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Witness:	Jeffrey Reed

SOUTHERN CALIFORNIA GAS COMPANY

COMPRESSION SERVICES TARIFF

REBUTTAL TESTIMONY

*****unredacted, confidential version*****

(Privileged and Confidential pursuant to P.U. Code 583, 454.5(g), GO 66-C and D.06-06-066)

Prepared Rebuttal Testimony

of

Jeffrey Reed

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

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I. INTRODUCTION AND BACKGROUND

Three interveners - Integrys, Clean Energy and the Division of Ratepayer Advocates (DRA) (collectively, Interveners) - submitted written testimony regarding Southern California Gas Company's (SoCalGas) proposed Compression Services Tariff. The Interveners generally failed to provide sufficient facts or evidence as to why the proposed service, which is nearly identical to currently authorized tariff Rule 2, should not be approved. The Interveners addressed a number of issues, some of which are within the scope of this proceeding as defined in the Scoping Memo[1] and some of which are not. SoGalGas' rebuttal is organized according to the Scoping Memo with other issues introduced by Interveners addressed at the end of this rebuttal. To recap, the Scoping Memo identifies four central points to be addressed in the proceeding:

1. Is the Application and proposed service consistent with policies adopted by the Commission, or do Commission policies preclude the provision of this service by SoCalGas?
2. Are the terms of the tariff-anti competitive, as alleged by protesters?
3. Does the tariff cover the full service costs?
4. Are the proposed rates just and reasonable, so as to warrant the granting of the Application?

The majority of points raised by the Interveners have been addressed in SoCalGas' application and the Interveners introduce virtually no new factual information or evidence to support their objections to SoCalGas' proposed Compression Service Tariff relying, in most instances, on unsupported opinion and a flawed understanding of utility finance and rate economics. The following testimony addresses the points raised in opposition to the proposed tariff, further details the foundations of the Compression Services Tariff and reiterates why its approval is in the interest of ratepayers.

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[1] Scoping Memo issued by Commissioner Simon, February 22, 2012, Section 6 "Scope of Proceeding"

More specifically, the key points are:

1. The proposed service is consistent with Commission policy as it is nearly identical to an existing tariff, supports development of the Low Emission Vehicle (LEV) market, provides ratepayer benefits, provides a service desired by SoCalGas customers, and is not unfairly competitive;
2. SoCalGas' tariff proposal does not constitute unfair competition with non-utility service providers who may elect to offer the same or similar services. On the contrary, the proposed service will create expanded opportunity for providers of equipment and services needed for compression facility design and construction. In particular, the rate charged to the Compression Services customer covers all costs necessary to provide the service and satisfies the standard of "fully compensatory pricing" that the Commission articulated in D.95-11-035[2]. Finally, the proposed optional tariff service is available on a nondiscriminatory basis to both current and future service providers employing compressed natural gas in their service offerings such as CNG retailers.
3. Net benefits accrue to ratepayers under the proposed Compression Services Tariff in the form of increased system utilization and environmental benefits. The very small risk of ratepayers incurring unreimbursed costs is fully compensated by the uncollectable revenue charge and contingencies imbedded in the rate. Any hypothetical future request for recovery of Compression Services costs through general rates would be subject to Commission approval. Such approval, if granted, would constitute a finding by the Commission that such recovery was in the ratepayer interest.
4. The proposed ratemaking treatment is just and reasonable because it follows identical principles to other tariff services approved by the Commission.

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[2] "…Among other things, construction, operation, and commodity charges must be fully compensatory…", D.95-11-035, page 88

The assertions made by Clean Energy and Integrys in opposition to the Compression Services Tariff are narrowly and erroneously focused solely on a service, NGV fueling, that SoCalGas is specifically not seeking to provide. In so doing their arguments are self serving and attempt to protect the NGV fueling market position of these two parties by asking the Commission to, in effect, deny smaller entities and potential new entrants access to the benefits and opportunities that would be provided by the proposed tariff.

II. CONSISTENCY WITH COMMISSION POLICY

As described below, the proposed Compression Services Tariff is consistent with relevant Commission policies.

a. Existing Authority for Similar Services

SoCalGas' proposed service is modeled after and extremely similar to the existing Rule 2 tariff which provides that the utility can install and own incremental facilities at a customer's request and recover costs from that customer under a facility-specific rate over the useful life of the asset[3]. On page 2, lines 11-17 of its testimony, DRA contends that Rule 2 does not set precedence for the proposed service because it is designed for longer-term utility assets. DRA's point is irrelevant, essentially a distinction without a difference, since the whole point of SoCalGas' Application is to secure Commission permission to approve a new tariff service that is similar to but different than Rule 2 in precisely the term of service of the tariff service. As stated in my previously filed direct testimony Chapter 2, page 2, lines 17-19: "For customers that wish to receive natural gas at non-standard pressures, existing tariff Rule 2 provides authority for SoCalGas, at its discretion, to accommodate that request within specific parameters defined in

