Application No: A.15-07-014
Exhibit No.:
Witness: Jason Bonnett

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, 2017 in this Triennial Cost Allocation Proceeding Phase 2	A.15-07-014 (Filed July 8, 2015)

PREPARED REBUTTAL TESTIMONY OF

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SAN DIEGO GAS & ELECTRIC COMPANY

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

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I. PURPOSE

The purpose of my prepared rebuttal testimony on behalf of Southern California Gas Company (SoCalGas) and San Diego Gas & Electric Company (SDG&E) is to respond to and rebut the testimony of : (1) The Utility Reform Network (TURN) regarding the proposed customer charges and tier differential; (2) the Office of Ratepayer Advocates (ORA) regarding the proposed customer charges, tier differential, submeter credit, Natural Gas Vehicle (NGV) compression rate adder, and System Operator Gas Account (SOGA); and (3) Clean Energy Fuels Corporation (Clean Energy) regarding its proposal to allow certain NGV customers to take noncore service.

II. THE COMMISSION SHOULD ADOPT SOCALGAS AND SDG&E'S PROPOSED RESIDENTIAL CUSTOMER CHARGES

SoCalGas and SDG&E proposed to implement a $0.32876 per-meter-per-day (approximately $10 per month) residential customer charge.[1] Both ORA and TURN oppose the proposed charge. TURN opposed the proposed charge outright while ORA instead recommended a $3 minimum bill for SDG&E.

A. ORA's Characterization Of "Fixed" Cost Is Flawed

ORA presents analysis suggesting that the capital component of customer-related cost is fixed, but the O&M component of customer-related cost is variable. As addressed in the rebuttal testimony of Mr. Chaudhury, ORA's proposed split of customer-related marginal cost into fixed and variable is flawed.[2] Any determination of the appropriate level of a fixed charge should recognize that the entire customer cost, both capital and O&M, is fixed with respect to the volume of gas consumption.

[1] Revised Prepared Direct Testimony of Jason Bonnett at 4.
[2] Prepared Rebuttal Testimony of Sharim Chaudhury at 10.

B. ORA's And TURN's Positions Regarding The Impact Of Fixed Customer Charges On Conservation And Energy Efficiency Is Contrary To Recent Commission Decision

Both ORA and TURN argue that the proposed residential customer charges should be denied due to conservation and energy efficiency concerns. Specifically, ORA states that "[a]t a policy level, a fixed monthly customer charge serves as a disincentive to energy efficiency and conservation."[3] Additionally, TURN states that "[h]igh fixed charges directly reduce incentives for customers to conserve energy by reducing the payback on investments in efficient appliances, insulation, or other residential or business improvements."[4]

The Commission recently reviewed this issue and came to the opposite conclusion. In R.12-06-013 the Commission specifically looked into whether the imposition of fixed charges "unreasonably impair incentives for conservation and energy efficiency."[5] ORA and TURN both cite to the resulting Commission decision, D.15-07-001, in support of their positions regarding customer charges. However, they fail to point out that in D.15-07-001, the Commission stated as follows: "[t]herefore, while we cannot find with certainty that the rate design proposals will decrease (or increase) conservation, we can find that any impacts to conservation from the proposed rate design changes would be relatively small and would not unreasonably impact conservation."[6] These points are reiterated in Findings of Fact (FOF) No. 24 and 25.[7] Additionally, the Commission stated in FOF No. 175 that a "fixed charge to reflect fixed costs would send a more accurate price signal to customers."[8] And in FOF No. 176 the Commission states "A fixed charge is not intended to incent specific customer behavior, but is intended to

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[3] Testimony of Pearlie Sabino at 64.
[4] Direct testimony of William Perea Marcus at 57.
[5] *See* D.15-07-001, mimeo., at 32.
[6] *Id* at 61.
[7] *Id.* at 310.
[8] *Id.* at 323.

assist the customer in making economically efficient decisions regarding energy usage and investments."[9]

ORA and TURN cite to Commission decisions that no longer reflect the Commission's position on the issue of the appropriateness of a residential customer charge. The Commission refuted the argument put forth by the ORA and TURN less than one year ago. It is now time for the Commission to allow SoCalGas to increase its residential customer charge and to enable SDG&E to recover some of its fixed costs via a fixed charge and thereby reduce the intra-class subsidy found in the current rate design.

