the 2009 BCAP Settlement*

SoCalGas and SDG&E currently have a system-wide UAF gas factor of 0.892 % and 0.880 % respectively in rates for each utility. Of these UAF percentages, currently SoCalGas has a UAF gas allocation factor of 71% to the core and 29% to noncore usage, while SDG&E has a UAF gas allocation factor of 59% to the core and 41% to the noncore. SoCalGas and SDG&E propose that the UAF percentages for each utility be updated and based on the April 2008 to March 2011 three-year average of 0.752% for SoCalGas and 1.178% for SDG&E as shown in Table 7 and that the same percentage allocations between core and noncore, as were approved in D.08-12-020, be used for the TCAP period. The monthly total of deliveries, receipts, and UAF are shown in detail in the accompanying workpapers.

The resulting core UAF factor for SoCalGas is 0.534% (.752 x .71 = .534%) and 0.218% for the noncore (.752 x .29 = .218%). For SDG&E, the resulting factors are 0.665% (1.178 x .59 = .695%) for the core and 0.483% (1.178 x .41 = .483%) for the noncore. These percentage allocations to the core and noncore were approved in D.08-12-020 and since SoCalGas and SDG&E propose that the Settlement be extended for the duration of the TCAP period, SoCalGas and SDG&E propose that these percentage allocations be continued to be used to allocate UAF to the core and noncore classes of customers.

Table 7

San Diego Gas and Electric
UAF WACOG Comparison
April 2008 - March 2011

Dates Apr 2008- Mar 2011	Total Receipts	Total Deliveries	UAF (MMBtu)	UAF % of Receipts	Percent Core* 59%	Percent Non-Core* 41%
36 Months' Total	**351,969,919**	**347,760,700**	**4,147,836**	**1.178%**	**0.695%**	**0.483%**

** Core - Noncore percentages per the 2009 BCAP Settlement*

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SoCalGas will use the SoCalGas Citygate price in determining the SoCalGas and SDG&E UAF fuel costs. Since UAF fuel costs include BTS charges, it makes more sense for the UAF fuel costs to be based upon the SoCalGas Citygate price instead of the Border price.

This concludes our revised updated prepared direct testimony.