

**SOUTHERN CALIFORNIA GAS COMPANY
REQUESTING REAUTHORIZATION OF THE
CUSTOMER INCENTIVE PROGRAM**

(A.16-12-010)

(DATA REQUEST ORA-03)

**Date Requested: August 4, 2017
Date Responded: August 18, 2017**

Subject: SoCalGas Application (A.)16-12-010 Chapter 2 Supporting Testimony

QUESTION 1:

Under the heading “Customer Eligibility Components” in the above subject, SoCalGas states its proposed criteria starting at page 2, line 9 and continuing through the next page: “3) The technology must either (a) be more energy efficient than what the customer would have otherwise installed or (b) reduce greenhouse gas emissions and/or criteria air pollutants. A customer can meet the preceding criterion through one of four ways;

- i. The technology must achieve GHG emissions or criteria air pollutant reductions;
- ii. Onsite generation or Combined Heat and Power (CHP) (footnote omitted) system must meet the Federal Energy Regulatory Commission (FERC) efficiency standards;(footnote omitted)
- iii. Technology must qualify for a Leadership in Energy and Environmental Design (LEED) point; (footnote omitted) or,
- iv. Technology must be at least 10% more efficient than the lower cost alternative.”

Based on the above statements, please respond to the following:

(a) Would it be accurate to say that energy efficiency is not a requirement under the proposed criteria given that the technology must **either be** (a) or (b) as described above? Please respond with a yes or no and explain your answer.

(b) Assume a hypothetical where a prospective new customer indicates its desire to avail of the proposed CIP and demonstrates this through the purchase order of natural gas-using equipment to replace its diesel-using equipment. The prospective new customer is also able to demonstrate that the proposed CIP was a material factor through an affidavit and payback analysis, and is willing to commit to a utilization level with SoCalGas. Assuming the prospective new customer’s technology meets the program criterion, would it be accurate to say that the prospective new customer would be eligible under the proposed CIP, part (b) as stated starting on page 2, line 9? Please respond with a yes or no and explain your answer.

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(c) Continuing the hypothetical in question (b), given the new natural gas load because of the switch from diesel to natural gas fuel usage of the prospective new customer's equipment, would it be accurate to say that the prospective new customer in this case who avails of the proposed CIP would increase the volume of natural gas usage for SoCalGas?

Please respond with a yes or no and explain your answer.

(d) Consider a hypothetical regarding question (a) as stated starting on page 2, line 9. If a technology is more energy efficient than what the customer would have otherwise installed, are there instances in which a customer who available of the proposed CIP under this criterion would increase the volume of natural gas usage for SoCalGas? Please respond with a yes or no and explain your answer.

RESPONSE 1:

- A. No. Energy efficiency is required for three of the four criteria. However, it is possible that energy efficiency may not be realized as part of the criterion "The technology must achieve GHG emissions or criteria air pollutant reduction."
- B. SoCalGas objects to this question on the grounds that it is an incomplete hypothetical and is therefore vague and ambiguous. Notwithstanding its objection, SoCalGas responds as follows: No. The customer may qualify under part (a) or part (b).
- C. SoCalGas objects to this question on the grounds that it is an incomplete hypothetical and is therefore vague and ambiguous. Notwithstanding its objection, SoCalGas responds as follows: Yes, given that all other things remain unchanged, the prospective new customer in this case would increase the volume of their natural gas usage because the customer did not previously use natural gas. However, participating in CIP will result in less gas load increase. Without CIP, the customer would likely purchase less efficient technology which would result in an even larger increase in their natural gas consumption.
- D. Yes. A customer may expand their facility to grow their business, resulting in increasing their volume of natural gas usage from the purchase of additional, new, equipment.

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However, participating in CIP will result in less gas load increase. Without CIP, the customer would likely purchase less efficient technology which would result in an even larger increase in their natural gas consumption.

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QUESTION 2:

On page 5 of the above subject, SoCalGas states starting at line 4:

“Once the customer meets the eligibility requirements, specified in Section II.A., above, SoCalGas proposes to offer two incentive options, either: (1) a One-Time Payment Incentive; or (2) a rate discount applied through the term of the contract (“Rate Discount”). Eligible customers will have the two options available to them. In addition, SoCalGas proposes a RNG adder on top of the two incentive options. Proposed incentives would be funded by SoCalGas’ shareholders and recovered over the course of the contract term. These incentives and the contract’s terms are discussed in greater detail below. The maximum One-Time Payment Incentive or Rate Discount will be determined by:

- Establishing the customer’s baseline load by calculating the customer’s average consumption for the previous 24 months;
- Estimating the net incremental load (above the baseline load) given the customer’s usage history and planned future activities and needs;
- Determining the incremental revenue based on the net incremental load; and,
- Calculating the maximum incentive/discount based on the amount of incremental revenue.”

