

Application No: A.11-11-002
Exhibit No.: _____
Witness: Jeffrey Horn

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In the Matter of the Application of San Diego Gas &)
Electric Company (U 902 G) and Southern California)
Gas Company (U 904 G) for Authority to Revise)
Their Rates Effective January 1, 2013, in Their)
Triennial Cost Allocation Proceeding.)
_____)

A.11-11-002
(Filed November 1, 2011)

REBUTTAL TESTIMONY OF
JEFFREY HORN
SAN DIEGO GAS & ELECTRIC COMPANY
AND
SOUTHERN CALIFORNIA GAS COMPANY

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

December 14, 2012

1 **REBUTTAL TESTIMONY OF**
2 **JEFFREY HORN**

3 **I. INTRODUCTION**

4 My name is Jeffrey Horn. My business address is 555 West 5th Street, Los Angeles, CA
5 90013-1011.

6 I am employed as the Energy Markets Manager in the Energy Markets & Capacity
7 Products Department for SoCalGas. I received a Bachelor of Science degree in Chemical
8 Engineering from the University of California at Davis in 1980 and a Masters of Business
9 Administration from the University of California at Los Angeles in 1991. I have been employed
10 by SoCalGas since 1986 in various positions of increasing responsibility. One of my current
11 responsibilities is to develop gas transportation service offerings for our largest noncore
12 customers.

13 I have previously testified before the Commission.

14 **II. PURPOSE**

15 The purpose of this rebuttal testimony is to respond to and rebut from a policy
16 perspective the testimony of Southern California Generation Coalition (SCGC) regarding their
17 proposed revision to the TLS rate.

18 **III. SCGC'S PROPOSED CHANGES TO THE TLS RATE ARE UNWARRANTED,**
19 **AND REDUCE THE TARIFFS' EFFECTIVENESS IN CLOSING THE**
20 **REGULATORY GAP**

21 In its testimony SCGC proposes two changes to the TLS rate. First, SCGC proposes to
22 raise the Reservation Service (RS) capacity rate by reducing the pipeline capacity used in its
23 calculation.¹ Second, SCGC proposes that the Volumetric Transportation Charges for Non-
24 Bypass Customers (NV) rate be equal to the Class-Average Volumetric (CA) rate instead of 120

¹ The Prepared Rebuttal Testimony of Mr. Bonnett addresses the rate design aspects of the RS rate option.

1 percent of the CA rate as currently designed. The Commission should reject these proposals,
2 because they make unwarranted changes to a successful rate design that meets the Commission's
3 goals for the tariff, and because they are based on an incorrect representation of important GT-
4 TLS tariff rate options and conditions.

5 **A. SCGC's proposal to increase the RS reservation rate relies on an incorrect**
6 **representation of GT-TLS rate options and conditions.**

7 The GT-TLS tariff satisfies a Commission order in Decision (D.) 06-12-031 to close or
8 narrow the regulatory gap between the utility's traditional class-average, all-volumetric rate
9 design and interstate pipelines' straight-fixed-variable (SFV) rate design. This regulatory gap
10 created an incentive for customers to baseload on an interstate pipeline and to retain peaks on the
11 utility, even if the utility's charges would, absent the rate design, be competitive for the entire
12 load. Customers who have higher load factors² and are confident they will maintain their gas
13 demand over several years are typical candidates for making long-term financial commitments to
14 interstate pipeline service with its SFV rate design.

15 Under GT-TLS, customers may take either the RS rate option, which addresses the
16 regulatory gap, or the traditional utility all-volumetric, pay-as-you-go CA rate option. With
17 either option, the customer enjoys the same level of firm noncore transportation service based on
18 the customer's historic peak usage.³ However, each option requires its own unique commitment
19 from the customer.

20 Contrary to SCGC's statements, the RS option is not full requirements.⁴ The RS option
21 does not require a commitment to utility service and foregoing the use of alternative fuels or

² Load factor is equal to the customers' average daily load divided by its peak daily load.

³ Exceptions are made for customers located in Potentially Capacity Constrained Areas and for Bypass customers (See SoCalGas Tariff Rule 1 and GT-TLS Special Condition 5).

⁴ Full requirements customers choose to have all of their fossil fuel requirements satisfied by natural gas and, with some exceptions, are prohibited from using alternate fuels or bypass pipelines. See SoCalGas Tariff Rule 1, Definitions, "Full Requirements Service".

1 bypass. Instead, the RS customer makes a 3-year financial commitment to the utility by electing
2 a daily reservation quantity. Regardless of actual usage, the customer is charged the RS
3 reservation rate for the elected daily reservation quantity. As SCGC asserts, correctly, an RS
4 customer may realize an average transportation rate lower than CA. However, SCGC is silent on
5 the fact that, in exchange, the RS customer takes on the risk of paying higher than the CA rate if
6 its usage varies significantly from that used to choose its daily reservation quantity. The RS
7 option allows the customer to assume a certain amount of risk for a chance of reward, mimicking
8 the risk / reward profile inherent in interstate pipeline SFV rate design. This assumption of risk
9 with the chance of reward is what narrows the regulatory gap between the utility and pipelines.

