

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

**(A.16-12-010)**

**(DATA REQUEST ORA-05)**

**Date Requested: August 4, 2017  
Date Responded: August 23, 2017**

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**Subject: SoCalGas Application (A.) 16-12-010 Chapter 3 Supporting Testimony**

**QUESTION 1:**

Starting at line 7 on page 1 of above subject, SoCalGas states:

SoCalGas proposes to continue the regulatory accounting treatment of revenues under the CIP similar to the treatment of revenues under its previous Core Pricing Flexibility and Noncore Competitive Load Growth Opportunities programs. (Footnote 1 omitted) The regulatory treatment will continue to use the Core Fixed Cost Account (CFCA) and Noncore Fixed Cost Account (NFCA) adjustment mechanisms on an annual basis to ensure that ratepayers are isolated from any risk from offering discounted core and noncore rates, respectively, and upfront cash incentives.

Footnote 1 of the above states: "The Core Pricing Flexibility Program was authorized in Decision (D.) 97-07-054 and D.98-01-040. The Noncore Competitive Load Growth Opportunities Program was authorized in D.00-04-060." In relation to D.97-07-054 referenced in footnote 1, ORA notes the following below:

Ordering Paragraph #1 of D.97-07-054, the Commission adopted SoCalGas' request for a PBR, subject to the modifications set forth in D.97-07-054.

In particular, in D.97-07-054, the Commission adopted a performance based ratemaking (PBR) mechanism for SoCalGas that was modified from the original SoCalGas proposed PBR. As part of the adopted PBR, the Commission set forth the framework for the Core Pricing Flexibility Program in its "Discussion" portion under Section III.C.5 of D.97-07-054 regarding Core Pricing Flexibility:<sup>1</sup>

Allowing for negotiated rates and optional tariffs will provide SoCal with opportunities to increase utilization of its system, which benefits ratepayers. Under our adopted sharing mechanism, incremental revenues translate into benefits for both ratepayers and shareholders, providing SoCal with the incentive to more efficiently operate the system. Therefore, allowing SoCal to enter into negotiated contracts and offer optional tariffs is consistent with our PBR goals.

We would prefer to authorize optional tariff offerings with more details than SoCal has provided in its application. However, because shareholders will be entirely at risk for the revenue shortfalls, we will allow SoCal to negotiate discounts and offer optional tariffs, provided that the price floor is above class average long-term marginal cost (LRMC) and allow the tariffs to be

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effective upon 20 days after filing unless protested on the basis that the price floor is below class average LMRC. (Footnote omitted) If protested, the optional tariff filing will proceed through the normal advice letter process. The optional tariffs must be available to all similarly situated customers that meet the eligibility criteria. If SoCal wishes to offer rates that are customer specific or targeted at some subset of a class and therefore below the class average LMRC, then additional information must be submitted, consistent with information required for long-term contracts under the Expedited Application Docket (EAD), and the contract or tariffs will be subject to Commission approval through the EAD process. Contracts with terms of five years or longer must be approved by the Commission. Consistent with allowing SoCal to offer core customers discounts, we will also allow SoCal to offer firm noncore customers negotiated discounts of less than five years' duration. Negotiated contracts must be filed with the Commission, but the confidentiality provisions in place for noncore contracts will also apply for core contracts.

Electric utilities who retain the Electric Revenue Adjustment Mechanism (ERAM) and offer discounted rates for which shareholders are at risk must currently include an adjustment to ERAM to ensure that ratepayers are not at risk (or any revenue shortfall associated with discounted rates. Because we have retained the *CFCA* we direct SoCal to develop an adjustment mechanism to the CFCA to ensure that ratepayers are isolated from any risk of revenue shortfall associated with discounted core rates or optional tariff Offerings.

In Conclusion of Law #25 of the above D.97-07-054, the Commission states:<sup>2</sup>

25. SoCal should be allowed to offer negotiated rates and optional tariffs provided that the price floor is above class average long-run marginal cost and shareholders are entirely at risk for revenue shortfalls.

Subsequently, in the implementing decision in D.98-01-040 that adopted the adjustment mechanism for SoCalGas' Core Fixed Cost Account, the Commission concluded in the only Conclusion of Law that:<sup>3</sup>

SoCal's proposed mechanism (or adjustment to its CFCA should be adopted, in accordance with the findings of fact and the opinion herein.

Among the Findings of Fact in D.98-01-040, the Commission states in Finding of Fact #3:

3. On September 17, 1997, SoCal filed a proposed adjustment mechanism to its CFCA. SoCal proposed that on an annual basis, the CFCA will be credited with the base revenue of all participating customers, e.g., those choosing either the negotiated discount rate or optional tariffs.

