

Application of Southern California Gas
Company (U-904-G) for Approval of
Electric and Natural Gas Energy Efficiency
Programs and Budgets for Years 2006
through 2008.

Application 05-06-____

CHAPTER IV
PREPARED DIRECT TESTIMONY
OF
YU KAI CHEN

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

JUNE 1, 2005

Application of Southern California Gas
Company (U-904-G) for Approval of
Electric and Natural Gas Energy Efficiency
Programs and Budgets for Years 2006
through 2008.

Application 05-06-____

CHAPTER IV
PREPARED DIRECT TESTIMONY
OF
YU KAI CHEN

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

JUNE 1, 2005

TABLE OF CONTENTS

1
2
3
4
5

I. PURPOSE.....2

II. BACKGROUND.....2

III. COST ALLOCATION PROPOSAL FOR SOCALGAS.....3

QUALIFICATIONS.....8

1 programs (PPP) and customer groups should pay a proportionate share of the costs relative to the
2 benefits they receive for these programs. Allocation methods that fail to achieve a benefit-
3 charge balance will result in a cross subsidy of costs in customer rates.

4 **III. COST ALLOCATION PROPOSAL FOR SOCALGAS**

5 Currently, SoCalGas assigns the costs of its EE programs directly to the customer classes
6 for whom the programs are designed. Under this methodology, each customer class is allocated
7 the amount of program costs proportionate to the benefit (i.e., financial incentives) received. The
8 Commission established this allocation methodology in SoCalGas' 1993 General Rate Case,
9 D.93-12-043. With regard to the cost allocation of marketing and EE programs, the Commission
10 stated the following:

11 "As DRA points out, services to noncore customers should not be funded
12 by core customers...The costs of SoCalGas' major market program, other
13 than GasSelect, should be allocated to noncore customers in SoCalGas'
14 next cost allocation proceeding. To be consistent, we will also allocate to
15 core customers the costs of core marketing (DSM) programs." (D.93-12-
16 043, mimeo, pp. 131-132 (emphasis added).)

17 The Commission later upheld this position in Pacific Gas & Electric Company's (PG&E) 1995
18 BCAP, indicating that "...DSM costs should be directly assigned to the customer classes for
19 whom the programs are designed." (D.95-12-053, pg. 40.)

20 Currently, SoCalGas allocates its EE program costs as shown in the Table 1 below:

1

Table 1: Current Customer Class Allocation

Customer Class	Dollars	Percent
	(\$000)	%
Core		
Residential	\$12,070	44.7%
Core C&I	\$14,760	54.7%
Gas Air Conditioning	\$ 1	0.0%
Gas Engines	\$ 66	0.2%
Subtotal Core	\$26,897	99.6%
Non-core		
Non-core C&I	\$ 98	0.4%
Subtotal Non-core	\$ 98	0.4%
TOTAL	\$26,995	100.0%

2

3 The current cost allocation factors for EE program costs are based on prior EE program
4 spending and are not representative of the beneficiaries of the future EE programs in the 2006-08
5 program cycle. In particular, the 2006-08 EE proposed program budgets reflect an expansion of
6 programs to Non-core Commercial & Industrial (C&I) customers. Previously, SoCalGas had no
7 EE programs specifically targeted at Non-core C&I customers, and these customers were
8 allocated only a small portion of EE costs related to demonstration projects.

9 The proposed allocation factors by class for EE program costs are based on the 2006-08
10 three-year total of the budget provided in the testimony of SoCalGas Witness Athena Besa as
11 shown in Table 2 below:

1

Table 2: EE 3-Year Budget and Total Percent

Customer Class	2006	2007	2008	3-Yr Total
	(\$000)	(\$000)	(\$000)	%
Residential Budget	\$19,281	\$ 23,445	\$ 29,414	39.5%
Core C&I Budget	\$24,978	\$ 32,934	\$ 38,431	52.8%
Non-core C&I Budget	\$ 3,610	\$ 4,730	\$ 5,612	7.6%
TOTAL	\$47,869	\$ 61,109	\$ 73,457	100.0%

2

3 Existing adopted throughput was used to further segment the Core C&I budget dollars among the
4 retail Core C&I (i.e., the "G-10" class), Gas Air Conditioning, and Gas Engine rate classes. The
5 resulting proposed allocation factors were then multiplied to the annual budgets to derive at the
6 cost allocation results shown in Table 3 below:

7

Table 3: Proposed Cost Allocation Factors

Customer Class	Current	Proposed			
	Allocation	Allocation	2006	2007	2008
	%	%	(\$000)	(\$000)	(\$000)
Annual Budget			\$ 47,869	\$ 61,109	\$ 73,457
Core					
Residential	44.7%	39.5%	\$ 18,929	\$ 24,164	\$ 29,047
Core C&I	54.7%	51.7%	\$ 24,768	\$ 31,618	\$ 38,007
Gas Air Conditioning	0.0%	0.1%	\$ 36	\$ 45	\$ 55
Gas Engines	0.2%	1.0%	\$ 476	\$ 608	\$ 730
Subtotal Core	99.6%	92.4%	\$ 44,208	\$ 56,436	\$ 67,839
Non-core					
Non-core C&I	0.4%	7.6%	\$ 3,661	\$ 4,674	\$ 5,618
Subtotal Non-core	0.4%	7.6%	\$ 3,661	\$ 4,674	\$ 5,618
TOTAL	100.0%	100.0%	\$ 47,869	\$ 61,109	\$ 73,457

1 The resulting PPP surcharge rates for 2006-08 and the rate impacts relative to current
 2 rates are shown in the Tables 4 through 6 below:

3

Table 4: 2006 PPP Surcharge Rate Impact

Customer Class	Non-CARE Customers			CARE Customers		
	Current	2006	% change	Current	2006	% change
	¢/th	¢/th		¢/th	¢/th	
Core						
Residential	3.80	4.07	7%	2.00	2.27	13%
Core C&I	3.44	4.49	31%	1.64	2.69	64%
Gas Air Conditioning	1.88	3.92	108%	0.09	2.12	2386%
Gas Engines	2.11	3.76	78%	n/a	n/a	n/a
Non-core						
Non-core C&I	1.83	2.06	13%	n/a	n/a	n/a

4

Table 5: 2007 PPP Surcharge Rate Impact

Customer Class	Non-CARE Customers			CARE Customers		
	Current	2007	% change	Current	2007	% change
	¢/th	¢/th		¢/th	¢/th	
Core						
Residential	3.80	4.27	12%	2.00	2.48	24%
Core C&I	3.44	5.21	52%	1.64	3.41	108%
Gas Air Conditioning	1.88	4.49	139%	0.09	2.70	3061%
Gas Engines	2.11	4.29	103%	n/a	n/a	n/a
Non-core						
Non-core C&I	1.83	2.12	16%	n/a	n/a	n/a

5

1

Table 6: 2008 PPP Surcharge Rate Impact

Customer Class	Non-CARE Customers			CARE Customers		
	Current	2008	% change	Current	2008	% change
	¢/th	¢/th		¢/th	¢/th	
Core						
Residential	3.80	4.47	17%	2.00	2.67	33%
Core C&I	3.44	5.89	71%	1.64	4.09	149%
Gas Air Conditioning	1.88	5.03	167%	0.09	3.23	3690%
Gas Engines	2.11	4.78	126%	n/a	n/a	n/a
Non-core						
Non-core C&I	1.83	2.18	20%	n/a	n/a	n/a

2

3

4

5

6

SoCalGas proposes to update its EE cost allocation factors shown in Table 3 in this proceeding to reflect the proposed 2006-08 EE program expenditures described in this application effective with the next annual Gas PPP Surcharge update effective January 1, 2006.

This concludes my prepared direct testimony.

QUALIFICATIONS

1
2 My name is Yu Kai Chen. My business address is 555 West Fifth Street, Los Angeles,
3 California, 90013-1011. I am employed as an Economic Advisor in the Regulatory Gas Analysis
4 group for both the San Diego Gas & Electric Company (SDG&E) and the Southern California
5 Gas Company (SoCalGas).

6 I began work at SoCalGas in 1997 and have held positions of increasing responsibilities
7 in the Revenue Cycle Services, Mass Markets, and Regulatory Affairs departments. I have
8 served in my current role as Economic Advisor since October 1, 2004. My current
9 responsibilities include providing analytical support and direction to SoCalGas and SDG&E on
10 gas rate design, cost allocation, balancing accounts, revenue requirements, rate adjustment
11 mechanisms, industry restructuring, stranded cost recovery and other related issues.

12 I received a Bachelor of Arts degree in Economics in 1998 from the University of
13 California, Irvine with honors. In 2003, I graduated from Yale University with a Master of
14 Business Administration degree in Strategy and Operations.