C. ORA's Minimum Bill proposal should not be adopted

As a general matter, SoCalGas and SDG&E do not agree that a minimum bill is an appropriate substitute for a fixed customer charge. The proposed residential customer charges are designed to recover fixed costs via a fixed charge and appropriately reflect the principle of cost causation and reduce the intra-class subsidy found in the current rate structure. ORA cited to Professor James Bonbright and his attributes of sound rate structure.[10] SoCalGas and SDG&E believe that their residential customer charge proposal more appropriately follows those attributes by allocating costs to customer classes based on cost causality, avoiding rate shock, and maintaining rate stability and consistency with existing practices.

Fixed cost recovery through fixed customer charges not only reduces cross-subsidies, it promotes rate stability. Because customers want simplicity in addition to stability, a monthly residential customer charge would appropriately recover fixed costs while providing more stable bills from month-to-month. A minimum bill, on the other hand, does not address these points because it is not a price signal. The minimum bill mechanism is to ensure a minimum level of

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[9] *Id.*
[10] Testimony of Pearlie Sabino at 57.

revenue recovery and once that threshold amount is reached the "price signal" goes away, while fixed costs do not. An accurate price signal would continue to reflect the price signal associated with fixed costs.

ORA cites D.15-07-001 as support for its proposed minimum bill stating that the decision rejected the request of investor-owned electric utilities for a fixed monthly charge and directed them instead to implement a minimum bill. However, ORA omits the fact that the Commission specifically stated that the reason a minimum bill was approved over a residential customer charge was because the Commission wanted to give the residential rate payers an opportunity to adjust to the new tier structure prior to implementing any customer charges.[11] Additionally, in that decision the Commission states that "[a]dopting a fixed charge at the same time as customers are also facing significant rate impacts associated with tier flattening would be inconsistent with our statutory duty to ensure reasonable rates."[12] However, neither tier flattening nor TOU rates are occurring in the instant proceeding. Therefore, there is no reason to delay the implementation of a residential customer charge for SDG&E.

In fact, the Commission has signaled that it considers a fixed residential customer charge superior to a minimum bill when it stated that "A fixed charge to reflect fixed costs would send a more accurate price signal to customers."[13] SoCalGas and SDG&E strongly agree. Should the Commission decide to change course regarding its finding in D.15-07-001, a minimum bill would be an improvement over the current situation. However, SoCalGas and SDG&E believe the superiority of a fixed customer charge rather than a minimum bill has been shown here, and continue to advocate for a fixed customer charge.

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[11] D.15-07-001 at 226.
[12] *Id.* at 328.
[13] *Id.* at 323.

D. ORA's concern regarding past customer opposition is overstated

ORA discusses past opposition to implementation of a residential customer charge in SDG&E service territory.[14] Specifically, ORA references two Commission decisions: D.87-12-069, which adopted a $4.80 customer charge for SDG&E electric customers and D.88-07-023, which repealed the newly adopted customer charge due to customer uproar over the customer charge. ORA supposes that the same result could occur should the Commission approve a residential customer charge in the instant proceeding. SoCalGas and SDG&E do not agree. During this proceeding two public participation hearings were held allowing members of the public to voice their concerns over the proposed residential customer charge, and unlike the proceedings cited by the ORA, only about 30 customers spoke at the public purpose hearings in this proceeding, which is a far cry from the 700+ customers the ORA cites in its comments. In addition, not all of the speakers at the public participation hearings in this proceeding spoke in opposition to the proposed customer charge.

E. TURN's customer rate impact data is inconclusive

TURN argues that the Commission should deny the SoCalGas/SDG&E fixed charge proposals on the grounds that "large numbers of customers" will experience higher bills. In support of its statement, TURN provides tables purporting to show the rate impacts on various residential customer groups for SoCalGas and SDG&E. SoCalGas and SDG&E have a number of concerns regarding the TURN data, notwithstanding the fact that the data is from a 2009 survey which is already 7 years old, and the sample TURN uses is less than 1 percent of customers.

Assuming TURN's data is an accurate reflection of the residential customer class, TURN still overstates the impact to the residential class. First, TURN states that the annual average

[14] Testimony of Pearlie Sabino at 66.

residential bill increase for SoCalGas and SDG&E would be $6 and $8, respectively.[15] This breaks down to approximately $0.50 per month for SoCalGas and $0.67 per month for SDG&E, which is not a large increase. Second, TURN provides a discussion that purports to show the rate impact to SDG&E's customers.[16] One note of particular concern is that the average annual usage shown by TURN is 171.33 therms (approximately 14 therms per month), which is significantly less than the 5-year rolling average of 26 therms per month (312 therms per year) that SDG&E provided in its testimony. Thus, TURN's bill impacts analysis is overstated. In addition, TURN states that it did not consider California Alternate Rates for Energy (CARE) in the analysis.[17] In so doing, TURN does not account for the 20% discount in the residential customer charge for CARE customers (i.e., TURN assumes that all residential customers will pay $10 per month, when in reality CARE customers would only be paying $8 per month); thus, any bill impacts would be overstated.

