

Application No: A.11-11-002
Exhibit No.: _____
Witness: Steve Watson

_____))
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 REBUTTAL TESTIMONY OF
STEVE WATSON
SAN DIEGO GAS & ELECTRIC COMPANY
AND
SOUTHERN CALIFORNIA GAS COMPANY

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

March 15, 2013

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1 which implemented the original FAR decision, ordered SoCalGas to use the higher of actual
2 open season bids or cold year throughput. Since open season bids were below cold year
3 throughput, she used 2,800 Mdth/d as the denominator.¹ Ms. Fung's testimony in this regard is
4 simply out-of-date and will be updated. In the FAR Update Settlement, parties agreed the
5 denominator for calendar year 2013 and beyond should be based on average BTS utilization for
6 the 12 months of the prior October through September.² On October 15, 2012, SoCalGas
7 appropriately updated the denominator for the BTS calculation as part of AL 4411. This process
8 to adjust the denominator for BTS rates should continue for 2014 and 2015.

9 IP criticizes SoCalGas' SFV rates as not "cost-based" because Ms. Fung used a cold year
10 throughput forecast as a denominator.³ But beginning in 2013, consistent with the FAR Update
11 Settlement, SoCalGas is now proposing to use prior year (October-September) actual firm
12 contracted capacity and interruptible sales to establish the denominator. This is similar to FERC
13 policy, which is to use the contract demand on the last day of the test period or the date rates go
14 into effect in order to reflect the latest best evidence of what will exist for the pipeline once the
15 rates go into effect.⁴

16 IP faults Ms. Fung for using a throughput-related denominator, yet IP simply replaces
17 Ms. Fung's throughput-related denominator with another, higher throughput-based denominator.
18 The denominator proposed by IP for 3-year contracts is the average daily throughput in the peak
19 month of a 1-35 cold year (3,517 Mdth/day); such a denominator is unreasonably high. IP's
20 proposal to use a high throughput-related denominator for 3-year capacity and a lower, 3,000
21 Mdth/day denominator for all other BTS services result in a firm rate for 3-year commitments

¹ Direct Testimony of Sim-Cheng Fung, November 1, 2011, p. 15.

² Joint Rate Recommendation, Section 3 adopted in D.11-04-032.

³ Prepared Direct Testimony of IP (Schoenbeck) at 22.

⁴ *Trunkline Gas Co.*, 90 FERC ¶ 61,017, at 61,084 (2000) (citing *Williston Basin Interstate Pipeline Co.*, 87 FERC ¶ 61,264, at 62,012 (1999) (emphasis added). *Accord Kern River*, 123 FERC ¶ 61,056 at P 285.

1 that is at least 15% lower than that of one-year firm capacity. This runs contrary to normal
2 FERC rate design, where all firm capacity has the same SFV rate.⁵ IP would further discount the
3 rates for 3-year capacity holders at the expense of shorter-term shippers by exempting 3-year set-
4 aside California producers from any BTBA rate adjustments.⁶ The effect of doing this would be
5 to allocate any discounts of interruptible capacity⁷ or other revenue shortfalls completely to the
6 holders of shorter-term capacity.

7 IP's proposed denominator for "long-term" capacity would lead to the serious under-
8 recovery of costs.⁸ Customers are not going to commit for 1-35 year peak month levels over an
9 entire year. They probably would not even commit to that level for one month. IP fails to
10 recognize that, unlike FERC pipelines, SoCalGas' backbone transmission system was built to
11 provide significant slack capacity in order to provide gas-on-gas competition benefits to all its
12 customers per Commission orders. Therefore, it is unrealistic to set any SFV rate denominator
13 close to the peak capacity of the SoCalGas transmission system. IP's "special" SFV rate that
14 uses an unrealistically high denominator for 3-year firm contracts (i.e., the California producers'
15 set-asides) should be rejected. Instead, a single denominator (2,978 Mdth/day in 2013) using the
16 prior 12 months of average BTS capacity sales should be used.

⁵ On a few pipelines FERC allows 10-15 year contracts to have slightly lower rates on the assumption that the pipeline has less risk, and therefore, deserves a slightly lower return on equity for such capacity. FERC does not, however, use different denominators for the calculation of various firm rates with different terms as IP suggests.

⁶ Prepared Direct Testimony of IP (Schoenbeck) at 21.

⁷ Interruptible BTS discounts totaled \$6.9 million over a recent 1-year period (Musich Supplemental Direct Testimony, Table 2).

⁸ With full balancing account protection, SoCalGas will be forced to shift the costs it fails to recover from 3-year capacity subscribers to shorter-term capacity subscribers.

1 **C. MFV RATE OPTION**

2 Only two parties object to the elimination of the MFV rate option -- IP and SCGC.⁹

3 Neither party disputes the fact that this rate design is not used anywhere in the country other than
4 in Northern California, and even there it is used only as part of the PG&E Gas Accord
5 settlement. Moreover, neither party disputes the fact that only six percent of BTS rate schedule
6 usage occurs on this rate design.¹⁰

7 Actually, both IP and SoCalGas agree that the MFV option should be eliminated. We
8 merely disagree about whether IP or SoCalGas has correctly designed the SFV BTS rate. IP
9 states that they would agree with SoCalGas' elimination of the MFV rate design had SoCalGas
10 "allocated the costs of BTS facilities based on an SFV cost allocation method."¹¹ That is, IP
11 would agree to the elimination of MFV option if IP's SFV proposals were adopted. This
12 statement demonstrates that IP's MFV proposal is just a fallback for their primary SFV proposal.
13 Therefore, the Commission should eliminate the MFV option and focus on the proper design of
14 the SFV rate.

15 Finally, IP and SCGC disagree on what a MFV rate design should look like. SCGC
16 suggests continuing the current MFV structure that was negotiated under previous settlements,
17 which results in a 100% load factor MFV rate that is above the SFV rate. IP, on the other hand,
18 insists that "the only way to properly structure an MFV rate is so that at 100% utilization of
19 contract capacity, both an SFV shipper and an MFV shipper would pay the exact same amount
20 for service."¹² If IP and SCGC cannot even agree about the design of a rate structure that few of

⁹ In the FAR Update proceeding, Shell supported the elimination of SFV because it believes it leads to the subsidization of low load-factor customers by high load-factor customers. SoCalGas agrees with Shell.

¹⁰ SCGC Prepared Direct Testimony at 20.

¹¹ IP Prepared Direct Testimony at 22.

¹² IP Prepared Direct Testimony at 23.

1 | our customers use, and SoCalGas and SDG&E no longer wish to offer, the Commission should
2 | strongly question the need for and usefulness of such a structure.

3 | Future rate design proceedings can be simplified with no harm to customers by simply
4 | eliminating this anachronistic rate option.

5 | This concludes my revised prepared rebuttal testimony.