[3] SoCalGas tariffs Rule 2, Sheet 7, Section O "Special Facilities" http://socalgas.com/regulatory/tariffs/tm2/pdf/02.pdf

that tariff." My testimony further explains in Chapter 2, page 3, lines 3-9: "More specifically, Tariff Rule 2 provides authority for SoCalGas to enter into a special commercial agreement with a customer to plan, build, own, and operate special facilities to deliver gas under pressure conditions that depart from system pressure conditions at the customer's location. Tariff Rule 2 provides that, upon a customer's request and the utility's acceptance, pressure may be provided at specified pressure of two pounds, five pounds, fluctuating pressures from the point of service, or such other pressure as the Utility and the Customer agree to." The only significant difference between the proposed tariff and currently authorized Rule 2 are the term and project specific asset characteristics used to calculate the rate components for the proposed tariff.

On page 4, lines 22-24 of its testimony, Clean Energy states: "Contrary to SoCalGas' contention, the proposed service is not a 'natural extension of existing utility service;' the service would extend beyond the customer's service delivery meter -- the natural point of demarcation between utility and customer facilities." There is no line of demarcation established in Rule 2 and SoCalGas is unaware of, and no Intervener cited, any Commission rule or decision prohibiting the installation of utility facilities on the customer side of the meter. In the proposed Compression Services Tariff, the natural gas is metered before entering the utility compression facilities because that is the most convenient and inexpensive approach and because Compression Services Tariff customers may, in many, if not most, instances, choose to not compress all of the gas flowing through their primary meter. Because the Compression Services Tariff rate does not depend on the volume of natural gas processed by the facility, there is no reason to meter flow on the high-pressure side of the facilities.

b. <u>Decision 95-11-035</u>

Clean Energy, Integrys and DRA erroneously assert that the proposed Compression Services Tariff is inconsistent with Commission policy including D.95-11-035 ("Decision").

On page 6, lines 12-14 of its testimony, Clean Energy states that the proposed service is "inconsistent with well justified clear Commission policy guidance and direction which should not be changed in this proceeding." Clean Energy is referring specifically to D.95-11-035 and in its testimony on page 6, lines 19-20, argues that "natural gas utilities were precluded in 1995 by Commission policy from using ratepayer funds to build, own and operate NGV refueling stations located on customer property." Clean Energy deliberately ignores and fails to inform the Commission the major and fundamental differences between the proposed Compression Services Tariff and the retail CNG fueling station program that was the subject of Commission decision D.95-11-035. First, as described in my direct testimony in Chapter 2, page 5, lines 4-8, and above, providing natural gas at pressure is already authorized under existing tariffs and is applicable to all customer applications and is not limited to CNG refueling. Second, and more importantly, the proposed Compression Services Tariff is entirely different in its cost recovery approach, impact on competition and net ratepayer benefits than the ratepayer funded CNG retail refueling operations which were the subject of D.95-11-035.

The Decision found that ratepayers should not be subject to the business risk of uncertain retail sales of vehicle fuel. As the Commission wrote on page 87 of the Decision, "in exchange for accepting this risk, the ratepayers would stand to benefit only if the natural gas vehicle market becomes sufficiently successful and the company-built stations attract enough business to pay back the cost of construction and operation and make a contribution to other fixed costs of the utility system." As discussed in the testimony of Jeff Reed, Chapter 2, Section III, and the testimony of Ed Reyes, Chapter 3, the current proposal does not expose ratepayers to such retail risk or any other risk outside the bounds of a conventional utility offering. Costs are recovered from the tariff customer on a facilities charge basis that does not depend on the volume of natural gas processed by the facilities. In particular, cost recovery has no dependence on retail sales which may be undertaken by the tariff customer. Currently, less than 30% of the compression facilities in SoCalGas' service territory used for vehicle refueling offer fuel to the public for retail sale of CNG.

Clean Energy also claims on page 5, lines 8-16, that 80% of the capital cost involved in a CNG fueling station is for compressors and related equipment and that SoCalGas' proposed Compression Services Tariff is therefore "not qualitatively different from building entire refueling stations." SoCalGas agrees that its provision of compression services could reduce the capital requirement of the facility user by a significant amount. This is a key benefit of the proposed tariff, available to all prospective compression tariff service customers, including current as well as future CNG station builders and retailers.

As discussed above, the service and cost recovery model proposed under the tariff do not entail the throughput risk of a retail station, the risk from which the Commission sought to protect ratepayers in D.95-11-035. In describing the programs it was addressing, at page 82 of the Decision the Commission states: "SoCalGas and SDG&E would like permission to build and operate many more [stations on customer property] in the next six years and to place ratepayers at risk for the commercial viability of those stations." Furthermore, page 87 of the Decision states: "…Under the utility proposals, the utilities would make all the decisions about where and when stations would be constructed, but the ratepayers would bear virtually all the risk of failure. This is not a formula for success…" Clearly, what concerned the Commission in D.95-11-035 was that the ratepayers would be exposed to the throughput risk of the fueling station business.

