Application: 07-12-XXX
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Exhibit No.: ____________
Date: December 11, 2007
Witnesses: Raymond E. Blatter
Shaun E. Halverson
Ronald R. Helgens
Gary G. Lenart
Gillian A. Wright

SOUTHERN CALIFORNIA GAS COMPANY
SAN DIEGO GAS AND ELECTRIC COMPANY
PACIFIC GAS AND ELECTRIC COMPANY

STATE-MANDATED SOCIAL PROGRAM COST ALLOCATION

PREPARED TESTIMONY

PG&E

SOUTHERN CALIFORNIA GAS COMPANY
SAN DIEGO GAS AND ELECTRIC COMPANY
PACIFIC GAS AND ELECTRIC COMPANY
STATE-MANDATED SOCIAL PROGRAM COST ALLOCATION

PREPARED TESTIMONY

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EXECUTIVE SUMMARY

Southern California Gas Company, San Diego Gas and Electric Company, and Pacific Gas and Electric Company (Collectively referred to as “the Utilities”) propose a more fair allocation of the costs for state mandated social programs consistent with the proportion of base revenue that is collected from customers.

In the time since Equal Cents Per Therm became the standard allocation method, the costs to fund these programs has dramatically increased which puts a disproportionate amount of the burden to pay on commercial and industrial customers. The burden on these customers has had a negative impact on the business environment in California and is one of the reasons many businesses consider leaving the state. An allocation based on Equal Percent of Base Revenue (EPBR) assigns costs to individual customer classes based on the same percentage of base transportation revenue allocated to each customer class. EPBR alleviates some of the burden of payment from commercial and industrial customers, improves the business environment in California, is straightforward to implement, and has minimal impact on residential customers.

In this application, the utilities propose the following:

- A reallocation for all current and emerging state mandated social programs (which presently includes California Alternate Rates for Energy; Self-Generation Incentive Program; Research, Development and Demonstration; Direct Assistance Program; Low Income Energy Efficiency; Energy Efficiency; and Board of Equalization).
- A reallocation based on EPBR which assigns costs based on the percentage of base revenue the Utilities collect from each customer class.
- A 3-year phase in to help minimize the small impact on residential customer bills.

SOUTHERN CALIFORNIA GAS COMPANY

SAN DIEGO GAS AND ELECTRIC COMPANY

PACIFIC GAS AND ELECTRIC COMPANY

CHAPTER 1

STATE-MANDATED SOCIAL PROGRAM COST ALLOCATION

SOUTHERN CALIFORNIA GAS COMPANY
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A. Introduction

Southern California Gas Company (SoCalGas), San Diego Gas and Electric Company (SDG&E) and Pacific Gas and Electric Company (PG&E) (collectively referred to as “the Utilities”) propose to more fairly allocate the natural gas cost of state-mandated social programs consistent with the proportion of base revenue that is collected from the customers of the Utilities. Currently the majority of state-mandated social program costs collected through utility gas rates are allocated equal cents per therm (ECPT). The California Alternate Rates for Energy (CARE) low-income rate discount represents by far the largest component of state-mandated social program costs. ECPT has also become the default allocator for new programs. Some of the state-mandated social program costs are currently allocated equal percent of marginal costs (EPMC), or based on direct benefits, which are defined as the proportion of program dollars assigned to each customer class. The Utilities propose that all current and emerging state-mandated social program costs collected through gas rates should be allocated to the applicable customer classes based on the percentage of base revenue the Utilities collect from the customer class, or equal percent of base revenue (EPBR). To minimize the impact on residential customers, the Utilities propose to phase in the change in allocation over three years. The Utilities’ proposal promotes a more competitive business environment in California while having little impact on the rates and bills paid by the Utilities’ residential customers.

This chapter describes why the dramatic and continuing increase in state-mandated social program costs makes a change in allocation important, and why EPBR should be adopted as the default allocation. Chapter 2 examines cost allocation assuming program costs were funded directly from the state’s General Fund tax revenues. Chapter 3 presents the proposed allocation including the three-year phase-in and proposed rates for SoCalGas and SDG&E. Chapter 4 presents the same information for PG&E.

B. State-Mandated Social Program Costs Are Currently One of the Fastest Growing Components of Utility Rates

Increasingly, California has been using utility rates to fund a growing variety of social programs. State-mandated social programs are generally funded through a surcharge or adder on utility rates, where a substantial portion of the benefits of the program accrues to society rather than to a particular customer class. The current programs in this category include the following:

1. Gas Public Purpose Programs (Funded through the Public Purpose Program Surcharge (PPPS)), mandated by Public Utilities Code sections 890-900, including:
    - California Alternate Rates for Energy (CARE);
    - Energy Efficiency (EE);
    - Direct Assistance Program (DAP) for SoCalGas, also known as Low Income Energy Efficiency (LIEE) for SDG&E and PG&E;
    - Research, Development and Demonstration (RD&D); and
    - Public Purpose Program CPUC and Board of Equalization (BOE) administrative costs.
2. Self-Generation Incentive Program (SGIP)

These programs were instituted to fund a variety of activities that the Commission and/or the State Legislature determined will advance desirable social goals. The CARE program was instituted to provide rate discounts to qualifying low-income California utility customers. The cost of the discounts, and CARE program administration, are recovered by California utilities through subsidies paid by non-low-income utility customers.

EE programs directly benefit the customers participating in the programs, but also benefit society through reduced demand for energy and reduced pollution. The California Public Utilities Commission's (CPUC or Commission) preferred loading order for electric generation resources recognizes that more efficient use of energy benefits all customers. When energy efficiency resources are focused on cost-effective opportunities, all customers benefit from avoided costs of additional generation and the environmental benefits of cleaner air and less use of our resources.

The DAP and LIEE programs make energy efficiency and home weatherization available to low income customers at no cost to them. The benefits are similar to those of CARE, providing assistance to customers in need to help them lower their utility bills. PG&E and SoCalGas currently allocate EE, LIEE and DAP costs using a direct benefits allocation based on program dollars provided to each customer class. SDG&E allocates LIEE using Long-Run Marginal Cost (LRMC).

RD&D funds investment in promising new gas technology to assist in commercialization. In the long term, these technologies may reduce costs, increase efficiency, improve safety, or reduce pollution. The benefits of RD&D can be new technological options which provide gas customers with affordable, low emission, highly energy-efficient gas combustion equipment which is compliant with stringent air quality regulations and that has lower first costs and operating expenses. RD&D can also benefit the Utilities by lowering utility operating costs through improved system operations resulting from process and productivity improvements. Savings from these lower costs are then passed on to all gas customers. RD&D is currently allocated EPMC for SoCalGas and SDG&E, and ECPT for PG&E.

The SGIP provides financial incentives for customers who invest in distributed electric generation, including renewable generation. The program assists commercialization of distributed generation technology, reduces pollution, and ultimately avoids costs for electric generation, transmission and distribution infrastructure. Decision 01-03-073 determined that because the SGIP benefits all of society, utility gas customers should pay a portion of the cost. The Utilities currently allocate gas SGIP costs using ECPT.

Details of the current allocation are discussed in Chapter 3 – SoCalGas and SDG&E Allocation Proposal for State-Mandated Social Programs and Chapter 4 – PG&E's Allocation Proposal for State-Mandated Social Programs.

The list of state-mandated social programs also includes the California Solar Initiative (CSI). Initially, CSI program costs were included in rates for natural gas. With the passage of Senate Bill (SB) 1, CSI costs were removed from natural gas rates, effective January 1, 2007, but continue to be collected in electric rates. Prior to their removal from gas rates, CSI costs were allocated ECPT to all classes.

The California Solar Water Heating and Efficiency Act of 2007 (AB 1470) state-mandated social program, signed into law on October 12, 2007, will also be included in the list of state-mandated social programs addressed in this application. The 10-year program is aimed at installing 200,000 solar water heaters in homes and businesses using a $250 million fund. The law authorizes the California Energy Commission to "impose the surcharge at a level that is necessary to meet the goal..." The surcharge will be applied to natural gas consumption on an ECPT basis.