Based on the above statements, please respond to the following:

(a) Continuing the hypothetical in Question 1 item (b) above, given that the prospective new customer has a new natural gas load, would it be accurate to say that the entire new natural gas load would qualify for the proposed CIP incentive discount? Please respond with a yes or no and explain your answer.

(b) Please explain how the baseline load of a prospective new customer who meets the eligibility requirements will be established if the customer has no record of natural gas consumption for the previous 24 months.

(c) Please explain how the net incremental load (above the baseline load) of a prospective new customer who meets the eligibility requirements will be established if the customer has no record of natural gas consumption for the previous 24 months.

(d) Please explain how the incremental revenue based on the net incremental load of a prospective new customer who meets the eligibility requirements will be established if the customer has no record of natural gas consumption for the previous 24 months but has “planned future activities and needs.”

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- (e) Please explain how the maximum incentive/discount based on the amount of the incremental revenue of a prospective new customer who meets the eligibility requirements will be established if the customer has no record of natural gas consumption for the previous 24 months.
- (f) Please explain how the RNG adder, which is on top of the two incentive options, will be determined for a prospective new customer who meets the eligibility requirements if the customer has no record of natural gas consumption for the previous 24 months.
- (g) Please state whether the current Core Pricing Flexibility Program and the Noncore Competitive Load Growth Opportunities Program are 100% funded by shareholders. If not, please explain.
- (h) Please explain whether the proposed incentives to be funded by shareholders are being proposed as an authorized Shareholder-funded CIP budget amount for specific program years. Please respond with a yes or no and explain your answer.

RESPONSE 2:

- A. SoCalGas objects to this question on the grounds that it is an incomplete hypothetical and is therefore vague and ambiguous. Notwithstanding its objection, SoCalGas responds as follows: If a prospective new customer has no record of gas consumption for the previous 24 months, then the customer has a baseload of zero. The expected incremental load will be established based on the expected gas consumption of the new CIP eligible technology, which is calculated using the expected hours, load factor and natural gas input rating of the new technology.
- B. If there is no record of natural gas usage in the previous 24 months, then the customer would be treated as a new customer and their baseload would be zero.
- C. Please see the response to Question 2.A, above.
- D. The incremental revenue, for customers with no record of natural gas consumption for the previous 24 months, will be determined by multiplying the incremental load by the current transportation rate.

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- E. The maximum incentive would be determined using the revenue that was calculated based on the method described in the response to this question subpart (d) above. The maximum incentive would not exceed the revenue calculated in subpart (d).
- F. If the customer has no baseload, then the RNG adder, will be an additional 5% discount on the new load that is RNG. Please see the response to Question 6 below for further information regarding the mechanics.
- G. Whether incentives are provided to a customer through an upfront cash outlay or in a future period through a discount on the otherwise current, authorized transportation tariff rate, these incentives result in a cost that is allocated 100% to shareholders as it effectively reduces the revenues associated with the incremental load that are allocated to shareholders under the Noncore Competitive Load Growth Opportunities Program and Core Pricing Flexibility Program.
- H. No. As it is shareholder funded, the budget is determined by SoCalGas and determined as needed based on anticipated participation levels from year to year.

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QUESTION 3:

In Response to ORA-01 Question 5, SoCalGas cites reference to Chapter 2 Section II and states that “the proposed CIP conclusively establishes that energy efficiency or emissions reduction are two mandatory criteria for qualification.”

a. Please provide the specific Section II language from the Chapter 2 reference which “conclusively establishes that energy efficiency” is a mandatory criteria for qualification in the proposed CIP.

b. Please provide any language in SoCalGas’ application and testimony which SoCalGas asserts “conclusively establishes that energy efficiency” is a mandatory criteria for qualification in the proposed CIP. Please include references to the document and page number. If there are no such references, please say so.

RESPONSE 3:

A. SoCalGas clarifies that energy efficiency is not a mandatory requirement in the proposed CIP. Energy efficiency is required for three of the four criteria. However, it is possible that energy efficiency may not be realized as part of one of the four criteria: “The technology must achieve GHG emissions or criteria air pollutant reduction.” SoCalGas will amend its response to ORA-1, Question 5 to reflect this clarification.