Under the Compression Services Tariff, the differences with the programs described in D.95-11-035 are stark. Pursuant to the Compression Services Tariff, the utility will not be installing, owning, operating or sharing in the revenue generated by retail refueling stations, will allow customers to choose where and when to install facilities for which compression is required, and will recover the service costs from the customer receiving the service. In addition, cost recovery is specifically designed not to be dependent upon the commercial success of the Compression Services customer.

Clean Energy‘s contention on page 6, lines 1-2 of its testimony that “modular systems represent complete NGV refueling stations” is not of relevance to the issues before the Commission. Inclusion of the option of using modular, integrated systems incorporating dispensers as a convenience to the tariff customer does not alter the intent of the service offering, the risks to ratepayers, or competitive issues. The only intention of that provision is to allow customers with smaller throughput requirements to take advantage of products that may be factory integrated to include dispensers. In certain applications, an integrated package may simply be the most cost-effective solution for the customer. Whether the gas compressor is stand-alone or integrated, SoCalGas will not be engaged in CNG retailing.

On page 7, lines 12-13 of its testimony, DRA asserts that the proposed service is “contrary to the Commission’s D.95-11-035 policy preference to disallow to utility ownership (in part or whole) NGV refueling stations on customer property.” DRA’s parenthetical “(in part or whole)” is deceptive because the decision contains no such provision or reference. If this is meant to imply that the Commission intended to discontinue not only ratepayer-funded retail fueling stations on customer property but also utility provision of services that would support customers’ fueling station projects – nothing in D.95-11-035 indicates the Commission intended any such thing.

However, setting aside the distinction between compression service and NGV refueling stations, DRA mischaracterizes Commission policy which was not to ban utility ownership, per se, but to shield ratepayers from the financial risk associated with such retail refueling stations. In fact the Decision states on page 82 that : “we will allow the utilities to develop plans for shareholder-funded station construction under some circumstances.” The Decision elaborates on page 87 further: “If the utilities are confident that a refueling program would succeed, and if they can design a program that would compete fairly, they should be allowed to use shareholder funds to do so." As described in the rebuttal testimony of Ed Reyes, the proposed service is funded almost entirely through shareholder capital investment, and the minimal use of embedded SoCalGas resources is tracked and returned to ratepayers through balancing accounts.

In summary, the proposed tariff is consistent with the two primary policy guidelines established in D.95-11-035: 1) that ratepayers not be burdened with costs not compensated by clear ratepayer benefits; and 2) that utilities use fully compensatory pricing and employ any other necessary provisions to ensure that the utility offering does not *unfairly* compete with non-utility enterprises. Although SoCalGas submits that there is a clear and major distinction between provision of natural gas at pressure and a retail refueling operation, the policy provisions set forth in D.95-11-035 were carefully considered and were the foundation of the proposed tariff.

Furthermore, as described in my direct testimony in Chapter 1, page 3, Section A, the statute which the Commission referenced in finding that it would "not approve the use of ratepayer funds for future customer-site stations" has been changed by the legislature. "Effective January 1, 2006, PUC section 740.8 was modified to require that health and environmental benefits, greenhouse gas emission reductions, and increasing alternative fuel use be among the interests of ratepayers to be considered by the Commission in evaluating utility programs." SoCalGas submits that even if a utility were to propose a ratepayer-funded fueling station program, the Commission is in a position to balance the costs to ratepayers, however minimal, against distinct ratepayer interests including environmental benefits and increased use of alternative fuels.

c. <u>Alternative Vehicle OIR</u>

In response to Question 7 of his direct testimony, Mr. Mitchell of Clean Energy asserts that the Commission should deny the instant application in order to be consistent with its July 14, 2011 Phase 2 decision (D.11-07-029) in the Order Instituting Rulemaking on the Commission's own motion to consider alternative-fueled vehicle tariffs, infrastructure and policies to support California's greenhouse gas emissions reduction goals (R.09-08-009). Mr. Mitchell, however, neglects to mention that the Commission considered and chose to decline Clean Energy's request to establish any new policy relative to natural gas vehicles in that proceeding. Further, as demonstrated in the Compression Service Tariff Application, the proposed service is neither a CNG fueling station nor retailing program but a tariff service providing natural gas at pressures above standard delivery pressure that will provide value to a wide variety of customers, including operators of CNG vehicle fueling stations, combined heat and power ("CHP") facilities, and peaking power plants.

The relevant comparison is not to CNG refueling stations owned by SoCalGas in the 1980's and 1990's with authorized rate recovery through general rates offset by station revenues. The relevant comparison is Tariff Rule 2 which provides for provision of natural gas at any pressure agreed between the utility and the customer with costs recovered under a special rate charged to that customer.

