Application No: A.11-11-002
Exhibit No.:
Witness: Sim-Cheng Fung

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)

SUPPLEMENTAL DIRECT TESTIMONY

OF SIM-CHENG FUNG

SAN DIEGO GAS & ELECTRIC COMPANY

AND

SOUTHERN CALIFORNIA GAS COMPANY

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

March 16, 2012

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SUPPLEMENTAL DIRECT TESTIMONY

OF SIM-CHENG FUNG

I. PURPOSE

The purpose of this supplemental direct testimony is to update my direct testimony in response to the direction provided by Commissioner Florio in his February 24, 2012 Assigned Commissioner's Scoping Memo and Ruling (Scoping Memo).[1] Specifically, this supplemental testimony explains and justifies the proposed elimination of the Modified Fixed Variable (MFV) Rate Option for Backbone Transmission Service (BTS) (Issue 2).

II. REASONS FOR ELIMINATING THE MFV RATE OPTION

In their protests, the Indicated Producers (IPs) and the Southern California Generation Coalition (SCGC) contend that SoCalGas and SDG&E have not adequately explained our reasons for proposing to eliminate the MFV rate option for backbone transmission service.[2] SoCalGas and SDG&E's reasons for eliminating MFV are as follows:

1. As explained in my original prepared direct testimony,[3] Straight Fixed Variable (SFV) rate design is consistent with FERC's Order 636 interstate pipeline rate design methodology.[4] In fact, MFV has been obsolete at the national level since FERC's issuance of Order 636 in 1992. Our proposed SFV-only approach here is similar to the one taken by the federal government in Code of Federal Regulations (CFR) § 284.7(e),[5] and would provide customers consistency in evaluating downstream options from interstate pipelines.

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[1] Page 10 of the Scoping Memo identifies seven issues/topic areas where intervenors have requested additional justification and calculations, and directs SoCalGas and SDG&E to update and expand their testimony and workpapers to address the concerns identified in the protests.
[2] IP Protest at 5; SCGC Protest at 4.
[3] Prepared Direct Testimony of Sim-Cheng Fung at 16.
[4] Order 636 Final Rule, issued April 8, 1992, Section VIII Rate Design.
[5] CFR§ 284.7(e) Firm transportation service.

2. SFV rate design eliminates the subsidization of low load factor customers by high load factor customers that results under MFV rate design approaches. Under the MFV rate design, high load factor customers bear a disproportionate share of the pipeline's fixed costs for the benefit of low load factor customers. For example, under SFV rate design a 25% load factor customer who desires 100 units of firm capacity pays fully for that capacity, whether or not they use it. Under MFV rate design, however, that same customer only pays for 85% of the cost of that capacity (100% of the 25 units they use on a regular basis and 80% of the other 75 units reserved for them but not used by them).[6] The other 15% cost of the capacity is shifted to all BTS customers. SFV rate design is more appropriate than MFV rate design because under SFV, customers would bear the cost of backbone transmission facilities that are built and maintained on their behalf. Therefore, SFV rate design ensures that facilities are not overbuilt because costs are allocated directly to those causing the costs. There is a tendency to overbuild under MFV rate design because MFV customers, as explained above, do not fully pay for the capacity built to meet their maximum firm demand. Recent data from October 1, 2011, to mid-February 2012 show that on average, contracted quantities for MFV are approximately only six percent of total contracted volumes. This is further support for our conclusion that this economically inefficient, antiquated rate design is unnecessary.

3. MFV is especially unnecessary for our systems given that (unlike the PG&E system)[7] SoCalGas and SDG&E's customers can combine firm short-term (minimum of 1-day)[8]

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[6] This calculation assumes that 80% of the fixed cost of the capacity is collected through the reservation charge and 20% through a volumetric component.

[7] PG&E tariff Gas Schedule G-SFT, Sheet 3 Term: The minimum term for service for an exhibit to the GTSA under this rate schedule is three (3) consecutive months in any one season. For exhibits that straddle seasons, the minimum term of service is six (6) months, covering at least three (3) consecutive months in each season.

[8] SoCalGas tariff Schedule No. G-BTS, Special Conditions, Remaining Firm Backbone Transportation Service Capacity, Item 1. Any creditworthy market participant may acquire available Backbone Transportation Service

rate option for their less predictable volumes with firm SFV rates for their baseload needs. PG&E customers do not have this level of flexibility offered to SoCalGas and SDG&E's customers in designing their contract requirements by using SFV rates for specific base load needs and then supplementing the less predictable volumes with firm short-term or "day ahead" volumetric rate contracts. The MFV rate option at PG&E, SoCalGas, and SDG&E is solely the result of negotiated settlements in the PG&E Gas Accord[9] and SoCalGas' and SDG&E's FAR update proceeding.[10]

In summary, unbundling backbone transmission capacity under a cost-based, SFV rate design methodology provides clear and unbiased price signals to market participants, eliminates subsidization of low load factor customers by high load factor customers, and maintains consistency with FERC rate design policy, thereby aligning the utilities' backbone rate design with that of the upstream interstate pipelines. Currently, the MFV rate option represents a very small percentage of contracted volumes on SoCalGas' and SDG&E's system, and our customers' ability to supplement firm SFV baseload needs with short-term firm contracts for less predictable volumes further support the elimination of MFV.

This concludes my supplemental direct testimony.

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capacity for a minimum term of one day and a maximum term up to the period remaining in the three-year cycle at the G-BTSN1 or G-BTSN2 rate.

[9] D.97-08-055.

[10] D.11-04-032.