CPUC Rulemaking 07-09-008 is currently addressing a University of California proposal to fund a "California Institute of Climate Solutions" (CICS). If implemented, the $600 million, 10-year program will also be included in the list of state-mandated social programs

C. CARE Costs Have Increased Dramatically Since the Energy Crisis

Rate discounts for low income California utility customers were first established by the Commission in Decision 89-09-044. In the decision, the Commission found that, with the onset of low-income discounts, the level of discount subsidy costs that must be collected from non-participants appeared not to be unreasonable and determined that gas-related discounts would be allocated to customers on an ECPT basis.[1]

During the 2000-2001 energy crisis, the California State Legislature and the Commission focused on increasing the CARE discount level, increasing the number of customers eligible to receive CARE program discounts, and increasing the number of eligible customers that participate in the program. Until June 2001, CARE discounts of 15 percent were provided to customers with income levels at or below 150 percent of the national poverty guideline. At that time, approximately 73 percent of 0.84 million eligible customers in SoCalGas' service territory, 55 percent of 0.17 million eligible gas customers in SDG&E's service territory and 40 percent of 0.79 million eligible gas customers in PG&E's service territory, received CARE discounts.

[1] D.89-09-044, Findings of Fact 17 and 19.

As a result of this focus, several Commission decisions were issued addressing actions and program funding needed to increase CARE participation. Decision 01-05-033 ordered California utilities to focus efforts on expanded outreach through government agencies, community outreach contractors, non-profit organizations, community centers, non-English print and radio advertisements, retention of current participants and automatic enrollment. Decision 01-06-010 increased CARE discounts from 15 percent to 20 percent and increased the income eligibility criteria from 150 percent to 175 percent of the national poverty guideline. Decision 02-07-033 further addressed implementation of CARE automatic enrollment procedures. The decision identified government programs that would serve as partner agencies in California's CARE automatic enrollment program. Decision 05-10-044 further increased the income eligibility criteria from 175 percent to 200 percent of the national poverty guideline.[2]

As shown in Table 1-1, due to the combination of broader eligibility requirements, increased discount amounts and extensive outreach efforts, CARE penetration levels have currently increased to approximately 66 percent and 65 percent of eligible customers for SDG&E and PG&E gas customers, respectively, while staying the same 73 percent for SoCalGas.

TABLE 1-1
CARE PENETRATION AND ELIGIBILITY LEVELS
2001 vs. 2007

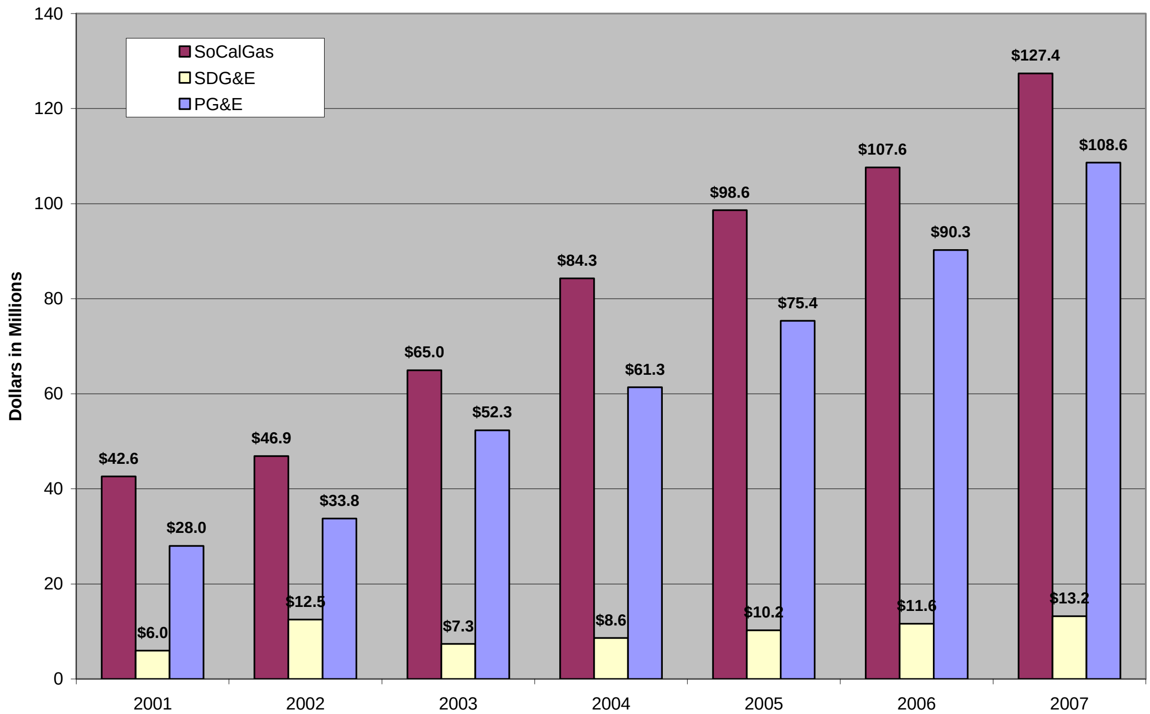
		2001		2007	
Line No.		Eligibility (Millions of Customers)	Penetration (Program Participation)	Eligibility (Millions of Customers)	Penetration (Program Participation)
1	SoCalGas	0.84	73%	1.74	73%
2	SDG&E	0.17	55%	0.23	66%
3	PG&E	0.79	40%	1.33	65%

As more and more customers have received CARE discounts, the discount percentage has increased, and the cost of natural gas has increased, the subsidies that are borne by non-CARE customers have increased dramatically.

[2] The Commission may decide to reduce the eligibility criteria after annual review of the program.

The higher level of CARE subsidy increases included in the Utilities' PPPS rates between 2001 and the present are shown in Figure 1-1.

FIGURE 1-1
ACTUAL CARE PROGRAM COSTS
2001-2007
(DOLLARS IN MILLIONS)



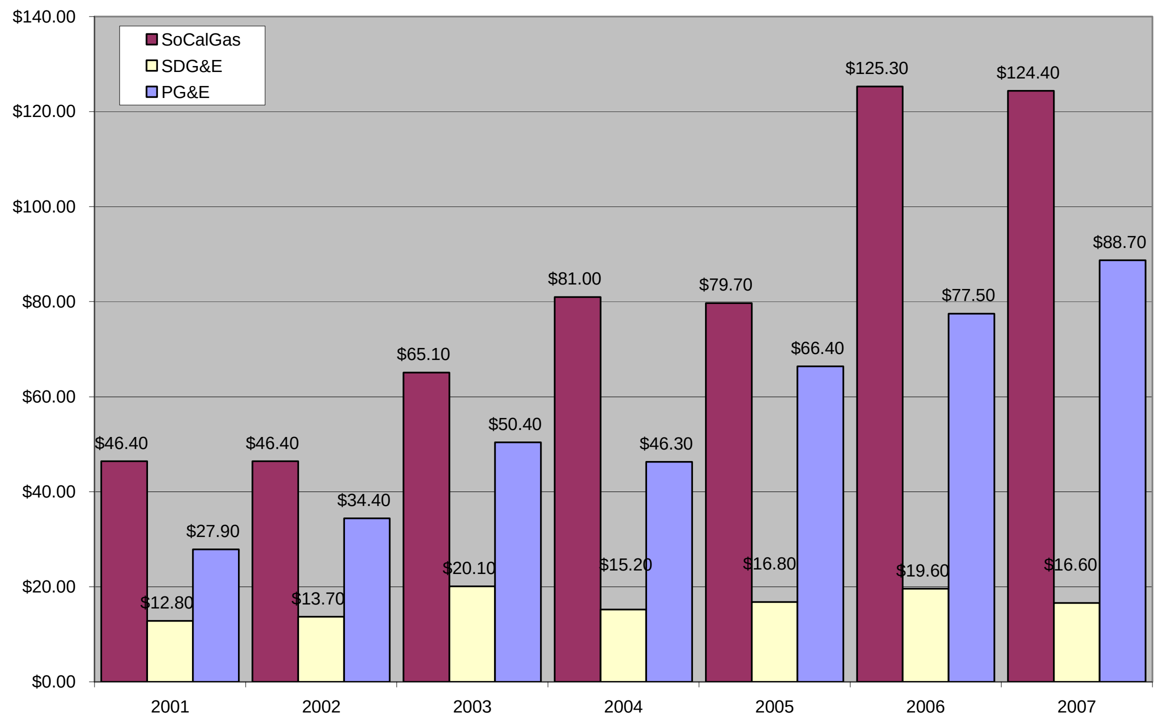
Source: The 2000-2006 CARE program costs are actual, based on Table 5A of the CARE Annual Report. 2007 costs are based on the CARE Program authorized budget, as approved in D.06-12-038.