At page 14 lines 13 and 14 of his testimony, Mr. Mitchell states that: "Approval of SoCalGas' proposed Tariff would result in a decidedly unlevel playing field with NGVs potentially benefitting to the possible disadvantage of developing EV markets." SoCalGas agrees with Mr. Mitchell's assertion that the proposed tariff will benefit the development of the NGV market in the state of California. However, Mr. Mitchell provides no evidence to support, nor is there a reason to believe that such benefit will be to the unfair detriment of the EV market. SoCalGas has made a full showing that the proposed tariff is not unfairly competitive. Therefore, the proposed Compression Services Tariff is no more unfair to non-CNG transportation options than any other new offering made available to the NGV market.

d. White Paper by Covington & Burling LLP

DRA attached a white paper to its testimony entitled, "What is the Appropriate Role of Natural Gas Utilities in the Natural Gas Vehicle Refueling Market?" published by Covington & Burling LLP from a Colorado Public Utilities Commission proceeding. SoCalGas is not aware of what role this document played in that proceeding, whether the Colorado PUC used the document or whom Covington & Burlington were representing in that proceeding. DRA did not discuss the white paper in its testimony.

SoCalGas sees no relevance of this white paper to the current proceeding as it does not address the specifics of SoCalGas' Compression Services Tariff and deals entirely with hypothetical utility programs with features that differ greatly from those proposed by SoCalGas. In addition, it makes unsupported claims about the availability of capital to market participants and asserts that there are no barriers to entry for new competitors. The white paper does not make specific reference to California policy or proceedings, or to the specific proposals set forth by SoCalGas in this proceeding and does not discuss the California market. As demonstrated through my direct testimony and this rebuttal testimony, the proposed Compression Services Tariff appropriately shields ratepayers from risk and provides a new service for which customers have expressed demand.

III. COMPETITIVE ISSUES

Interveners assert that utility involvement in the provision of Compression Services is unfairly or anti-competitive. This contention is baseless. DRA and Clean Energy both purport to quote the Commission in D.95-11-035 in their testimonies on page 5, lines 13-14 and page 7, lines 11-13, respectively. DRA quotes the Commission accurately, using ellipsis, "…Utility involvement, we declared,…should avoid any unfair competition with non-utility enterprises…". Clean Energy in its citation added emphasis to *any* but neglected to also add emphasis to *unfair*.

To SoCalGas' knowledge, no party is currently offering a service similar to the proposed Compression Services Tariff and it is SoCalGas' understanding based on a recent interview with Clean Energy CEO Andrew Littlefair[4] that Clean Energy's focus is on serving only certain types of CNG users while the Compression Services Tariff will be available on a non-discriminatory basis to all potential users meeting the requirements of the tariff. Acknowledging that a service similar to the proposed Compression Services Tariff could potentially be offered by others, SoCalGas contends that the relevant question is whether the utility offering has an unfair advantage due to the utility's monopoly status.

In D.95-11-035 the Commission focused on fully compensatory pricing as the only competitive issue that it specifically called out[5]. This has been addressed fully in the proposed Compression Service Tariff ratemaking proposal, in my direct testimony in Chapter 2, page 27, section V and above in section I, page 2, lines 8-11. The proposed tariff is offered on a fair and fully compensatory basis to all parties, will use third-party equipment and service providers to provide tariff service, and is desired by customers. The proposed service will increase competition and transparency in the market while creating new opportunities for equipment and service providers. Other issues including utility brand and lead generation will also be addressed below.

The proposed Compression Services Tariff promotes a robust competitive market by reducing barriers to entry and expansion for smaller third-party equipment and service providers, such as the significant up-front capital funds required to purchase compression equipment. This, in turn, will encourage competition, resulting in lower prices and more choices for customers. As presented in the my direct testimony (Chapter 2, Exhibit 1, page 8), growth in use of natural

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[4] CNBC Interview, "CLNE CEO on 'Green' Investments", conducted on April 16, 2012, http://video.cnbc.com/gallery/?video=3000084378. "…you know, we really focus on the heavy-duty trucks and trash trucks and the fleets, the return-to-base fleets… that's where we're focused on our niche. By the way, it's a 25 billion-gallon niche so, there's plenty of room for us to expand in that business…"

[5] D.95-11-035, page 88, "…Any future utility refueling station program must be designed to avoid giving the utility any market advantage, based on its monopoly status. Among other things, construction, operation, and commodity charges must be fully compensatory…"

gas as a transportation fuel has lagged state goals and innovative proposals such as the Compression Services Tariff can aid non-utility enterprises in accelerating growth in the use of natural gas for transportation. On-going Commission oversight of the Compression Services Tariff will ensure any adverse market impacts are addressed while ensuring that market participants benefit from utility procurement practices such as policies favorable to Diverse Business Enterprises.

SoCalGas submits that the objections of Clean Energy and Integrys could very well be driven in large part by their desire to protect their existing positions in the CNG refueling arena in SoCalGas' service territory. See Confidential Exhibit 1 Attached which contains customer specific information redacted from the public service list. It is understandable that each of these two entities would wish to minimize the availability of offerings other than their own to customers.