B. Please see the response to Question 3.A, above.

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QUESTION 4:

In Example 1 of Attachment 1 in the above subject, SoCalGas provides an example of the revenue split between shareholders and ratepayers. In Example 1, SoCalGas assumes a 20-year useful life of the technology and shareholders earn 100% revenue for first 59 months. Ratepayers earn 100% revenue for remaining 15 years.

- (a) In Example 1, would it be accurate to say shareholders earn 100% revenue for the first 60 months? Please respond with a yes or no and explain your answer.
- (b) In Example 1, if the technology has a ten-year useful life, then please explain the shareholder and ratepayers split.
- (c) In Example 1, if the technology has a twenty-five year useful life, then please explain the shareholder and ratepayers split.
- (d) Please explain how SoCalGas would set the useful life of the technology under the proposed CIP.
- (e) Please state the percentage of instances that SoCalGas has seen past technologies in these programs having a useful life of 60 months or less.

RESPONSE 4:

- A. No. For the duration of the contract, shareholders earn 100% of the transportation revenues only. Other charges such as the Public Purpose Program (PPP) surcharge, taxes, and commodity still flow to their respective accounts. 59 months represents the maximum length of the contract, but the actual contract term can vary. Please see the response to Question 5(b).
- B. For the duration of the contract, shareholders earn 100% of the transportation revenues. Once the contract term is up, then 100% of the revenues flow to ratepayers. Actual contract terms may vary. Assuming a contract length of 59 months, the shareholder / ratepayer split would be roughly 49% / 51% for the ten-year useful life of the equipment.”
- C. For the duration of the contract, shareholders earn 100% of the transportation revenues. Once the contract term is up, then 100% of the revenues flow to ratepayers. “Actual contract terms may vary. Assuming a contract length of 59 months, the shareholder /

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ratepayer split would be roughly 20% / 80% for the twenty-five year useful life of the equipment.”

- D. SoCalGas does not set a useful life for technology in the program. Rather, the useful life was used as an example of how ratepayers will benefit from the program for the lifetime of the technology. Ratepayers may even continue to benefit beyond the lifetime of the equipment, as the technology may endure past its expected life or be refurbished/replaced to extend its useful life and continue providing benefits for the ratepayers.
- E. SoCalGas is not aware of any instances where past technologies in the Core Pricing Flexibility Program or the Noncore Competitive Load Growth Opportunities Program had a useful life of 60 months or less.

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QUESTION 5:

In Example 2 of Attachment 1 in the above subject, SoCalGas provides an example of one-time payment incentive and rate discount incentive calculation. Example 2 is reproduced below. Please respond to the questions which follow. Customer is considering purchasing a new technology. The customer is considering two basic options; an energy efficient but more expensive version versus a standard less expensive version. The energy efficient (EE) version costs an additional \$4,000 and the savings would put the payback at 4 years, which is outside of the customer's acceptable period.

Gas Transmission costs = \$0.10/therm

Public Purpose Program (PPP) surcharge costs = \$0.01/therm

New Load Standard Version = 5000 therms

New Load EE Version = 4000 therms

SoCalGas calculates with the new EE load, they will make \$400 annually and assumes a contract length of 59 months.

One-Time Payment Incentive

SoCalGas offers an upfront incentive of \$1000, which would reduce the payback period to an acceptable level according to the customer. The Minimum Annual

Quantity (MAQ) for the customer would be determined by the following:

Prorated Incentive + rate of return (8%) + expected PPP surcharge =

$\$200 + \$80 + \$40 = \320

Yearly MAQ = $\$320 / \0.10 per therm = 3,200 therms

Rate Discount Incentive

SoCalGas could also offer a rate discount if the customer prefers operational savings compared to capital cost reductions.

Discounted Gas savings = \$0.03/therm (50% discount)

New Load EE Version = 4000 therms

Yearly savings = \$200

Under a rate discount, the MAQ is smaller because it only accounts for the PPP surcharge.

Incentive + Rate of Return + PPP surcharge = $\$0 + \$0 + \$200 = \200

Prorated (over 5 years) = \$40

MAQ = $\$40 / \0.05 per therm = 800 therms

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(a) Would it be accurate to say that in Example 2, SoCalGas calculates it will make \$400 annually, which is derived by multiplying the New Load EE Version of 4000 therms x \$0.10/therm gas transmission costs. Please respond with a yes or no and explain your answer.