Figure 1-1 shows that since 2001, SoCalGas' CARE program costs have increased approximately $84.8 million or 199 percent, SDG&E's CARE program costs have increased approximately $7.2 million or 120 percent, and PG&E's CARE program costs have increased $80.6 million or 288 percent.

D. Program Expansion and New Programs Have Increased Non-CARE Costs Significantly Since the Energy Crisis

The cost increases related to the expansion of existing non-CARE programs and the addition of new social programs between 2001 and the present are shown in Figure 1-2, below.

FIGURE 1-2
NON-CARE NATURAL GAS MANDATED SOCIAL PROGRAM COSTS IN RATES
2001-2007
(DOLLARS IN MILLIONS)



As shown in Figure 1-2, since 2001 non-CARE state-mandated social program costs being recovered in rates have grown from $46.4 million for SoCalGas, $12.8 million for SDG&E (gas), and $27.9 million for PG&E (gas) to $124.4 million for SoCalGas, $16.6 million for SDG&E, and $88.7 million for PG&E in 2007.

CSI costs were included in the list of gas social program costs in 2006 but are no longer included in gas rates starting in 2007. However growth in the remaining programs, particularly EE, LIEE/DAP, more than offset the decrease from removing CSI costs for SoCalGas and PG&E. EE and LIEE/DAP in particular are projected to continue to grow significantly and the Legislature is considering the addition of new programs. Clearly, state-mandated social program costs have grown well beyond levels expected with the initial implementation of the low-income discounts in 1989. At the time, the Commission found that the burden of discount subsidy costs collected from non-participants under the adopted ECPT allocation method was not unreasonable. (D.89-09-044) However, the highly expanded levels of low-income discount subsidies, in addition to the cost of other state-mandated social program costs currently in utility rates today calls for another look at the allocation of these costs.

E. The Current Allocation of Social Program Costs and Rapid Cost Increases Exacerbates the Challenging Business Environment in California

The high cost of doing business in California relative to other states as well as outside the United States appears to be a growing concern for California businesses. A January 2004 article entitled "Golden State Loses Its Luster" in National Real Estate Investor provided some interesting statistics with respect to business migration from California, including:

- "A recent survey by the California Business Roundtable found that of 400 businesses surveyed, 20% plan to move or expand out of state—the highest number in the survey's 12-year history."
- "Kansas City, Mo.-based Interstate Brands Inc., a large bakery that markets products under the brand names Wonder, Holsum and Home Pride, moved its crouton and stuffing mix operation last year from Montebello, Calif., to a 320,000 sq. ft. facility in Las Vegas formerly occupied by Levi Strauss."
- "Kinko's moved its headquarters and 500 jobs from Ventura, Calif. to a 125,000 sq. ft. facility in Dallas last year. Hewlett-Packard moved its Roseville, Calif., manufacturing facility and 475 jobs to Houston earlier this year."

During 2003 and 2004, The Nevada Commission on Economic Development (NCED) launched an advertising campaign to attract California business. The campaign emphasized the high cost of doing business in California and pointed out the economic advantages to be found in Nevada, noting that relocating in Nevada leaves companies in close proximity to their California markets. Targeting high-technology, research and development, and manufacturing firms as well as corporate headquarters, the ads resulted in 43 inquires, with 17 deemed viable leads. Of the 74 companies that relocated to Nevada in fiscal year 2003, 24 companies or 32.4 percent came from California.[3] In 2003, the Nevada Development authority helped to bring 20 previous California companies to southern Nevada, creating 1,157 jobs with an economic impact of $109 million.[4]

Manufacturing employment in California has been steadily declining in recent years. According to the California Employment Development Department, California lost 286,600 manufacturing jobs between 2001 and 2006. Of these, Los Angeles County alone lost 115,600. In a recent informal customer survey, SoCalGas identified 20 large manufacturing customers who have either closed operations, are planning to close operations or are scaling down operations because of the high cost of doing business in California. Two potential customers considered and rejected opening facilities in SoCalGas' service territory, citing the high cost of operating in California as the reason they decided not to open here. Manufacturing employment provides social benefits because manufacturing typically offers higher wages for employees than other sectors.

Energy costs are just one component of business costs, but are often a significant component for manufacturing industries. High transportation costs for natural gas may not be the single factor that causes a business owner to move or close a business, but it is reasonable to assume that the high levels of social program costs found in California natural gas rates do not encourage retention and expansion of energy intensive industries in California. The Utilities' proposed allocation of CARE and other ongoing state-mandated costs is a step in the right direction toward lowering the cost of doing business in California.

F. State-Mandated Social Program Costs Are a Competitive Issue for California Utilities

Commission policy on social program costs has been generally that all customers should contribute to the costs, but social program costs should not be a competitive issue. In 2000, the California State Legislature passed AB 1002

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[3] Las Vegas Business Press, February 6, 2004 – article: State Launches Next Phase to Win Golden State Firms.

[4] Review Journal, February 7, 2004 – article: Nevada Development Authority Launches Another Blitz. As quoted from Somer Hollingsworth, NDA President and CEO.

making public purpose program costs a non-bypassable surcharge applicable to all gas customers in California (except municipalities offering their own programs and gas producers using proprietary pipelines), including those taking service from interstate pipelines. However, AB 1002 could only establish a level playing field within California and did not address the cost of utility social program surcharges relative to other states.

Moreover, even within California, the Legislature has not added new program costs to the gas PPPS charge since 2004 because, as a tax, changes to the PPPS require a two-thirds vote of the Legislature. Therefore the SGIP, the CSI, the California Solar Water Heating and Efficiency Act of 2007, and the potential CICS program costs are only collected through utility rates under the current methodology and increase the difference between utility and interstate pipeline rates within California. SoCalGas' experience in particular has demonstrated that these costs currently are a competitive issue.

In April 2006, the Commission approved a long-term discounted contract between SoCalGas and Guardian Glass in Decision 06-04-002. Guardian was deciding whether to make substantial investments in its glass manufacturing plant in California or to move its operation out of the state. A key driver in Guardian's assessment was the cost of natural gas transportation, and the major difference between SoCalGas and the out-of-state utility cost was in the cost of fees and surcharges, *i.e.*, state-mandated social program costs. Decision 06-04-002 approved the dollar discount but left open the question of whether PPPS can be discounted. The Commission recognized the benefit of retaining Guardian Glass and the necessity of discounting gas transportation costs to do so.**[5]** The Commission ultimately concluded in Decision 07-09-016 that PPPS cannot be discounted for an individual customer and that, while it does have the authority to create a new customer class with a lower G-PPPS rate, the record in the proceeding was not adequate to establish such a customer class. Accordingly, it directed SoCalGas to apply the discount only to the non-PPPS elements of the transportation rate, which brought the discounted transportation rate to a level below LRMC.**[6]**

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[5] Findings of Fact 4-6 in D.06-04-002.

[6] D.07-09-016, pp. 23, 25.

A second example of the degree to which avoidance of social program costs has become a competitive issue involves the City of Vernon (Vernon), which is a wholesale customer of SoCalGas. Vernon built its own gas distribution system, duplicating SoCalGas facilities. Customers in Vernon are primarily commercial and industrial customers. Under the terms of Decision 96-09-104 the Commission allowed SoCalGas to compete to retain customers.[7] The City of Vernon has recently begun signing up customers for its municipal gas utility. Several customers have decided to switch from SoCalGas to the City of Vernon on the basis of transportation rate savings. These savings are almost entirely due to avoiding the PPPS. When they switch, industrial customers must pay approximately $10,000 to $20,000 to connect to Vernon's distribution system. PPPS savings pay for the facilities costs in less than a year. PPPS costs represent 20-30 percent of the transportation bill for a medium-sized industrial customer.

Some customers may be taking service from alternative service providers not paying the "non-bypassable" PPPS charge to the BOE. The non-bypassable aspect of AB 1002 depends on the enforcement efforts of the BOE. If the BOE does not vigorously pursue collection of all PPPS amounts owed, customers of interstate pipelines can effectively bypass PPPS. The greater the potential tax obligation related to PPPS, the more a customer has to gain from "taking their chances" and not paying the tax.