TURN's Table 27 states that 13% of SDG&E residential customers expect to see an annual increase in excess of $90, but TURN fails to mention that its own data shows that 9% of SDG&E residential customers would see an annual *decrease* in excess of $90. TURN chooses to focus on the purported impacts of our fixed charge proposal on customers living in apartment buildings. But TURN does not mention that its own table shows that the lowest income group (mobile home customers), who have the second highest average usage, would see an average annual increase of only $6.74, which is less than the overall SDG&E average cited by TURN. And while 5% of mobile home customers could see an annual increase of $90, the data shows that 8% of mobile home customers could see an annual *decrease* of $90. SoCalGas and SDG&E note that the annual usage shown for SoCalGas of 423 therms (approximately 35 therms per

[15] Direct testimony of William Perea Marcus at 53.
[16] *Id.* at 53-54.
[17] *Id.* at 52.

month) is much closer to the 5-year rolling average (37 therms) shown in SoCalGas' testimony. TURN does go on to state that "[l]arge numbers of SoCalGas customers would receive increases of less than $20 per year under the utilities' proposal."[18]

No party disputes the fact that SoCalGas and SDG&E incur fixed costs to provide service to their residential customers, nor does any party dispute the fact that an intra-class subsidy exits. Therefore, SoCalGas and SDG&E continue to recommend the $0.32876 per-meter-per-day (approximately $10 per month) residential customer charge. The four points laid out in SoCalGas/SDG&E's initial testimony continue to remain valid: 1) residential customer charges are an accepted form of fixed cost recovery throughout the United States; 2) setting fixed customer charges closer to fixed costs helps reduce the intra-class subsidy inherent in recovering fixed costs through volumetric rates; 3) fixed costs mitigate bill volatility between the seasons; and 4) fixed customer charges do not negatively impact conservation or energy efficiency efforts.

SoCalGas and SDG&E recognize that some residential customers will see larger rate impacts than others. In an effort to mitigate any potential bill impacts while still moving forward with their respective proposals, SoCalGas and SDG&E are amenable to the Commission adopting a phased-in approach to SDG&E's new and SoCalGas' increased fixed customer charge. SoCalGas and SDG&E believe that any such phase in should be for no longer than three years—i.e., 33% of the proposed increase in 2017; 66% of the proposed increase in 2018; and full implementation of the proposed increase in 2019.

III. THE COMMISSION SHOULD ADOPT SOCALGAS AND SDG&E'S TIER DIFFERENTIAL CALCULATION

ORA and TURN recommend that the Commission continue to include the customer charge revenue in the baseline tier for purposes of calculating the tier differential between

[18] *Id.* at 56.

baseline and non-baseline rates. Both ORA and TURN state that, under the current method, implementing the SoCalGas and SDG&E proposals would result in a declining block rate.[19]

SoCalGas and SDG&E continue to recommend that the Commission move away from a composite tier differential calculation in determining inverted rates pursuant to Cal. Pub. Util. Code § 739.7. It is an accepted understanding that the inverted rate structure for residential rates is designed to promote conservation by having the non-baseline tier higher than a baseline tier. As discussed above, in D.15-07-001 the Commission stated: "A fixed charge is not intended to incent specific customer behavior, but is intended to assist the customer in making economically efficient decisions regarding energy usage and investments." In addition, the Commission recently determined that fixed charges do not impact conservation or energy efficiency programs. Thus, it is SoCalGas and SDG&E's argument that fixed charge revenues should not be part of the tier differential calculation. Currently, residential customers look at their monthly bill to help determine whether conservation measures are warranted; they do not go through the overly complex "composite rate methodology" in determining whether to conserve energy.

However, should the Commission ultimately decide to continue with the current composite tier methodology, the proposed $0.32876 per-meter-per-day (approximately $10 per month) residential customer charge could still meet the requirements of CPUC Code § 739.7 by adjusting the residential tier differential cap. Should the Commission determine that a different residential customer charge is appropriate, the residential tier differential cap would be adjusted accordingly.

[19] Testimony of Pearlie Sabino at 71; Direct testimony of William Perea Marcus at 47.