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Please respond to the following questions:

(a) When SoCalGas states that it “proposes to continue the regulatory accounting treatment of revenues under the CIP **similar** (bold added for emphasis) to the treatment of revenues under its previous Core Pricing Flexibility and Noncore Competitive Load Growth Opportunities programs,” as quoted in Question 1 above, is it accurate to say that SoCalGas means **similar** to the above quoted discussions and findings of fact, conclusions of law, and ordering paragraph set forth in D.97-07-054 and D.98-01-040. Please respond with a yes or no answer and explain your response.

(b) Please describe in detail the manner in which the regulatory accounting treatment of revenues under the proposed CIP would be **similar** to the treatment of revenues under the previous Core Pricing Flexibility and Noncore Competitive Load Growth Opportunities programs.

(c) If there are any aspects of the proposed CIP regulatory accounting treatment of revenues that would be **different** from the treatment of revenues under the previous Core Pricing Flexibility and Noncore Competitive Load Growth Opportunities programs, then please identify them and explain them in detail.

(d) Please cite the specific reference in D.00-04-060 which authorized the Noncore Competitive Load Growth Opportunities Program.

(e) Please provide the cite in D.00-04-060 which describes the regulatory accounting treatment of revenues for the Noncore Competitive Load Growth Opportunities Program, if different from the above quoted discussions and findings of fact, conclusions of law, and ordering paragraph set forth in D.97-07-054 and D.98-01-040.

(f) SoCalGas proposes to “continue to use the Core Fixed Cost Account (CFCA) and Noncore Fixed Cost Account (NFCA) adjustment mechanisms on an annual basis to ensure that ratepayers are isolated from any risk from offering discounted core and noncore rates, respectively, and upfront cash incentives.”<sup>8</sup>

a. Has SoCalGas tracked whether the CFCA and the NFCA has isolated ratepayers from any risk in the previous programs from offering discounted core and noncore rates?

b. If so, please describe the extent the ratepayers were isolated from such risk. Specifically, please identify each instance in which ratepayers were not isolated from such risks.

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c. Please provide supporting documentation showing instances in which ratepayers were isolated from such risks of previous programs.

(g) Based on your response to item (f) above, please explain the factors, if any, which could have contributed to the observation noted in your response above.

<sup>1</sup> See Section III.C.5 Discussion in D.97-07-054, pp.45-47.

<sup>2</sup> See Findings of Fact #25, D.97-07-054, p.99.

<sup>3</sup> See Conclusion of Law and Ordering Paragraph #1 in D.98-01-040, p.13.

**RESPONSE 1:**

- A. Yes, the accounting treatment for the proposed CIP would be similar to the above quoted discussions and findings of fact, conclusions of law, and ordering paragraph set forth in D.97-07-054 and D.98-01-040.
- B. The accounting treatment of revenues for the proposed CIP would be similar to the treatment of revenues under the previous Core Pricing Flexibility Program (CPFP) and Noncore Competitive Load Growth Opportunities programs as base revenues will be credited to the ratepayers while the revenues above the baseload will be credited to shareholders for the duration of the contract. Upon completion of the contract period, revenues above the baseload will be credited to ratepayers (i.e., not removed from balancing account treatment in the Core Fixed Cost Account (CFCA)/ Noncore Fixed Cost Account (NFCA)).
- C. One difference would be that under the new proposed CIP program, SoCalGas shareholders will contribute to the Public Purpose Program (PPP) surcharge any shortfalls in the expected additional revenues that come from the program.

Second, in its performance-based regulation (PBR) proceeding, SoCalGas was authorized to enter into contracts up to 7 years, but a contract longer than 5 years would require Commission approval.<sup>1</sup> Under the proposed CIP, SoCalGas is limiting contracts to 59 months.

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<sup>1</sup> D.98-01-040, at 6.

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Third, under the CFPF, the baseload is based on 12 months of previous usage, while under Rule 38, the baseload is calculated based on the previous 24 months. However, under the proposed CIP, there will be only one baseload calculation, which is based on the previous 24 months.

Finally, pursuant to D.15-10-049,<sup>2</sup> SoCalGas proposes to record the costs related to providing the tariff to the CFCA and NFCA (See the Prepared Direct Testimony of Reginald M. Austria, Section III).