While these examples highlight a practical problem with the implementation of the PPPS—*i.e.,* inconsistent enforcement of the surcharge collection obligation within California (municipal, and other entities are generally required to collect the surcharge, but sometimes do not)—they are offered here in order to illustrate the extent to which the significant cost of the PPPS drives customers' bypass and relocation decisions in and outside of California. The ability to avoid the significant cost associated with the PPPS, as it is currently applied, directly influences this decision whether to bypass to another in-state facility that neglects to collect the surcharge or to relocate out-of-state.

[7] D.96-09-104, Appendix A, p. 7, lines 18-26.

G. Equal Cents Per Therm Is Easy But Not Good Policy

ECPT is the current allocation method for the majority of state-mandated social program costs: specifically for CARE, SGIP and the California Solar Water Heating and Efficiency Act of 2007. Under the ECPT cost allocation methodology, costs are perceived to be "shared equally" among all gas customers through an equivalent cent-per-therm unit rate increase, when, in fact, ECPT allocates higher costs to customer classes with higher forecast annual deliveries.

However, in reality about 30-40 percent of total gas volumes, primarily serving electric generation and wholesale loads, are exempt from paying most social program costs. For PPPS costs at least, ECPT allocation really means, at best, that costs are only partially spread to gas customers with a large and disproportionate share borne by industrial customers.

ECPT is the correct allocator to use for costs that vary with gas usage, or where average usage is a reasonable proxy for the costs to serve a particular class of customers. ECPT can also be a reasonable choice when costs are relatively small and refinement of the allocator would have little impact on the costs allocated to each customer class. Consequently, it is used for a few other categories of costs primarily because it is the easiest allocator to implement. It does not require periodic updates or complicated analyses to apply. Although it partially represents the proportion of utility service used by the customer class, it does not reflect the cost difference incurred by utilities to serve various customer classes. Finally, as shown in Tables 2-1 and 2-2 of Chapter 2, with ECPT a large portion of costs are allocated to noncore customers.

A review of the history of allocation of CARE program costs in particular, one of the largest components of the state-mandated social program costs, reveals limited consideration of allocation methodology. The Commission concluded in Decision 89-09-044 that the Legislature intended for all but certain specific non-participating customers to contribute to the costs of the program.[8]

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[8] The classes exempted were and continue to be electric generation (including cogeneration), wholesale, Enhanced Oil Recovery (EOR), and customers with negotiated fixed price contracts. The reasons for exemption were to avoid duplication (electric generation and wholesale), and to avoid making CARE costs a competitive factor for the gas utilities (EOR and negotiated contracts). D.89-09-044, pp. 19-20.

Although SoCalGas proposed a per-customer allocation for program costs, limited to non-participating core customers, the final decision dismissed this proposal with almost no discussion. The testimony of other parties on the appropriate allocation was typically quite limited, stating the allocation should be ECPT/kilowatt-hour (kWh) without further elaboration.[9] The Division of Ratepayer Advocates (DRA) provided the most discussion, recommending ECPT/kWh because the program was not by nature cost-based, so it would be difficult to attribute the cost to a particular class of customers.[10]

For programs with social benefits, there is no particular reason why the cost burden should increase with greater gas usage. At current cost levels, some large gas users pay as much, or more, for state-mandated social programs as they pay for gas transportation. For these customers the PPPS charges are the largest line item on their bill, and the PPPS line item does not even capture the full social program obligation, as SGIP is embedded in the transportation rate. Using ECPT provides no mechanism to ensure that the customer's PPPS obligation is in proportion to their overall obligation to the utility.

The Utilities propose to allocate PPPS costs and other state-mandated social program costs based on EPBR, which captures usage differences along with differences in the cost to serve the applicable customer class. With this allocation all applicable customer classes will contribute in proportion to their utility base costs.

In addition, the proposed allocation methodology is a more reasonable and fair allocation method with respect to the tax incidence standard, as discussed in more detail in Chapter 2.

H. Conclusion

The current methodology for allocating high and growing state-mandated social program costs ultimately has negative economic impacts. Although it is difficult to demonstrate that these costs specifically are causing business closures, reductions, and migrations, basic economics dictates that these growing costs must have a negative impact on commercial and industrial

[9] SDG&E proposed equal percent of marginal costs for electric low income program costs, but stated in its brief it would not object to equal cents per kWh.

[10] D.89-07-062, p. 23.

customers. The costs must be absorbed, and will either be reflected in reduced operating margins or in higher prices for products to the extent businesses can pass these costs on. In either case, the current allocation of these costs affects California competitiveness and the Gas Utilities competitiveness in relation to other gas service providers.

When the costs of state-mandated social programs were much lower, the allocation method was less important, and any negative impact of poor allocation would be negligible. In adopting ECPT for most of the state-mandated social program costs, the Commission (and the Legislature) have implicitly assumed that the positive social benefit of the programs being funded offset any negative impact. At the onset of these state-mandated programs, the Commission ruled that the costs of these programs were not unreasonable in light of the social benefits. Although both the positive and negative impacts are difficult to measure, and with new programs and significant program expansions over time, the continued disproportionate allocation of drastically higher costs for state-mandated social programs pose an increasing counterweight, in the form of negative impacts on medium and large businesses, to the positive benefits from social programs.

The Utilities urge the Commission to approve the Utilities proposal to change the current allocation for state-mandated social program costs to EPBR and to establish EPBR as the allocation to be used for new social program costs. Using EPBR has the following benefits:

- It improves California business competitiveness and the general state business environment;
- It provides for a more equitable allocation of costs that addresses the escalation of mandated program costs over time;
- It is closer to the proportion of taxes customers would pay if programs were funded directly from the state’s General Fund tax revenues, as discussed in Chapter 2;
- It is straightforward to implement; and
- With a 3-year phase-in the impact on residential bills will be very small.

This concludes our prepared testimony.

SOUTHERN CALIFORNIA GAS COMPANY

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PACIFIC GAS AND ELECTRIC COMPANY

CHAPTER 2

TAX INCIDENCE AS A BASIS FOR A REASONABLE ALLOCATION

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A. If State-Mandated Social Programs Were Administered by the State Rather Than the Utilities, Cost Responsibility Assigned to Commercial and Industrial Customers Would Be Significantly Reduced

The state-mandated social programs funded through gas rates that are discussed in detail in Chapter 1 advance desirable social goals rather than just benefiting one particular class. The state's General Fund is often used to provide the funds to support the state's provisions of programs that advance desirable social goals. Approximately 90 percent of the state's General Fund is used to support education, health and social services, and justice and corrections. As such, programs funded through gas rates such as gas Public Purpose Programs (PPP) and Self-Generation Incentive Programs (SGIP), if funded by the state, would have presumably been funded through the General Fund. Accordingly, the incidence of sources for the state's General Fund can be viewed as a standard by which the fairness of an allocation can and should be measured.

The California Alternate Rates for Energy (CARE) program, for example, was designed to benefit low-income gas and electric customers to be paid for by non-low-income gas and electric customers. As such, the CARE program required by Public Utilities Code (Pub. Util. Code) Section 739.1 is a social program that the state of California mandates the California Public Utilities Commission (CPUC or Commission) to conduct through the state's utilities. Accordingly, CARE program cost recovery constitutes a transfer of wealth from non-CARE customers to CARE customers. If the state administers the program directly, CARE would be financed through the state's General Fund. Therefore, it is reasonable to look at the incidence of the sources for the state's General Fund as a potential measure of a fair allocation of CARE costs or at least as a standard by which the fairness of an allocation should be measured.

1. Tax Revenues – Types and Sources

The state's General Fund generally is a collection of tax revenues derived from a number of sources. The better known and larger of these taxes are such categories as personal income taxes, retail sales and use taxes, corporate taxes and a variety of special use taxes. The Utilities have examined the incidence of these taxes to determine the amount of the taxes borne by the residential customers versus the non-residential customers for the most recent year (2006) that such detailed tax data exists. Some of the taxes are easy to allocate to customer groups such as corporate taxes which would be borne by the non-residential sector. Some require more effort to determine, such as personal income taxes. Some types of businesses such as sole proprietorships and partnerships are not corporations and, thus, the taxes that they pay are recorded as the personal income of their owners and would appear in the personal income tax category. Thus, only a portion of the personal income taxes should be assigned to the residential class. Likewise, some percentage of the retail sales and use taxes are borne by businesses and not by residential customers.