Clean Energy states in its testimony on page 15, lines 19-20 that the proposed Compression Services Tariff will "…displace projects that otherwise would be built by non-utility enterprises…" This is claim is based on flawed logic. I state in my direct testimony at Chapter 2, page 27, lines 19-23 that SoCalGas intends to procure engineering, construction, equipment and operations and maintenance of compression services facilities from third parties. Therefore, there is no basis for the assertion that the proposed Compression Services Tariff will diminish the market demand for any of the services necessary for the provision of the proposed compression services. A more reasonable expectation is that the additional capital provided by SoCalGas and the addition of a new transparent alternative for customers available to all parties will lead to better customer value and increased, not diminished, growth in CNG vehicle adoption. That will create more market opportunity for non-utility providers of goods and services. The SoCalGas customer survey[6] supports the contention that the proposed Compression Services Tariff would create greater customer adoption of natural gas for

[6] See Application, Chapter 2, page 50

transportation. As will be further discussed below on page 17, lines 5-17, customer confidence in SoCalGas as a service provider is in no way an automatic endowment of its monopoly provision of service and is not "unfair".

a. Cost of Capital

Interveners assert that SoCalGas' cost of capital used for setting the Compression Services rate is too low, constitutes an unfair subsidy and is guaranteed[7]. All three points are unsubstantiated and factually incorrect.

No intervener offers any evidence or factual support to its contention that the cost of capital used in setting the Compression Services Tariff rate is too low, or a proposal to determine an alternative cost of capital for use in setting the rate for the proposed tariff service.

SoCalGas' authorized cost of capital is set periodically through cost of capital proceedings which are fully litigated and approved by the Commission after a full opportunity for interveners to offer evidence on the appropriate cost of capital. In that proceeding, the various business risks and sources of capital for SoCalGas are evaluated. This process includes the cost of raising investor equity in the capital market as well as the cost of debt. SoCalGas submits that the risks associated with the Compression Services Tariff are similar to those of other elements of its services including a number of specific services described below. Given the similarity of the proposed Compression Services Tariff to other utility services, SoCalGas proposed to set rates for the Compression Services Tariff at its authorized rate of return. This is discussed further below.

The risk profile of a Compression Services Tariff is consistent with the risk profile of other services provided to utility customers and the capital charge is calculated in the same way. In particular, the proposed service is virtually identical to service currently provided under Rule 2 and uses the same cost of capital. Similarly, the SoCalGas authorized rate of return is used in

[7] Clean Energy testimony – page 9, line 22 to page 11, line 12; DRA testimony page 8, lines 18-19; Integrys page 4, lines 20-22

establishing the incremental rate for dedicated line extensions, metering facilities and interconnection facilities under existing Rule 20 (new service) and Rule 39 (interconnection). As a final point of support for the proposed capital cost, the equipment used is well proven, carries warranties and is similar to other equipment used in the provision of service to utility customers including, specifically, SoCalGas's own CNG facilities used to serve its CNG fleet some of which provide access for public refueling. The authorized rate of return for these facilities used in setting their revenue requirement is the SoCalGas authorized cost of capital.

On page 4, lines 8-12 of its testimony, DRA states that SoCalGas enjoys "a guaranteed rate of return on investment". This is factually false and DRA provides no basis or support for this incorrect assertion. In the case of a special tariff such as the Compression Services Tariff, there may be a contractual guarantee provided by the tariff customer but there is no general guarantee of return. Utility ratemaking and regulation provide utilities an opportunity, not a guarantee, to earn a fair return on their investments as defined through their authorized rate of return.

A couple of additional points need to be made regarding cost of capital. First, to the extent that the cost of capital imbedded in the Compression Services rate calculation were to be viewed as "below market", it would constitute a subsidy of project costs by shareholders, not ratepayers. SoCalGas is financed by private capital. Its equity is provided by its corporate parent who raises equity financing in private capital markets and its debt comes from commercial lenders. Any subsidy of capital costs is made at shareholder expense and SoCalGas would not suggest financing Compression Services projects at a rate that it did not believe was suitable relative to the inherent risks of the service. Second, any party that believes that the imbedded cost of capital in the Compression Services Tariff rate calculation is an attractive cost of capital, including Integrys or Clean Energy, is free to apply for service under the tariff and take advantage of that capital charge rate.

On page 8, lines 13-17 of its testimony, DRA asserts that non-utility market participants are forced to use retained earnings to finance compression facilities while SoCalGas enjoys the advantage of using ratepayer financing. This assertion is incorrect both with respect to the typical financing structure of non-utility market participants and on the source of SoCalGas' capital. Non-utility market participants are, in general, financed by private equity and corporate debt and do not, in general, use retained earnings (100% equity) to finance their investments. SoCalGas understands this is the case for both interveners Clean Energy Fuels and Integrys. This is exactly the same way in which SoCalGas finances its activities and projects.