- D. The Commission found that SoCalGas' proposal to enter into negotiated contracts and offer optional tariffs was consistent with PBR goals in D.97-07-054. Section III.C.5 of D.97-07-054 states:<sup>3</sup>

*Allowing for negotiated rates and optional tariffs will provide SoCal with opportunities to increase utilization of its system, which benefits ratepayers. Under our adopted sharing mechanism, incremental revenues translate into benefits for both ratepayers and shareholders, providing SoCal with the incentive to more efficiently operate the system. Therefore, allowing SoCal to enter into negotiated contracts and offer optional tariffs is consistent with our PBR goals.*

D.97-07-054 further states:<sup>4</sup>

*Consistent with allowing SoCal to offer core customers discounts, we will also allow SoCal to offer firm noncore customers negotiated discounts of less than five years' duration.*

Furthermore, the Noncore Competitive Load Growth Opportunities Program, as it had been implemented until the revisions pursuant to Resolution G-3515, was authorized in D.00-04-060. Findings of Fact Paragraph 8 states:

*The Joint Recommendation is approved, except for the following language in the JR introduction which is disapproved:*

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<sup>2</sup> Establishment of a Distributed Energy Resources Services Tariff, Ordering Paragraph 15, requires SoCalGas to tracking the costs to provide the tariff to a new internal order number at least 60 days prior to the submission of the application if it proposes through an application, any tariff in which shareholders assume the risks and benefits of the tariff.

<sup>3</sup> See D.97-07-054, at 46.

<sup>4</sup> See D.97-07-054, at 47.

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*It is the intention of the Parties that the Commission should not apply to SoCalGas before December 31, 2002 other cost allocation methodologies, throughput measures, or revenue risk treatment which are inconsistent with the agreement reached in the Joint Recommendation.*

The Joint Recommendation, Section XIV states:

*The Parties agree to accept SoCalGas' proposed treatment of Red Team and Rule 38 incentives as presented in Exhibit 15 T-32 – T-41.*

- E. Please see the response to 1.A and 1.D, above. Further in D.00-04-060, page 115, the Commission adopted SoCalGas' proposal to extend the period of the shareholder benefit from three years to five years:

*Under current practice, the additional throughput resulting from discounted contracts entered into over the course of a BCAP period would be included in the forecast adopted in the next BCAP. If the Commission were to adopt a three-year BCAP, as recommended by ORA and others, shareholders would benefit from the additional revenues associated with Red Team and Rule 38 contracts for a three-year period. Ratepayers would benefit from the additional load in subsequent BCAPs since the company's costs would be spread over a larger volume of throughput. SoCalGas is essentially proposing to extend the period during which shareholders benefit from three years to five years.*

*ORA objects to this proposal. Any changes in the incentives for shareholder participation in Red Team and Rule 38 programs should similarly be addressed in the context of the PBR since that is the proceeding which examines the overall incentive structure. The JR resolves this issue by accepting SoCalGas' proposal.*

- F. a. SoCalGas objects to this request on the grounds that the term "tracked" is vague and ambiguous. Notwithstanding its objections, SoCalGas responds as follows: On an annual basis, SoCalGas provides an analysis which calculates the difference between actual revenues and baseload revenues for customers on discounted core or noncore rates. The difference, or excess revenues, which should be allocated to shareholders is removed from the balancing account treatment in the CFCA or NFCA. Ratepayers are isolated from any risk from discounting rates since these regulatory adjustments result in only base revenues allocated to ratepayers. Since discounts are only applied for usage above baseload, any revenue reductions due to discounting are covered by shareholders which is already embedded in the excess revenues allocated to shareholders under the

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program. SoCalGas files an annual advice letter (e.g. Core Pricing Flexibility and Noncore Competitive Load Growth Opportunities Programs) with these adjustments and seeks approval from the CPUC.

b. Please see the response to F(a), above.

c. SoCalGas objects to this request on the grounds that it is overbroad, unduly burdensome, and the phrase “supporting documentation showing instances” is vague and ambiguous. Notwithstanding its objections, SoCalGas responds as follows: Please refer to the following advice letter approvals for the past 10 years:

- AL 4961: <https://www.socalgas.com/regulatory/tariffs/tm2/pdf/4961.pdf>
- AL 4799: <https://www.socalgas.com/regulatory/tariffs/tm2/pdf/4799.pdf>
- AL 4640: <https://www.socalgas.com/regulatory/tariffs/tm2/pdf/4640.pdf>
- AL 4489: <https://www.socalgas.com/regulatory/tariffs/tm2/pdf/4489.pdf>
- AL 4364: <https://www.socalgas.com/regulatory/tariffs/tm2/pdf/4364.pdf>
- AL 4237: <https://www.socalgas.com/regulatory/tariffs/tm2/pdf/4237.pdf>
- AL 4108: <https://www.socalgas.com/regulatory/tariffs/advice-approved.shtml>
- AL 3986: <https://www.socalgas.com/regulatory/tariffs/tm2/pdf/3986.pdf>
- AL 3862: <https://www.socalgas.com/regulatory/tariffs/tm2/pdf/3862.pdf>
- AL 3740: <https://www.socalgas.com/regulatory/tariffs/tm2/pdf/3740.pdf>

G. SoCalGas objects to this request on the grounds that it is vague and ambiguous, unintelligible, overbroad, compound, and calls for speculation.