2. Results and Summary

Table 2-1, below, shows that roughly 63 percent of the California General Fund revenues come from the residential sector. Approximately 37 percent come from the non-residential sector.

TABLE 2-1
CALIFORNIA MAJOR TAXES AND LICENSE REVENUES(a)
GENERAL FUND SHARE ONLY
2005-2006
(DOLLARS IN THOUSANDS)

Line No.		Total	Residential	Commercial and Industrial
1	Alcoholic Beverages Taxes and Fees	318,276	318,276	
2	Corporation Tax	10,316,467		10,316,467
3	Cigarette Tax	118,022	118,022	
4	Horse Racing License Fees	2,422	2,422	
5	Estate, Inheritance, & Gift Tax	2,786	2,786	
6	Insurance Gross Premiums Tax	2,202,327		2,202,327
7	Trailer Coach License Fees	24,892	24,892	
8	Personal Income Tax	49,876,823	38,903,922	10,972,901
9	Retail Sales and Use Taxes	27,580,979	17,927,636	9,653,343
10	Total Major Taxes and License Revenues	90,442,994	57,297,956	33,145,038
11	State Land Royalties	295,573		295,573
12	Pooled Money Investments(b)	447,193	281,732	165,461
13	Bond Proceeds(c)	525,000		
14	Revenue form Abandoned Property(d)	334,206		
15	Other Regulatory Fees	589,308		589,308
16	Misc. Revenue form Local Agencies	270,355	270,355	
17	Total Minor Revenues	1,602,429	552,087	1,050,342
18	Total	92,045,423	57,850,043	34,195,380
19			63%	37%

(a) Source for all data is California Department of Finance's Comparative Statement of Revenues (Schedule 8). Schedule 8 distinguishes between "major taxes and licenses" and "minor revenues." There are numerous minor revenues that feed into the general fund. This analysis includes only those minor revenues that are over $100 million, about 82 percent of the total of all minor revenues the destination of which is the general fund.

(b) This is income from the investment of various funds' idle cash. Since these dollars are pooled from various sources, it is assumed that the original revenues reflect the same source distribution as total general fund revenues—63 percent from the household sector and 37 percent from the business sector.

(c) Bond Proceeds are excluded from total because they have a one-time FY 05-06 impact.

(d) Revenue from Abandoned Property is excluded from the total because the original source distribution of these financial assets is unknown.

CARE is essentially an income redistribution program which, if conducted by the state, would have been financed through the state's General Fund. Thus, the Utilities submit that this analysis provides a useful, reasonable and objective standard by which to evaluate the relative fairness of an allocation of CARE and other program costs. Therefore, an allocation methodology that aligns itself with the revenue sources for the General

Fund, according to the residential/non-residential split explained above, more closely resembles how the costs associated with the CARE program and other mandated social programs would have been supported via the state's General Fund. This provides a useful gauge and an improved standard of fairness in the allocation of the costs of state-mandated social programs than currently exists.

Tables 2-2 shows the current and proposed CARE, Energy Efficiency, and SGIP cost allocations by customer class for each of the Utilities.

TABLE 2-2
PRESENT AND PROPOSED STATE-MANDATED SOCIAL PROGRAM COST ALLOCATION TO CUSTOMER CLASSES
($ MILLIONS)

Line No.	Class	Present Costs	Present %	Year 1 Costs	Year 1 %	Year 2 Costs	Year 2 %	Year 3 Costs	Year 3 %
1	SoCalGas								
2	Residential	$120.2	50.8%	$141.9	60.0%	$163.6	69.2%	$185.4	78.4%
3	Commercial	60.1	25.4%	52.6	22.2%	45.1	19.1%	37.5	15.9%
4	Industrial	44.9	19.0%	34.2	14.5%	23.5	9.9%	12.8	5.4%
5	Electric Generation & Wholesale	11.3	4.8%	7.8	3.3%	4.3	1.8%	0.8	0.3%
6	Total	$236.5	100%	$236.5	100%	$236.5	100%	$236.5	100%
7	SDG&E								
8	Residential	$17.0	57.1%	$19.6	66.0%	$22.2	74.9%	$24.9	83.8%
9	Commercial	9.7	32.7%	7.7	26.1%	5.8	19.4%	3.8	12.8%
10	Industrial	2.2	7.3%	1.7	5.8%	1.3	4.4%	0.9	2.9%
11	Electric Generation	0.8	2.9%	0.7	2.1%	0.4	1.3%	0.1	0.5%
12	Total	$29.7	100%	$29.7	100%	$29.7	100%	$29.7	100%
13	PG&E								
14	Residential	$101.8	53.9%	$110.8	58.7%	$119.9	63.5%	$129.0	68.3%
15	Commercial	38.1	20.2%	39.3	20.8%	40.4	21.4%	41.6	22.1%
16	Industrial	46.8	24.8%	37.1	19.7%	27.4	14.5%	17.6	9.3%
17	Electric Generation	2.1	1.1%	1.6	0.8%	1.1	0.6%	0.5	0.3%
18	Total	$188.8	100%	$188.8	100%	$188.8	100%	$188.8	100%

The Utilities' proposed allocation methodology yields an allocation of state-mandated social program costs to the residential sector that is more in line with the sources of funds for the state's General Fund described above than the allocations that result from the currently adopted methods.

SOUTHERN CALIFORNIA GAS COMPANY

SAN DIEGO GAS AND ELECTRIC COMPANY

CHAPTER 3

ALLOCATION PROPOSAL FOR

STATE-MANDATED SOCIAL PROGRAMS

SOUTHERN CALIFORNIA GAS COMPANY
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SOUTHERN CALIFORNIA GAS COMPANY
SAN DIEGO GAS AND ELECTRIC COMPANY
CHAPTER 3
ALLOCATION PROPOSAL FOR
STATE-MANDATED SOCIAL PROGRAMS

A. Purpose

The purpose of my testimony is to sponsor the Equal Percentage of Base Revenue (EPBR) cost allocation factors, present and proposed cost allocation and impacts on the gas rates for the state-mandated program costs at San Diego Gas & Electric Company (SDG&E) and Southern California Gas Company (SoCalGas).

My testimony is arranged in three sections:

- Section A – Purpose of Testimony;
- Section B – Cost Allocation Proposal; and
- Section C – Rate Impacts of Proposal.

B. Cost Allocation Proposal

The Utilities propose to change the cost allocation of state-mandated program costs, currently allocated under various allocation methods (see Tables 3-1 and 3-2 below for details) to an EPBR basis. The EPBR method will apply to all state-mandated programs. To minimize the impact on residential customers, the Utilities propose to phase-in the change in allocation over three years, effective each January 1.[1] This proposal changes the cost allocation of the forecast and balancing accounts of California Alternate Rates for Energy (CARE), Energy Efficiency (EE), Low Income Energy Efficiency (LIEE), Public Benefit Research, Development and Demonstration (RD&D), Board of Equalization (BOE) and Self Generation Incentive Program (SGIP). Additionally, this proposed allocation method is intended to be used for any future programs. The 2007 state-mandated program costs and the present and proposed cost allocation methods are summarized in Tables 3-1 and 3-2.

[1] SDG&E and SoCalGas propose to implement the three year phase-in of EPBR, annually in conjunction with its Annual Consolidated Rates Filing.

TABLE 3-1
SOUTHERN CALIFORNIA GAS COMPANY
2007 STATE MANDATED PROGRAM COSTS AND
PRESENT AND PROPOSED COST ALLOCATION METHODS

Line No.	State Mandated Program Cost	2007 Cost ($ million)	Present Cost Allocation Method	Proposed Cost Allocation Method
1	Energy Efficiency (Cost and Balancing Account)	$60.9	Direct Benefits	EPBR(c)
2	Low Income Energy Efficiency (Cost and Balancing Account)	33.3	Direct Benefits	EPBR
3	CARE (Cost and Balancing Account)	111.2	ECPT(a)	EPBR
4	RD&D (Cost and Balancing Account)	10.1	EPMC(b)	EPBR
5	Board of Equalization (BOE)	0.2	ECPT	EPBR
6	Self Generation Incentive Programs (SGIP)	20.7	ECPT	EPBR
7	Total	$236.5		

(a) ECPT – Equal Cents Per Therm.