IV. THE COMMISSION SHOULD ADOPT THE PROPOSED NATURAL GAS VEHICLE COMPRESSION RATE ADDERS

ORA recommends denial of SoCalGas and SDG&E's request to update the NGV compression rate adder.[20] ORA states that it is unclear from the data presented whether the NGV stations that primarily service SoCalGas' and SDG&E's NGV fleets were properly excluded from the calculation. Specifically, ORA states: 1) the data provides no breakdown by NGV stations and no clear separation between any identified NGV stations that primarily service the "Companies" NGV fleets and those Company-owned NGV stations that provides public refueling service; and 2) the applicants fail to show that only those stations identified as providing public access refueling equipment are included in the cost calculation.[21]

SoCalGas and SDG&E presented the same information and format as was provided in previous cost allocation proceedings. This included deriving the compression rate adders by separating capital cost and O&M costs for stations that include public access. The allocated costs were provided in the workpapers supporting my direct testimony. Further, no other party to this proceeding, including Clean Energy, which owns and operates numerous compressed natural gas and liquefied natural gas stations and is a customer of SoCalGas and SDG&E, raised any concerns with the proposed NGV compression rate adder.

Accordingly, SoCalGas and SDG&E recommend approval of the proposed NGV compression rate adders.

V. THE PROPOSED SYSTEM OPERATOR GAS ACCOUNT (SOGA) ALLOCATION METHODOLOGY SHOULD BE ADOPTED

ORA states that it "does not take a position on the proposed allocation method for the SOGA since it would be premature to assume the approval of the underlying request for

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[20] Testimony of Pearlie Sabino at 56.
[21] *Id.* at 86.

modification of Rule 41 at this time."[22] SoCalGas and SDG&E respectfully request that the Commission approve an allocation method of Equal Cents Per Therm (ECPT) for the SOGA assuming the account, as discussed in the testimony of Mr. Ahmed, is approved. To do so would allow SoCalGas and SDG&E to begin recovery of costs in a timely fashion and avoid the potential for years of under-collection to accrue. No party to this proceeding opposed the proposed allocation methodology, and approval in the instant proceeding would not adversely impact customers.

VI. THE PROPOSAL TO ALLOW NATURAL GAS VEHICLE CUSTOMERS TO ELECT NONCORE SERVICE SHOULD NOT BE ADOPTED

Clean Energy proposes to allow "NGV refueling station customers with monthly usage of 20,800 therms or more to choose to receive service under the non-core rate schedule."[23] SoCalGas and SDG&E oppose Clean Energy's proposal for several reasons.

First, assuming every newly-eligible NGV customer elected noncore service, the uncompressed NGV rate for those customers who were not large enough to elect noncore service would increase substantially, from $0.07694 per therm to around $0.24612 per therm. This 220% increase in rates would negatively impact smaller NGV customers. This rate impact would occur because there would be a smaller pool of throughput to recover costs allocated to the NGV rate. Such a large rate increase would run contrary to the rationale behind the creation of a Sempra-wide NGV rate, which was originally proposed to promote development of additional NGV refueling stations, large and small, in both the SoCalGas and SDG&E service territory.

Second, Clean Energy cites the class average rates (which is the total throughput divided by the total revenue requirement including customer charge revenue) for the NGV and noncore

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[22] *Id.* at 86.
[23] Prepared Direct Testimony of Warren I. Mitchell at 15.

Commercial Industrial Distribution (NCCI-D) customers, and uses those rates as justification for the perceived benefits of switching. However, these are not the actual volumetric rates charged to customers, but rather illustrative rates designed to show the general trend in rate impacts. For example, SoCalGas NCCI-D rates have four tiers based on usage with the tier 1 rate being $0.13006 per therm and the tier 2 rate being $0.08013 per therm, both of which are higher than the proposed NGV uncompressed rate of $0.07694. Additionally, the NCCI-D class has a much higher monthly customer charge ($350) than the NGV class ($13 or $65). Thus, it is unclear how much savings, if any, a NGV refueling customer would experience by switching to a noncore rate.

Finally, the Prepared Rebuttal Testimony of S. Nasim Ahmed addresses the apparent primary concern of Clean Energy—i.e., that the NGV rate is being impacted by weather-driven under-collections of other core customers. Assuming Mr. Ahmed's proposal to create an NGV subaccount in the Core Fixed Cost Account is adopted, the NGV rate should see less usage-related volatility. This solution should address the concerns of Clean Energy without negatively impacting smaller NGV customers that are not able to make the switch to elect noncore service.

This concludes my prepared rebuttal testimony.