Regardless of the source of financing used by any service provider, the appropriate hurdle rate (cost of capital) charged to the project should be based on the risk profile of the project and the associated contracts. The proposed Compression Services Tariff employs a structure wherein the tariff customer guarantees payments to cover the pre-calculated cost of service over the life of the contract. This structure carries a low risk of non-payment when undertaken with credit-worthy parties, is amenable to accurate pre-calculation of costs, and uses very well know and mature technologies and equipment. SoCalGas submits that the project risk profile for the Compression Services Tariff is similar to other services it provides and that the utility authorized rate of return is an appropriate cost of capital for setting tariff rates.

b. Utility Reputation

Clean Energy alleges in its testimony on page 9, lines 18-21, that the proposed service unfairly capitalizes on SoCalGas' "brand equity" as a result of its monopoly status. In fact, SoCalGas' reputation and customer satisfaction has been earned through provision of excellent service and is a shareholder asset – it is neither unfair nor derived as a direct result of the fact that SoCalGas provides the majority of its services on a regulated monopoly basis.

SoCalGas' excellent reputation is the result of management's commitment to customer service, safety, and reliability and the consequential customer affinity for SoCalGas is not "unfair" nor is it a product of whether or not services are provided on a regulated monopoly basis. Further, the Commission has allowed, under the Affiliate Transaction Rules, affiliates operating within California the ability to use the utility name requiring only that the company be clearly identified as separate from the utility. By allowing the use of the company name by an affiliate in a competitive market clearly demonstrates that the Commission does not consider the use "unfair".

c. Utility Role in Project Lead Generation

Integrys Transportation Fuels states in its testimony on page 4, lines 14-16, "…The utility has a clear advantage with regard to market leads as ultimately every customer will need to approach the utility for gas delivery service. We view this as very uncompetitive…" In addition, Clean Energy states in their testimony on page 12, lines 17-22, and page 13, lines 1-3, "On SoCalGas' website, it explains the process to be followed by organizations that are interested in building a CNG refueling station or infrastructure. According to SoCalGas, the first step in the process is to 'E-mail us to have a natural Gas Vehicle Account Executive assigned to you.' (http://www.socalgas.com/innovation/natural-gas-vehicles/business/station-building.shtml). If SoCalGas' Compression Services Tariff is approved, Clean Energy believes that these Account Executives will likely steer the organization toward the services available from SoCalGas to the disadvantage of other competitors who would be equally if not more capable of meeting the organization's needs. According to SoCalGas' proposal, apparently, these marketing costs would be paid for by non-participating captive utility ratepayers."

Clean Energy ignores the fact that on the same web-site referenced in its testimony under the section "Process for Building a New Station", it states "…SoCalGas has compiled a list of suppliers (pdf)* which includes consultants, component manufacturers, installers and more which may prove helpful to you in this process…" Both Clean Energy and Trillium USA (now Intregrys) are prominently displayed on the list of suppliers and, like all market participants, benefit from the services and staff of the SoCalGas NGV Program at no charge to them. It is appropriate that the costs for NGV customer information and education activities, including explanation of available tariffs, are recovered through general rates and not through the compression services tariff because all NGV and compression service third-party providers, as well as existing and prospective customers, have equal access to and potential benefit from these services.

The customer contact process employed by SoCalGas is designed to provide customers with <u>all</u> service options to ensure transparency. As stated in the latest SoCalGas General Rate Case testimony for the SoCalGas NGV Program (A.10-12-006, SCG-09, pages GAW-69 to GAW-73), "…information typically provided to customers by NGV ARs…" includes information such as "…explanation of utility tariffs and rules…" and "…fueling network and providers…" In fact, the growth in "…new and updated third-party products and services … offered to customers that operate NGVs and/or NGV refueling stations…" and the need to educate customers about these options is a key driver behind the request for additional NGV customer information, education and training funding in the most recent General Rate Case. As stated in the SoCalGas General Rate Case testimony for the SoCalGas NGV Program (A.10-12-006, SCG-09, pages GAW-72 to GAW-73), "…New products and services present opportunities for customers to lower costs, increase reliability, and enhance the safety of their vehicle-related operations. The need for customer information and education programs related to new products and service will increase over time as additional products and services are introduced, current products and services are revised, and the number of customers continues to grow…"

SoCalGas believes that customers and competition are better served when customers have more options and believes that the potential customers of the compression service generally are sophisticated customers that ensure that they understand their full range of options. They will evaluate their options, look at the services, prices and terms offered by market participants and fit the service and the vendor that best meets their needs.

Consistent with both Commission and company policy, SoCalGas will continue to offer customers a full explanation of all utility and third-party service options, consistent with existing practice described and authorized in CPUC approved General Rate Case. In addition, it is clear that the Compression Services Tariff is an entirely optional tariff and SoCalGas will ensure that that is made clear in the tariff documents and references to the tariff on the SoCalGas web site.

SoCalGas is prohibited from promoting a particular service or service provider over others. There is no basis in fact provided by the interveners for any assertion that SoCalGas will not continue to make customers aware of the full range of options available to them. There is nothing intrinsically anti-competitive about providing customers with the full portfolio of options and allowing them to choose the solution that works best for them. All market participants benefit from these services.