(b) In Example 2, would be it accurate to say that New Load EE Version of 4000 therms is the estimated net incremental load (above the baseline load) per year given the customer's usage history and planned future activities and needs? Please respond with a yes or no and explain your answer.

(c) Given that Example 2, "assumes a contract length of 59 months," please explain how SoCalGas would determine the contract length for any given proposed CIP project.

(d) In Example 2, "SoCalGas offers an upfront incentive of \$1000, which would reduce the payback period to an acceptable level according to the customer." Please explain how SoCalGas arrived at the upfront incentive in the amount of \$1000 given the assumptions stated in Example 2.

(e) In Example 2, SoCalGas calculated a yearly MAQ for the customer with the formula below. Please define the terms used for the calculation of the yearly MAQ, including "Prorated Incentive" and the "rate of return." Please explain how SoCalGas arrived at the amount of the prorated incentive given the assumptions stated in Example 2.
Prorated Incentive + rate of return (8%) + expected PPP surcharge = \$200 + \$80 + \$40 = \$320
Yearly MAQ = \$320 / \$0.10 per therm = 3,200 therms

(f) In Example 2, SoCalGas offers discounted gas savings of 50%. Please explain whether the proposed CIP is expected to offer a 50% discount on the full SoCalGas gas transportation rate. If not, please explain how the discount rate is established under the proposed CIP and whether this discount rate will apply on the full SoCalGas gas transportation rate.

(g) In Example 2, SoCalGas calculated Yearly savings of \$200. Please provide the definition of yearly savings, including clarifying whether the yearly savings is defined as the expected customer annual savings from availing of the proposed CIP or whether this is yearly energy efficiency savings from SoCalGas' point of view or something else. Please explain how SoCalGas calculates the amount of yearly savings under the proposed CIP and arrived at the amount of \$200.

(h) In Example 2, under the rate discount, SoCalGas states that the yearly MAQ is smaller.

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The yearly MAQ under the rate discount is 800 therms compared to the yearly MAQ under the One-time Payment Incentive of 3,200 therms. Please explain the reasons for the difference in the yearly MAQ between the two options.

(i) In Example 2, if an RNG adder is availed of, would it trigger the calculation of a different MAQ? Please respond with a yes or no and explain your answer. If it does trigger a different MAQ, please provide the calculation of that new MAQ and the resulting MAQ.

RESPONSE 5:

- A. Yes. SoCalGas would expect to receive \$400 annually in revenue for the duration of the contract.
- B. Yes.
- C. SoCalGas proposes a maximum term of 59 months. However, it will be up to the customer and SoCalGas to negotiate on the actual length of the contract, up to 59 months, as there may be some customers who desire a shorter-term contract.
- D. The incentive would be less than the total amount of revenue the project would produce. In an actual project, the incentive amount would be negotiated between SoCalGas and the customer to find an amount which would move the project forward. In this example, the energy efficient version has a 4-year payback and costs \$4,000 extra, meaning the savings would be \$1,000 per year. Providing a \$1,000 incentive would reduce the extra cost to \$3,000 and lower the payback to 3 years, making it acceptable to the customer.
- E. As the incentive is \$1,000 and the contract is for roughly 5 years, the prorated incentive amount is equal to $\$1,000 / 5 = \200 . Prorated is the incentive spread out over the years of the contract. It is calculated by taking the incentive and dividing it by the years of the contract. Rate of Return is SoCalGas' authorized Rate of Return.
- F. The CIP is expected to offer discounts to customers on the full transportation rate. The rate can vary and would depend on what the customer would need in order to make the project feasible.
- G. In the example, the \$200 savings represents the 50% rate reduction applied to 4,000 therms of expected load from the new equipment. However, the total savings from the customer point of view, is likely more than that, those savings could also include energy

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savings from higher efficiency, production savings or other things that a customer takes into account for their payback period.¹

- H. The MAQ for the one-time incentive covers the incentive plus the PPPS revenue. Under the rate discount, only the PPPS revenue is covered by the MAQ, leading to a smaller MAQ.
- I. No, if the RNG adder is triggered the MAQ does not change.