(b) EPMC – Equal Percent Margin Contribution.

(c) EPBR – Equal Percent of Base Revenues.

TABLE 3-2
SAN DIEGO GAS AND ELECTRIC COMPANY
2007 STATE MANDATED PROGRAM COSTS AND
PRESENT AND PROPOSED COST ALLOCATION METHODS FOR GAS SERVICE

Line No.	State Mandated Program Cost	2007 Cost ($ million)	Present Cost Allocation Method	Proposed Cost Allocation Method
1	Energy Efficiency (Cost and Balancing Account)	$6.8	Direct Benefits	EPBR(c)
2	Low Income Energy Efficiency (Cost and Balancing Account)	6.7	EPMC(a)	EPBR
3	CARE (Cost and Balancing Account)	13.1	ECPT(b)	EPBR
4	RD&D (Cost and Balancing Account)	0.9	EPMC	EPBR
5	Board of Equalization (BOE)	< 0.1	ECPT	EPBR
6	Self Generation Incentive Programs (SGIP)	2.2	EPMC	EPBR
7	Total	$29.7		

(a) ECPT – Equal Cents Per Therm.

(b) EPMC – Equal Percent Margin Contribution.

(c) EPBR – Equal Percent of Base Revenues.

EPBR is a cost allocation methodology that assigns costs to individual customer classes based upon the percentage of base transportation revenue allocated to each customer class. Base Revenue is defined as basic gas service (all pipeline transportation and service connection to customer) including:

Base Revenue =	Customer Costs (Including service lines and meters)
+	Distribution Costs (Including medium and high pressure system)
+	Transmission Costs

Base Revenue uses the currently adopted unscaled marginal revenue requirement for each gas transportation service. (SoCalGas' revenue requirements per AL3695 – January 1, 2007, Consolidated Rate Update and SDGE's gas revenue requirement per AL1664-G Consolidated Gas Rate Changes Effective January 1, 2007):

TABLE 3-3
SOUTHERN CALIFORNIA GAS COMPANY
SAN DIEGO GAS AND ELECTRIC COMPANY
BASE REVENUE REQUIREMENT
($ MILLIONS)

Line No.		Total	Core $	Core %	Noncore $	Noncore %
1	SoCalGas					
2	Customer Costs	$352.8	$347.5	98.5%	$5.3	1.5%
3	Distribution Costs	302.2	282.4	93.4%	19.8	6.6%
4	Transmission Costs	34.5	24.9	72.2%	9.6	27.8%
5	Total	$689.5	$654.8	95.0%	$34.7	5.0%
6	SDG&E					
7	Customer Costs	$50.8	$50.4	99.2%	$0.4	0.8%
8	Distribution Costs	45.9	44.3	96.5%	1.6	3.5%
9	Transmission Costs	10.7	9.6	90.2%	1.1	9.8%
10	Total	$107.3	$104.3	97.2%	$3.1	2.8%

The EPBR allocation factor for each customer class is calculated as the sum of the adopted unscaled marginal customer, distribution, and transmission costs allocated to each class, divided by the total unscaled marginal revenue of those classes that are allocated state mandated program costs. The costs of CARE, LIEE, EE, other gas PPP (BOE and RD&D) and SGIP, will be allocated to customer classes based on the EPBR allocation factor applicable to the non-exempt loads of each customer class. The gas PPP surcharge allocated to residential and commercial customers does not contain any averaging of costs.

Table 3-4 summarizes SoCalGas' present and proposed cost allocation to customer classes.

TABLE 3-4
SOUTHERN CALIFORNIA GAS COMPANY
SAN DIEGO GAS AND ELECTRIC COMPANY
ALLOCATION TO CUSTOMER CLASSES
($ MILLIONS)

Line		Present		Year 1		Year 2		Year 3	
No.	Class	Costs	%	Costs	%	Costs	%	Costs	%
1	SoCalGas								
2	Residential	$120.2	50.8%	$141.9	60.0%	$163.6	69.2%	$185.4	78.4%
3	Commercial	60.1	25.4%	52.6	22.2%	45.1	19.1%	37.5	15.9%
4	Industrial	44.9	19.0%	34.2	14.5%	23.5	9.9%	12.8	5.4%
5	Electric Generation & Wholesale	11.3	4.8%	7.8	3.3%	4.3	1.8%	0.8	0.3%
6	Total	$236.5	100%	$236.5	100%	$236.5	100%	$236.5	100%
7	SDG&E								
8	Residential	$17.0	57.1%	$19.6	66.0%	$22.2	74.9%	$24.9	83.8%
9	Commercial	9.7	32.7%	7.7	26.1%	5.8	19.4%	3.8	12.8%
10	Industrial	2.2	7.3%	1.7	5.8%	1.3	4.4%	0.9	2.9%
11	Electric Generation	0.8	2.9%	0.7	2.1%	0.4	1.3%	0.1	0.5%
12	Total	$29.7	100%	$29.7	100%	$29.7	100%	$29.7	100%

C. Rate Impact

The following table presents the core and noncore transportation rate impacts (including Gas PPP surcharges) for SDG&E and SoCalGas' gas customers of the Utilities' proposal.

TABLE 3-5
SOUTHERN CALIFORNIA GAS COMPANY
SAN DIEGO GAS AND ELECTRIC COMPANY
PRESENT AND PROPOSED CLASS AVERAGE RATES (INCLUDING PPS)
($/THERM)

Line No.		Present Rate	Year 1 Rate	Year 1 % Change	Year 2 Rate	Year 2 % Change	Year 3 Rate	Year 3 % Change
1	SoCalGas							
2	Core Residential	$1.058	$1.067	0.8%	$1.076	0.8%	$1.084	0.8%
3	Core Commercial	$0.900	$0.895	-0.6%	$0.889	-0.6%	$0.884	-0.6%
4	Noncore C&I	$0.089	$0.082	-7.9%	$0.075	-8.5%	$0.068	-9.3%
5	Noncore EG	$0.039	$0.039	-1.7%	$0.038	-1.7%	$0.037	-1.7%
7	SDG&E							
8	Core Residential	$1.141	$1.149	0.7%	$1.157	0.7%	$1.165	0.7%
9	Core Commercial	$0.876	$0.863	-1.4%	$0.850	-1.5%	$0.838	-1.5%
10	Noncore C&I	$0.171	$0.157	-7.8%	$0.144	-8.4%	$0.131	-9.2%
11	Noncore EG	$0.043	$0.042	-1.6%	$0.041	-1.6%	$0.040	-1.7%

Rates for Core customers includes storage and gas commodity costs. As shown on Table 3-5, Present rates are those filed in SoCalGas' Advice Letter 3695 and SDG&E's Advice Letter 1664-G, effective January 1, 2007. Proposed rates reflect the proposed changes in the allocation of CARE, other Public Purpose Program (PPP) and SGIP costs addressed in this application. To isolate the effects of the rate design proposals addressed in this application, the gas procurement rate effective in August 2007 ($5.60/Dth for SoCalGas and $5.15/Dth for SDG&E) was used for illustration and is assumed in both present and proposed core rates.

If the Utilities' proposal is adopted, the bill for an average residential customer in the first year will increase by 1 percent for SDG&E and SoCalGas customers, as shown in Table 3-6:

TABLE 3-6
SOUTHERN CALIFORNIA GAS COMPANY
SAN DIEGO GAS AND ELECTRIC COMPANY
MONTHLY BILL IMPACT

Line No.		Therm/ Month	Present Bill $/Month	Year 1 Bill $/Month	$ Change	% Change
1	SoCalGas	46	$48.57	$48.97	$0.40	1%
2	SDG&E	40	$45.37	$45.69	$0.32	1%

This concludes my prepared testimony.

PACIFIC GAS AND ELECTRIC COMPANY

CHAPTER 4

ALLOCATION PROPOSAL FOR STATE-MANDATED SOCIAL PROGRAMS

PACIFIC GAS AND ELECTRIC COMPANY
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ALLOCATION PROPOSAL FOR STATE-MANDATED SOCIAL PROGRAMS

A. Purpose

My testimony calculates the Equal Percentage of Base Revenue (EPBR) cost allocation factors, present and proposed cost allocation and rate impacts for the gas social program costs for Pacific Gas & Electric Company (PG&E).