Further, the other SoCalGas services that a customer of the Compression Services Tariff may receive are also offered under tariff and are unbundled from the compression service. The entity seeking to build an NGV refueling station or a CHP facility or peaking plant is free to select some other vendor for compression services but still receive other utility services at the same price, terms and conditions regardless of whether it is a customer of the tariffed compression service. Such unbundling is an important safeguard against unfair competition, yet is completely ignored by Clean Energy and Integrys.

d. Impact of Proposed Tariff on Non-Utility Investment

The proposed Compression Services Tariff provides an additional source of private capital to support the adoption of natural gas for transportation and other customer uses. Assertions by Clean Energy and Integrys that the presence of this customer option will crowd out other private capital are self serving and unsupported. SoCalGas strongly asserts that it is highly likely that the proposed tariff will create an increase in overall capital investment in natural gas vehicle refueling infrastructure. The fundamental basis for this belief is that the introduction of the Compression Services Tariff as a new option, that is not unfairly competitive, will increase market transparency and create more robust competition among a wider group of market participants. This will stimulate more adoption and increase overall capital investment in natural gas refueling infrastructure and other applications needing natural gas compression. Beyond fundamental logic, the results of the customer survey cited above predict that the proposed Compression Services Tariff will support additional adoption of natural gas as a vehicle fuel.

Integrys states in its testimony on page 5, lines 4-7 that "…California would be a less attractive market for investment and growth if the current prohibitions on utility involvement in the CNG marketplace are relaxed. Changing the current policy likely will adversely affect Integrys' expansion plans in California." Clean Energy states in their testimony on page 16, lines 11-13 that "…Common sense supports the inference that the Tariff will largely or almost entirely if not entirely displace competitive market offerings by companies such as Clean Energy and its other non-utility competitors." These statements are self-serving, offer no factual basis for their conclusions and are disingenuous. The statement by Clean Energy that the proposed tariff will "entirely displace competitive market offerings" is unsupported and ignores that fact that each Compression Service Tariff facility creates virtually the same amount of procurement of goods and services from non-utility market participants as it would if the facility were financed by Clean Energy or anyone else.

The customer survey referenced in my direct testimony provides a factual basis for SoCalGas' firm opinion that that the proposed Compression Services Tariff will actually increase investment. As stated in the A.11-11-011, Chapter 2, page 15, lines 12-18, "…SoCalGas conducted a survey of both existing CNG vehicle operators and prospective adopters of CNG for their fleets. Seventy-seven percent of potential tariff customers responding (64 total respondents) indicated that the proposed compression tariff services would make them more likely to build a new NGV station or enhance an existing one. Further, 71% of survey respondents that did not already own and operate CNG vehicles indicated that the proposed services would motivate them to adopt CNG vehicles sooner. Based upon customer perceptions, the proposed tariff services will likely accelerate the use of NGVs within California…"

e. Unregulated Subsidiary

On page 19, lines 19-23 of its testimony, Clean Energy suggests that SoCalGas create an unregulated affiliate to build CNG fueling stations. SoCalGas is not proposing to build CNG fueling stations. The proposed utility service is limited to compression equipment and can be used for a variety of customer applications including CNG fueling stations, CHP systems and electric peaking plants. SoCalGas is not in a position to discuss the business plans of its unregulated affiliates. However, offering the proposed tariff service as a utility offering provides the benefit of ongoing Commission oversight and application of important Commission policies such as procurement preference for Diverse Business Enterprises.

IV. TARIFF IS FULLY-COMPENSATORY

The Interveners allege that cross subsidies, which would burden ratepayers and unfairly impact competition in the market for compression services, are either part of the design of the proposed Tariff, or are inevitable because of intentional or unintentional behavior by the utility[8]. According to interveners, potential sources of cross-subsidy include pre-screening of potential projects by account representatives, the possibility of undercollection and/or customer default and the possibility that SoCalGas will fail to estimate and record all costs accurately.

As discussed above, SoCalGas NGV account representatives, as authorized by the Commission, inform and educate customers about the NGV market and their choices for service, including available tariffs. This does not constitute a cross subsidy or unfair advantage because all service providers, as well as prospective customers, benefit equally from this service on a non-discriminatory basis. In fact, both Clean Energy and Integrys make extensive use of SoCalGas NGV account representatives in facilitating their projects and expediting the new service request and interconnection process. For example, in 2009 and 2010, SoCalGas NGV Program, Distribution Planning and Engineering staff collaborated with Clean Energy, Trillium (now Integrys), and other third-party service providers on a process streamlining effort that has reduced the time required for new service connections to NGV stations by 26%. This was done in the interest of better serving Clean Energy and all other NGV customers and the related work was done at no cost to Clean Energy or other market participants.