¹ In Example 2 of the Prepared Direct Testimony of Tuan Nguyen (and as referenced by ORA in ORA-03, Question 5) it states that the discounted gas savings is \$0.03/therm. However, this is a typographical error as it should have stated \$0.05/therm and will be corrected in the Prepared Direct Testimony of Tuan Nguyen on the stand.

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QUESTION 6:

In Example 3 of Attachment 1 in the above subject, SoCalGas provides an example for the RNG Adder. Example 3 is reproduced below. Please respond to the questions which follow.

As in Example 2, the customer expects to use 4,000 therms with a new EE technology and has an MAQ of 3,200 therms. If the customer uses 4,000 therms, the customer exceeds its MAQ and is eligible for the RNG Adder incentive.

If customer purchases 100% biogas, then the adder is calculated as follows:

RNG Adder = (4,000 x 100%) x \$0.10 x 5% = \$20

If the customer purchases 50% biogas, then the adder is calculated as follows:

RNG Adder = (4,000 x 50%) x \$0.10 x 5% = \$10

(a) In Example 3, assume the customer expects to use 4,000 therms with a new EE technology and has an MAQ of 800 therms (i.e., under the rate discount). If the customer uses 4,000 therms, then the customer exceeds its MAQ of 800 therms. Would it be accurate to say that the customer will be eligible for the RNG Adder incentive in this case? Please respond with a yes or no and explain your answer. In addition, if the customer is eligible for the RNG Adder, then explain how the adder is calculated in this case if the customer purchases 100% biogas and 50% biogas.

(b) In Example 3, assume the customer expects to use 4,000 therms with a new EE technology and has an MAQ of 3,200 therms (i.e., under the one-time payment incentive). If the customer instead uses 3,500 therms, then the customer also exceeds its MAQ of 3,200 therms. Would it be accurate to say that the customer will be eligible for the RNG Adder incentive? Please respond with a yes or no and explain your answer. In addition, if the customer is eligible for the RNG Adder, then explain how the adder is calculated in this case if the customer purchases 100% biogas and 50% biogas.

RESPONSE 6:

A. Yes, the customer would be eligible for the RNG adder. If 100% of the natural gas that is purchased is RNG, then 100% of their load is eligible for the RNG adder. If only 50% of their natural gas is RNG, then only 50% of their load is eligible for the RNG adder. The

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adder will be calculated by taking an additional 5% discount off the current transportation rate, which will be multiplied by the amount of RNG that was used by the customer.

B. Please see the response to Question 6.A, above.

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QUESTION 7:

In Example 4 of Attachment 1 in the above subject, SoCalGas provides an example for the PPP Surcharge. Example 4 is reproduced below. Please respond to the questions which follow. As in the examples above, the customer expects to use 4,000 therms with a new EE technology. SoCalGas shareholders will guarantee that the ratepayers receive the PPP surcharge expected with the new load.

New Load = 4,000 therms
PPP surcharge cost = \$0.01/therm
PPP surcharge Revenue = \$40

If the customer uses less than the expected amount, SoCalGas shareholders will fund the difference

Expected Load = 4,000 therms
Actual Load = 3,950 therms
Difference = 50 therms
Shareholders owe $50 \times \$0.01 = \5 to the PPP surcharge

(a) Please explain whether the statement “SoCalGas shareholders will guarantee that the ratepayers receive the PPP surcharge expected with the new load” means that the proposed CIP shareholder-funded amount that may be authorized in this proceeding (if the Commission grants the reauthorization), is also expected to provide the amounts necessary to cover the PPP surcharge expected with the new load or any shortfalls, in addition to the proposed CIP incentive payments. Please respond with a yes or no and explain your answer.

(b) Please explain how the Commission will keep track of all the amounts owed by the shareholders to the PPP Surcharge from the proposed CIP.

RESPONSE 7:

- A. Yes. CIP shareholders will contribute to the PPP account any shortfalls that result from the expected additional PPP revenue. SoCalGas will compare the actual and expected incremental load and credit the PPP balancing account with any shortfall of incremental load occurs.

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- B. SoCalGas tracks usage currently for the Core Pricing Flexibility and Noncore Competitive Load Growth Opportunities Programs and will continue to this practice under the proposed CIP for purposes of comparing the actual and expected load. The difference in the PPP Surcharge will be paid for by shareholders in the proposed CIP. Currently, SoCalGas submits an annual report to the Commission on these programs. The Commission will be able to continue tracking the amounts owed by shareholders to the PPP surcharge through SoCalGas' annual report or any similar reporting mechanisms requested by the Commission.