B. Cost Allocation Proposal

The Utilities propose to change the cost allocation of social program costs that are currently allocated on an Equal Cents Per Therm (ECPT) or direct benefits basis to an EPBR basis. To minimize the impact on residential customers, the Utilities propose to phase-in the change in allocation over three years, effective each January 1.[1] This proposal changes the cost allocation of the forecast and balancing accounts of California Alternate Rates for Energy (CARE), Energy Efficiency (EE), Low Income Energy Efficiency (LIEE), Research, Development and Demonstration (RD&D), Board of Equalization (BOE) and Self Generation Incentive Program (SGIP). The costs of the California Solar Water Heating and Efficiency Act of 2007 (AB 1470) and proposed California Institute of Climate Solutions (CICS) will be included upon implementation of the approved programs. The 2007 gas Social Program costs and their current and proposed cost allocation methods are summarized in the following table.

---

[1] PG&E proposes to implement the 3-year phase-in of EPBR, annually in conjunction with its Annual Gas True-up (AGT) filing.

TABLE 4-1
PACIFIC GAS AND ELECTRIC COMPANY
2007 GAS SOCIAL PROGRAM COSTS AND
PRESENT AND PROPOSED COST ALLOCATION METHODS

Line No.	Gas Social Program Cost	2007 Cost ($ in Millions)	Present Cost Allocation Method	Proposed Cost Allocation Method
1	Energy Efficiency (Cost and Balancing Account)	$47.9	Direct Benefits	EPBR(c)
2	Low Income Energy Efficiency (Cost and Balancing Account)	26.3	Direct Benefits	EPBR
3	CARE (Cost and Balancing Account)	100.0(a)	ECPT(b)	EPBR
4	RD&D (Cost and Balancing Account)	8.6	ECPT	EPBR
5	Board of Equalization (BOE)	0.2	ECPT	EPBR
6	Self Generation Incentive Programs (SGIP)	5.8	ECPT	EPBR
7	Total	$188.8		

(a) Excludes $50.2 million credit in CARE balancing account.
(b) ECPT – Equal Cents Per Therm.
(c) EPBR – Equal Percent of Base Revenues.

EPBR is a cost allocation methodology that assigns costs to individual customer classes based on the same percentage of base transportation revenue allocated to each customer class. Base Revenue is defined as PG&E's basic gas service (all pipeline transportation and service connection to customer) including:

Base Revenue =	Customer Access Costs (Noncore Transmission Service Connections)
+	Distribution Costs (Including Core and Noncore Distribution Service Connections)
+	Local Transmission Costs
+	Backbone Transmission Costs

Base Revenue uses the currently adopted revenue requirement for each gas transportation service. Currently adopted gas revenues are found at PG&E's Preliminary Statement C.2, as follows:

TABLE 4-2
PACIFIC GAS AND ELECTRIC COMPANY
BASE REVENUE REQUIREMENT
(DOLLARS IN MILLIONS)

Line No.		Total	Core $	Core %	Noncore and Unbundled $	Noncore and Unbundled %
1	Distribution (Incl. Customer)	$1,047.4	$1,013.1	96.7%	$34.3	3.3%
2	Customer Access	5.2	–	0.0%	5.2	100.0%
3	Local Transmission	138.2	96.8	70.0%	41.4	30.0%
4	Backbone Transmission	248.7	77.5	31.1%	171.2	68.9%
5	Total	$1,439.5	$1,187.4	82.5%	$252.1	17.5%

The EPBR allocation factor for each customer class is calculated as the sum of the adopted distribution (including customer), customer access, local transmission and backbone transmission costs allocated to each class, divided by the system total base revenue. The costs of CARE, LIEE, EE, other gas Public Purpose Programs (PPP) (BOE and RD&D) and SGIP, will be allocated to customer classes based on the EPBR allocation factor applicable to the non-exempt loads of each customer class. Consistent with the other utilities, PG&E's gas PPP surcharge allocated to residential and small commercial customers does not contain any averaging of costs.

Table 4-3 summarizes PG&E's present and proposed cost allocation to customer classes.

TABLE 4-3
PACIFIC GAS AND ELECTRIC COMPANY
PRESENT AND PROPOSED STATE MANDATED SOCIAL PROGRAM COST ALLOCATION TO CUSTOMER CLASSES
(DOLLARS IN MILLIONS)

Line No.	Class	Present Costs	Present %	Year 1 Costs	Year 1 %	Year 2 Costs	Year 2 %	Year 3 Costs	Year 3 %
1	Residential	$101.8	53.9%	$110.8	58.7%	$119.9	63.5%	$129.0	68.3%
2	Commercial	38.1	20.2	39.3	20.8	40.4	21.4	41.6	22.1
3	Industrial	46.8	24.8	37.1	19.7	27.4	14.5	17.6	9.3
4	Electric Generation	2.1	1.1	1.6	0.8	1.1	0.6	0.5	0.3
5	Total	$188.8	100.0%	$188.8	100.0%	$188.8	100.0%	$188.8	100.0%

C. Rate Impact

The following table presents the bundled and transportation only rate impacts (including Gas PPP Surcharges (G-PPPS)) for PG&E's gas customers of the joint utilities proposal.

TABLE 4-4
PACIFIC GAS AND ELECTRIC COMPANY
PRESENT AND PROPOSED CLASS AVERAGE RATES (INCLUDING PPS)
($/THERM)

Line		Present	Year 1		Year 2		Year 3	
No.		Rate	Rate	% Change	Rate	% Change	Rate	% Change
1	Bundled Service							
2	Residential	$1.395	$1.400	0.4%	$1.405	0.4%	$1.410	0.4%
3	Small Commercial	1.271	1.274	0.2%	1.277	0.2%	1.280	0.2%
4	Large Commercial	1.023	1.011	-1.2%	0.999	-1.2%	0.987	-1.2%
5	Transportation Only							
6	Residential	0.488	0.493	1.0%	0.498	1.0%	0.503	1.0%
7	Small Commercial	0.373	0.376	0.8%	0.379	0.8%	0.382	0.8%
8	Large Commercial	0.160	0.147	-7.6%	0.135	-8.2%	0.123	-8.9%
9	Ind. – Distribution	0.145	0.141	-2.6%	0.137	-2.7%	0.133	-2.8%
10	Ind. – Transmission	0.059	0.052	-12.2%	0.045	-13.9%	0.038	-16.3%
11	Ind. – Backbone	0.041	0.034	-17.9%	0.026	-21.9%	0.019	-28.0%
12	EG – Transmission	0.024	0.024	-0.8%	0.024	-0.8%	0.024	-0.8%
13	EG – Backbone	0.011	0.011	-1.8%	0.011	-1.8%	0.010	-1.8%

PG&E's bundled core customers pay backbone transmission and storage costs in their procurement rates. Gas Energy Service Providers (gas ESP), noncore customers, and shippers delivering on and off-system pay for unbundled backbone transmission charges and optional storage services separately to PG&E. As shown on Table 4-4, present rates are those filed in Advice 2840-G and Advice 2645-G, effective July 1, 2007. Proposed rates reflect the proposed changes in the allocation of CARE, other PPP and SGIP costs addressed in this application. To isolate the effects of the rate proposals addressed in this application, an illustrative Weighted Average Cost of Gas (WACOG) of $7.616 per decatherm (Dth), is assumed in both present and proposed 2007 core bundled rates. Other procurement costs not addressed in this application are unchanged from those currently in effect.

If the utilities' proposal is adopted, the bill for an average residential customer using 45 therms will increase 0.4 percent or $0.23 per month from $62.77 to $63.00.

This concludes my prepared testimony.

SOUTHERN CALIFORNIA GAS COMPANY

SAN DIEGO GAS AND ELECTRIC COMPANY

PACIFIC GAS AND ELECTRIC COMPANY

APPENDIX A

STATEMENTS OF QUALIFICATIONS

PACIFIC GAS AND ELECTRIC COMPANY
STATEMENT OF QUALIFICATIONS OF RAYMOND E. BLATTER

Q 1 Please state your name and business address.

A 1 My name is Raymond E. Blatter, and my business address is Pacific Gas and Electric Company, 77 Beale Street, San Francisco, California.

Q 2 Briefly describe your responsibilities at Pacific Gas and Electric Company (PG&E or the Company).

A 2 I am currently a supervisor in the Rates Department.

