Application No: A.14-12-
Exhibit No.:
Witness: Gwen Marelli

Triennial Cost Allocation Proceeding Phase 1 Application of Southern California Gas Company (U 904 G) and San Diego Gas & Electric Company (U 902 G) for Authority to Revise their Natural Gas Rates Effective January 1, 2016	A.14-12-____ (Filed December 18, 2014

PREPARED DIRECT TESTIMONY OF

GWEN MARELLI

SOUTHERN CALIFORNIA GAS COMPANY AND

SAN DIEGO GAS & ELECTRIC COMPANY

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

December 18, 2014

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PREPARED DIRECT TESTIMONY
OF GWEN MARELLI

I. PURPOSE

The purpose of my direct testimony on behalf of Southern California Gas Company (SoCalGas) and San Diego Gas & Electric Company (SDG&E) is to explain why, from a policy standpoint, the changes proposed to our unbundled storage sharing mechanism, High Operational Flow Order (OFO) requirements, and monthly balancing tolerances made in this Phase 1 TCAP application are reasonable and appropriate.

II. REVISED INCENTIVES FOR UNBUNDLED STORAGE ARE NEEDED

In addition to proposing updates to the available storage capacities as well as their allocations to the three storage functions of core, load balancing, and unbundled, Mr. Watson proposes continuing the unbundled storage sharing mechanism, with updates to the mechanism to account for changes in the storage market. Proper incentives that do not increase energy usage and that also provide customer benefits are appropriate. The Commission has affirmed this by approving incentive mechanisms for the unbundled storage program in the past, most recently in D.08-12-020.

SoCalGas and SDG&E recommend that the Commission reaffirm the current policy of proper incentives when examining the revenue-sharing mechanism for the unbundled storage program in this TCAP. The Commission should recognize that continuing proper customer/shareholder revenue sharing provides benefits to customers. Revenue-sharing incentives for the unbundled storage program are in the best interest of SoCalGas and SDG&E's customers because they encourage us to maximize customer benefits from unbundled storage program revenues through aggressive negotiations with counterparties, creative product marketing, and storage field operations. The revenue-sharing proposal aligns the interests of customers and shareholders.

The Commission has previously adopted incentive mechanisms when they benefit customers without conflicting with California's energy efficiency goals. For example, in addition to prior unbundled storage program sharing mechanisms, the Gas Cost Incentive Mechanism (GCIM) strongly encourages SoCalGas to act in a manner benefiting bundled core customers. The GCIM encourages SoCalGas to devote significant resources to the task of purchasing gas supplies for customers at the lowest possible cost. This mechanism does not encourage the Utilities to increase sales or throughput and is a well-established, Commission-approved mechanism that promotes the overall public interest. The Commission should continue this policy of adopting proper incentives that align customer and shareholder interests that are in the best interest of customers by adopting the proposed incentive mechanism for the unbundled storage program.

Mr. Watson proposes updating the incentive mechanism to a 60/40 (customer/shareholder) sharing of earnings above the embedded costs of unbundled storage The current annual shareholder earnings cap of $20 million would remain in place. While the allocation to customers for the first $15 million of earnings is a decrease from today's 90/10 sharing, it is higher than the 50/50 sharing mechanism that was in place under the prior BCAP term. As Mr. Watson explains, due to revolutions in gas production technologies, natural gas price volatility is much lower today than it has been in the past. As a result, shareholder earnings have reduced to just two hundred thousand dollars for the last two years. Aggressive marketing of our storage assets benefits customers because they are able to share in a larger pot of revenues.

The Commission should adopt the Utilities proposed incentive mechanism, which will better align the interests of customers and shareholders, to the ultimate benefit of customers.

III. SOCALGAS AND SDG&E'S HIGH OFO REQUIREMENTS SHOULD BE REVISED

In A.14-06-021, SoCalGas and SDG&E presented a proposal to replace our winter balancing rules and Standby Procurement Service curtailment procedures with new Low Operational Flow Order (OFO) and Emergency Flow Order (EFO) requirements. These procedures were modeled off of the procedures on PG&E's system, and would present a unified, statewide approach to dealing with low levels of flowing supplies. As of the filing date of this Application, a decision is still pending in that proceeding.

In this Application, SoCalGas and SDG&E are proposing to revise our High OFO requirements to also be modeled off of the procedures on Pacific Gas & Electric Company's (PG&E) system. The details of the proposal are in Mr. Watson's testimony. By adopting these High OFO procedures, in conjunction with our Low OFO proposal, market participants will have the same signal during times when deliveries from customers and marketers are higher than usage that they will have during times when deliveries are much lower than usage. That is, OFOs will be called when the amount of storage capacity allocated to the balancing function, either injection or withdrawal, is exhausted. The increased capacities for balancing proposed in Mr. Watson's testimony are planned to keep the annual number of High OFOs near the three-year average seen on SoCalGas and SDG&E's system and the annual number of Low OFO's similar to those experienced on the PG&E system, while also being able to allow higher tolerances under Stage 1-3 OFOs. Additionally, as was the case with the Low OFO proposal, the adoption of these High OFO requirements would create even more statewide consistency.

IV. SOCALGAS AND SDG&E'S MONTHLY BALANCING TOLERANCES SOULD BE REDUCED FROM 10% TO 5%

As explained by Mr. Watson, SoCalGas and SDG&E are proposing to move from 10% to 5% monthly balancing. This change would be consistent with PG&E, which provides 5% monthly balancing, rather than 10%. As Mr. Watson explains, it would be reasonable to limit the amount of "negative inventory" provided to transportation customers. Moreover, this change would bring balancing on our integrated system more into line with the interstate pipelines we connect to, which generally require their transportation customers to balance supplies and burns on a daily basis. At the same time, 5% monthly balancing is still generous, and strikes a reasonable balance between the competing interests on this topic.

V. QUALIFICATIONS

My name is Gwen Marelli. My business address is 555 West Fifth Street, Los Angeles, California 90013. I am employed by SoCalGas as Director of Energy Markets and Capacity Products for SoCalGas and SDG&E.

I received a Masters of Business Administration degree from Pepperdine University's Graziadio School of Business and Management in 1990 and a Bachelor of Science degree in Mechanical Engineering from the University of California, San Diego in 1986. I have been employed by SoCalGas since 1991. As of August 2014, I have been serving in the role of Director of Energy Markets and Capacity Products. In this position, I manage service to the largest gas customers of SoCalGas, specifically large electric generators, Enhanced Oil Recovery customers, and wholesale customers. I also manage the unbundled storage program, the California Energy Hub, and the Gas Scheduling Group, I oversee minimum flowing supply purchases and maintenance-related supply purchases, scheduling and nominations on the integrated SoCalGas and SDG&E transmission system, SoCalGas' Electronic Bulletin Board, and SoCalGas and SDG&E's interconnection and operational balancing agreements with suppliers delivering natural gas into our system. I also manage the Gas Transmission Planning Department for both utilities.

Prior to joining SoCalGas, I held engineering positions at Bechtel Western Power Company and McDonnell Douglas Corporation.

This concludes my prepared direct testimony.