The tariff is also designed to be fully-compensatory, recovering all costs from the host tariff customer without the need for ratepayer subsidy. The tariff price fully recovers the revenue requirements of providing service based on estimated costs. The estimated costs include a contingency to minimize the risk of the actual costs being higher than estimated. SoCalGas utilizes conventional cost allocation methodology to add overheads to the direct cost components

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[8] Clean Energy Testimony page 17, line 20 to page 18, line 10; Integrys testimony page 4, lines 14-20; DRA testimony page 8, lines 21-25

(capital purchases, O&M, and company labor) to ensure the costs billed to 3rd parties are fully-loaded consistent with directives of the Commission. Utility activities or expenses that do not fall within the categories covered by overhead loaders (indirect charges) are tracked and charged directly to the compression services project to ensure that no cross subsidy for these activities occurs. Tariff customers must have satisfactory credit in order to be eligible for service under the tariff so the probability of non-payment, or default, by a tariff customer is very low. Like other SoCalGas tariffs, the Compression Services Tariff includes an uncollectables charge. The uncollectables charge is designed to ensure that ratepayers suffer no net loss even in the event of default when averaged across the applicable pool of customers.

The cost tracking, accounting procedures and allocations of indirect costs to ensure adequate capture and isolation of costs incurred in providing service under the Compression Services Tariff are fully described in the direct and rebuttal testimony of witness Reyes.

V. PROPOSED RATES ARE REASONABLE

The appropriateness of the proposed rate should be judged based on principles of standard utility ratemaking and cost recovery, and should consider whether the proposed rate structure captures the full cost of providing service under the tariff. SoCalGas' has demonstrated conclusively that the rate proposed under the Compression Services Tariff will cover the full cost of providing service – that is, tariff pricing is fully compensatory as described in Mr. Ed Reyes' testimony of the Application (Chapter 3).

On page 9, Section D of its testimony, DRA errs in its assertion that it is difficult, if not impossible to accurately forecast all costs of the proposed service over the life of the contract. SoCalGas has significant experience in construction and operations of fueling stations and gas compression equipment – it has the required expertise to properly forecast costs over the full contract period supported by firm bids from suppliers prior to finalization of the tariff rate whenever possible. O&M costs are passed through to the tariff customer including allocated overheads and so do not represent a material forecasting risk.

VI. RATERPAYER RISK/BENEFITS

On page 4, lines 24-26 of its testimony, DRA asserts that ratepayers assume all risk and shareholders reap the rewards. This is simply not accurate. Capital used for the construction of compression equipment comes from shareholders not ratepayers. In return for this investment, shareholders have an opportunity to earn the standard utility authorized rate of return. The tariff is also designed to be fully-compensatory, recovering all costs from the host tariff customer, thus shielding ratepayers from rate subsidy. Tariff customers must have satisfactory credit in order to be eligible for service under the tariff so the probability of non-payment, or default, by a tariff customer is very low and this small risk is compensated by the inclusion in the rate of an uncollectable revenue charge.

Ratepayer benefits are outlined in direct testimony starting at, chapter 2, page 23 where I state: "to the extent that an adopted Compression Services Tariff results in an expansion of the use of CHP systems and NGV's in SoCalGas' service territory, ratepayers benefit from avoidance of emissions from conventional generation of electricity and reduced pollution from gasoline and diesel vehicles. Increased use of natural gas as a vehicle fuel also creates a potential natural gas transportation rate reduction associated with increased system throughput."

VII. <u>LAUSD CONTRACT IS OUT OF SCOPE OF THIS PROCEEDING</u>

In Section E on page 10 of its testimony, DRA requested that the Commission perform an analysis of the LAUSD contract entered into by SoCalGas under the authority of Rule 96b and to compare the contracted cost structure to pricing that may have been offered by other parties. This portion of DRA's testimony deals with a matter that is not within the scope of the current proceeding, was submitted to the Commission pursuant to Advice Letter AL4337 in redacted form, is currently being considered by the Energy Division pursuant to Commission rules, and necessarily involves the procurement decisions of a non-jurisdictional governmental agency. The LAUSD contract should be addressed in the Advice Letter process and not in this proceeding.

VIII. CONCLUSION

This concludes my rebuttal testimony.

EXHIBIT 1

Based on G-NGV billing records as of December 31, 2011 as shown in Table 1 below, Clean Energy and Integrys owned and/or operated 68 CNG refueling stations within the SoCalGas service territory (25.7% of all refueling stations). Many of these stations are relatively large and represent over 81.6% of the market by volume of CNG dispensed. All other third party CNG station owner/operators represent 42 CNG refueling stations within the SoCalGas service territory (15.8% of all refueling stations). Many of these stations are relatively small and represent only 2.2% of the market by volume of CNG dispensed. The remainder of the installations and throughput are owned and operated by individual CNG station and/or fleet owners.

Table 1 – SoCalGas CNG Station Owner and Operator Market Data

Description	CNG Station Owner and/or Operator		
	3rd Party Service Providers		Privately Owned and Operated
	Clean Energy and Integrys	Other	
Number of Stations	68	42	155
% of All Stations	25.7%	15.8%	58.5%
2011 Throughput (million CCF)	82.1	2.2	16.3
% of All Throughput	81.6%	2.2%	16.2%
% of 3rd Party Throughput	97.6%	2.4%	-

Based on throughput data, Clean Energy and Integrys control almost 98% of the CNG sales volume from stations owned and operated by 3rd parties in the SoCalGas service territory.