Q 3 Please summarize your educational and professional background.

A 3 I received a Bachelor of Arts degree in Organizational Communication from Brigham Young University in 1976 and a Master of Arts degree in Regulatory Economics from Mew Mexico State University in 1993.

I began my career with PG&E in June 1980 as a residential conservation services auditor. In July 1982, I was promoted to division conservation supervisor. In December 1982, I began serving as a regional quality assurance analyst in Mission Trail Region. My responsibilities included development and implementation of quality control systems in division customer service offices and performance of quality assurance audits. From January 1986 until February 1988, I served as a regional budget analyst in Mission Trail Region. I was responsible for developing regional and division customer service budgets and monitoring budget compliance. I was hired as a gas rate analyst in February 1988. I was responsible for rate design, revenue estimation and rate policy development in a variety of areas. I was promoted to senior rate analyst in February 1995. My responsibilities included development of policy related to cast allocation and rate design in regulatory proceedings and preparation of testimony advocating PG&E policy proposals. I have been in my current position since November 1998.

I have served as a witness in several California Public Utilities Commission proceedings including PG&E's pipeline expansion certification, 1995 BCAP, Mather Field Utilities certification, 1995 Biennial Cost Allocation Proceeding (BCAP), monthly procurement pricing application, El Paso Rulemaking 02-060-41, Gas Public Purpose Program Surcharge

Rulemaking 02-10-001, 2004 BCAP and 2008 Gas Transmission and Storage Rate case.

Q 4 What is the purpose of your testimony?

A 4 I am co-sponsoring Chapter 1, State-Mandated Social Program Cost Allocation.

Q 5 Does this conclude your statement of qualifications?

A 5 Yes, it does.

PACIFIC GAS AND ELECTRIC COMPANY
STATEMENT OF QUALIFICATIONS OF SHAUN E. HALVERSON

Q 1 Please state your name and business address.

A 1 My name is Shaun E. Halverson, and my business address is Pacific Gas and Electric Company, 77 Beale Street, San Francisco, California.

Q 2 Briefly describe your responsibilities at Pacific Gas and Electric Company (PG&E or the Company).

A 2 As manager of gas rates, I am responsible for the development of revenue allocation and rate design policy for new and existing gas services and ongoing rate analysis in various regulatory and legislative proceedings.

Q 3 Please summarize your educational and professional background.

A 3 In 1983, I received a Bachelor of Arts degree in Business Economics and Accounting from the University of California, Santa Barbara. I am a certified public accountant in the state of California and a member of the American Institute of Certified Public Accountants and the California Society of Certified Public Accountants.

From 1983 to 1991, I practiced as a certified public accountant for two large public accounting firms and served as controller and chief financial officer for two real estate investment, development and property management companies.

In 1991, I began my employment with PG&E Gas Transmission Northwest serving in various capacities as a financial analyst, a rate and investment analyst, and the supervisor of rates and regulatory research. In 1996, I began employment with PG&E in the gas rates department. In 1999, I began serving in my current position. I have previously testified before the California Public Utilities Commission in various regulatory proceedings.

Q 4 What is the purpose of your testimony?

A 4 I am sponsoring Chapter 4, PG&E’s Allocation Proposal for State-Mandated Social Programs, and PG&E’s portion of Table 2-2 of Chapter 2.

Q 5 Does this conclude your statement of qualifications?

A 5 Yes, it does.

PACIFIC GAS AND ELECTRIC COMPANY
STATEMENT OF QUALIFICATIONS OF RONALD R. HELGENS

Q 1 Please state your name and business address.

A 1 My name is Ronald R. Helgens, and my business address is Pacific Gas and Electric Company, 77 Beale Street, San Francisco, California.

Q 2 Briefly describe your responsibilities at Pacific Gas and Electric Company (PG&E or the Company).

A 2 I am a principal analyst in the cost of service group within the gas rates section of the Rates and Tariffs Department with responsibility for recommending costing policies in PG&E's gas and electric areas.

Q 3 Please summarize your educational and professional background.

A 3 I received a Bachelor of Business Administration degree, Master of Arts degree, and a Ph.D. degree in Economics, with an emphasis in Mathematical Economics and Econometrics from the University of Iowa. During this time I taught courses in economics at the University of Iowa.

From 1976 to 1983, I was Assistant Professor of Economics and Business at Lake Forest College, Lake Forest, Illinois. I presented research papers before international forums and published various topics of economic research.

Since 1985, I have been a part-time professor of economics and business at Golden Gate University, where I have taught graduate and undergraduate courses in economics and business and have published journal articles in the field of energy.

I joined PG&E in 1983 as an energy economist in the Economics and Statistics Department. Since then I have held positions of increasing responsibility. In 2003, I was named to my current position.

I have previously testified before the California Public Utilities Commission and the California Energy Commission.

Q 4 What is the purpose of your testimony?

A 4 I am sponsoring Chapter 2, Tax Incidence as a Basis for a Reasonable Allocation (with the exception of Table 2-2).

Q 5 Does this conclude your statement of qualifications?

A 5 Yes, it does.

SOUTHERN CALIFORNIA GAS COMPANY
STATEMENT OF QUALIFICATIONS OF GARY G. LENART

Q 1 Please state your name and business address.

A 1 My name is Gary G. Lenart. My business address is 555 West Fifth Street, Los Angeles, California. I am employed by the Southern California Gas Company (SoCalGas) as a Principle Regulatory Economic Advisor in the Regulatory Affairs Department for SoCalGas and San Diego Gas and Electric Company (SDG&E).

Q 2 Briefly describe your responsibilities at Southern California Gas Company.

A 2 I am a Principle Regulatory Economic Advisor in the Regulatory Affairs Department for both SoCalGas and SDG&E. In this position, I am responsible for preparing cost allocation and rate design for both utilities.

Q 3 Please summarize your educational and professional background.

A 3 I hold a Bachelor of Science degree in Business Finance and Computer Science from Bradley University in Peoria, Illinois, and a Master of Business Administration degree from California State University at Northridge, California. I have been employed by SoCalGas since 1988, and have held positions of increasing responsibilities in the Accounting, Strategic Planning, New Product Development, Customer Service and Information, and Regulatory Affairs departments. I have been in my current position as Principle Regulatory Economic Advisor since April 1, 2006. In my current position, I am responsible for cost allocation and rate design for both utilities.

I have previously testified before the California Public Utilities Commission.

Q 4 What is the purpose of your testimony?

A 4 I am sponsoring Chapter 3, SoCalGas and SDG&E's Allocation Proposal for State-Mandated Social Programs, and SoCalGas' and SDG&E's portion of Table 2-2 of Chapter 2.

Q 5 Does this conclude your statement of qualifications?

A 5 Yes, it does.

SOUTHERN CALIFORNIA GAS COMPANY
STATEMENT OF QUALIFICATIONS OF GILLIAN A. WRIGHT

Q 1 Please state your name and business address.

A 1 My name is Gillian A. Wright. I am employed by Southern California Gas Company (SoCalGas) as the Director of Commercial and Industrial Services-North. My business address is 555 West Fifth Street, Los Angeles, California.

Q 2 Briefly describe your responsibilities at Southern California Gas Company.

A 2 My responsibilities are to manage business planning, regulatory, customer satisfaction, communication and administration of the energy efficiency and load management programs for the medium and large commercial and industrial market segment.

Q 3 Please summarize your educational and professional background.

A 3 I received a Master of Public Policy degree from the John F. Kennedy School of Government at Harvard University in 1998, and a Bachelor of Arts degree in Economics from Reed College in 1992. From 1992-1999, I held positions of increasing responsibility as a consultant on energy industry economics, with Battelle Pacific Northwest National Laboratory in Portland, Oregon, from 1992-1993; Charles River Associates, Inc., in Boston, Massachusetts, from 1993-1996; and Pacific Economics Group in Pasadena, California, from 1998-1999. I joined Sempra Energy in 1999 as a Regulatory Policy and Analysis Analyst. I held positions of increasing responsibility in the Regulatory Affairs Department until I assumed my current position in December 2007.

I have previously testified before the California Public Utilities Commission.

Q 4 What is the purpose of your testimony?

A 4 I am co-sponsoring Chapter 1, State-Mandated Social Program Cost Allocation.

Q 5 Does this conclude your statement of qualifications?

A 5 Yes, it does.