10 **B. The NV rate is important to close the regulatory gap, and should remain**
11 **unchanged.**

12 SCGC proposes that the NV rate be lowered to match the CA rate instead of the current
13 level of 120 percent of the CA rate. SCGC argues “[s]etting the NV rate equal to the CA rate
14 instead of 120 percent of the CA rate would make the RS option more appealing.”⁵ Additionally,
15 SCGC states that SoCalGas’ and SDG&E’s NV rate is inappropriate since SoCalGas and
16 SDG&E do not bear the risk of failing to collect their revenue requirement due to the protection
17 afforded by the Core Fixed Cost Account (CFCA) and Noncore Fixed Cost Account (NFCA).⁶

18 SoCalGas and SDG&E believe that reducing the NV rate to be equivalent with the CA
19 rate destroys the risk / reward tradeoff that is the essence of the TLS rate design. It would reduce
20 TLS’ effectiveness in closing the regulatory gap and will lead to free ridership on the RS rate.
21 The higher NV rate is critical to ensure that the RS rate appeals primarily to customers who are
22 more likely to consider interstate pipeline service.

⁵ Prepared Direct Testimony of SCGC at 17.

⁶ Prepared Direct Testimony of SCGC at 17.

1 SCGC omits that in contrast to the RS rate option, which provides firm service up to the
2 customer's historic peak regardless of the customer's daily reservation quantity, an interstate
3 pipeline's fixed reservation charge secures a quantity of firm capacity. On an interstate pipeline,
4 gas used above the customer's reserved capacity is considered non-firm or interruptible. The
5 customer must carefully consider its capacity reservation to balance the trade-off between
6 average transportation cost and service reliability. For example, a reservation equal to peak
7 usage yields a higher average transportation cost. Alternatively, a reservation equal to average
8 usage may yield a lower transportation cost, but may leave the customer exposed to service
9 interruptions when gas demand is above average usage.

10 Because the daily reservation quantity of RS is decoupled from firm service, there is no
11 tradeoff between service reliability and reservation quantity. Instead, the RS option has the
12 higher NV rate, which provides an economic trade-off for the customer to consider when
13 selecting a daily reservation quantity. The higher NV rate acts as a proxy for reduced reliability
14 associated with interruptible service on an interstate pipeline for gas demand above the
15 reservation level. It is essential for the NV rate to be above the CA rate to maintain the risk /
16 reward profile of the RS option. The RS rate is intended to appeal to customers whose large
17 loads, high load factors and long term planning horizons make their long-term financial
18 commitment to interstate service viable. If the NV rate were lowered to the CA rate, then a TLS
19 customer with even a minimal baseload would have an incentive to take RS service. A minimal
20 daily reservation quantity would virtually guarantee such a customer an average rate less than the
21 CA rate, even though that customer would be an unlikely candidate for interstate service. If the
22 NV rate were equal to the CA rate, it would lead to a free ridership on RS. The current NV rate,

1 at 120% of the CA rate, is needed to more appropriately provide the price signals needed to close
2 the regulatory gap for customers that could otherwise consider interstate pipeline service.

3 The current RS plus NV rate design and cost differential is essential for the TLS service
4 to fulfill its purpose of closing or narrowing the regulatory gap between the utility and interstate
5 pipeline service. It cannot and should not be compared to other rates or rate designs that are not
6 designed for that purpose, as SCGC attempts to do by its reference to the Backbone
7 Transportation Service (BTS). It also does not make sense for SoCalGas to reduce the NV rate
8 and thereby increase the possibility that the rate will produce revenue under-collections merely
9 because the transportation revenue requirement is balanced, as SCGC proposes. The primary
10 consideration in any rate design discussion should be whether the design satisfies its intended
11 purpose as ordered by the Commission.

12 The SoCalGas and SDG&E NV rate was established in the 2009 BCAP,⁷ and continues
13 to provide accurate price signals to its TLS customers. The NV rate was unchallenged in the
14 2009 BCAP and goes hand-in-hand with the RS rate in providing appropriate price signals.
15 SCGC has provided no justification beyond their statement that the change would make the rate
16 “more appealing”⁸ and their proposal works against the intent of TLS to close or narrow the
17 regulatory gap. For the reasons stated above, the Commission should reject SCGC’s proposal.

18 This concludes my prepared rebuttal testimony.

⁷ See D.09-11-006.

⁸ Prepared Direct Testimony of SCGC at 17.