Company: Southern California Gas Company (U904G)
Proceeding: 2019 General Rate Case
Application: A.17-10-007/-008 (cons.)
Exhibit: SCG-241

SOCALGAS

REBUTTAL TESTIMONY OF ANNETTE M. STEFFEN

(MISCELLANEOUS REVENUES)

JUNE 18, 2018

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

SoCalGas
A Sempra Energy utility®

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SOCALGAS REBUTTAL TESTIMONY OF ANNETTE M. STEFFEN (MISCELLANEOUS REVENUES)

I. SUMMARY OF DIFFERENCES

Table AS-1

Comparison of SoCalGas and Intervenors
TY 2019 Estimated Total Miscellaneous Revenues

Total Miscellaneous Revenues Constant 2016 ($000)			
	Base Year 2016	**Test Year 2019**	**Change**
SOCALGAS	**104,300**	**83,110**	**(21,190)**
CFC	**104,300**	**83,315**	**(20,985)**

Table AS-2

Comparison of SoCalGas and CFC
TY 2019 Estimated Miscellaneous Revenues – Reconnection Charges

Miscellaneous Revenues – Reconnection Charges Constant 2016 ($000)			
	Base Year 2016	**Test Year 2019**	**Change**
SOCALGAS	**1,797**	**1,513**	**(284)**
CFC	**1,797**	**1,718**	**(79)**

II. INTRODUCTION

This rebuttal testimony regarding SoCalGas' request for Miscellaneous Revenue addresses the following testimony from other parties:

- The Office of Ratepayer Advocates (ORA) as submitted by Mr. Marek Kanter (Exhibit ORA-29), dated April 13, 2018.
- The Consumer Federation of California Foundation (CFC) as submitted by Mr. Tony Roberts (Exhibit CFC-04-R), dated June 4, 2018.

Please note that the fact that this rebuttal testimony does not contain a response to every issue raised by others, does not mean or imply that SoCalGas agrees with the proposal or contention made by these or other parties. SoCalGas requests that the Commission approve its proposed TY 2019 forecast.

A. ORA

ORA issued its report on Miscellaneous Revenues on April 13, 2018.[1] ORA does not oppose SoCalGas' forecast.[2] However, ORA pointed to the total miscellaneous revenues proposed in my December 20, 2017 Revised Direct Testimony (Exhibit SCG-41-R at AMS-1) of $84.923 million[3] rather than my Second Revised Direct Testimony (Exhibit SCG-41-2R at AMS-1), dated April 6, 2018, of $83.110 million. The Second Revised testimony incorporated tax changes related to shared assets which resulted in a reduction in SoCalGas' proposed shared assets miscellaneous revenues.

While reviewing forecasts for the second revised testimony, an additional error was found in the forecast for Returned Check Charges. The forecast utilized estimates for Oct., Nov., and Dec. 2016 rather than actuals which caused the 3-year average to be lower by $4,000. Correcting for that error brings total miscellaneous revenues proposed to $83,114. Although the error was identified, it was determined that only Tax related impacts would be included in the second revised testimony submitted April 2018. See Appendix B for updated calculations relating to this correction.

B. CFC

CFC issued its revised report on Miscellaneous Revenues: Reconnection Charges on June 4, 2018.[4] In it, CFC recommends an increase in Reconnection Charges of $205,000 from $1.51 million to $1.72 million for TY 2019.[5]

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[1] April 13, 2018, ORA Report on Customers and Miscellaneous Revenues, Exhibit ORA-29 (Marek Kanter).

[2] *Id.* at 4. Please see Appendix A for forecast methodology errors that were identified as part of SoCalGas' response to ORA Data Request, ORA-SCG-148-MRK

[3] *Id.* at 4.

[4] June 4, 2018, Prepared Revised Testimony Addressing Miscellaneous Revenues: Reconnection Charges on behalf of Consumer Federation of California Foundation, Exhibit CFC-04-R (Tony Roberts).

[5] *Id.* at 7.

CFC's argument for higher Reconnection Charges is based on the following rationale and assumptions:

1. CFC states that the three-year average approach used by SoCalGas is not appropriate because, based on historical Reconnection Charges from 2012 through 2016, only 2014 fell below the initial year of 2012.[6]

2. CFC states that historical Reconnection Charges were impacted by the disconnection restrictions born out of the 2008 economic crisis and that the three-year historical period used for forecasting those charges was artificially low.[7]

3. CFC references the December 2017 CPUC Policy Division report on disconnections, "A Review of the Residential Customer Disconnection Influences & Trends" to conclude that income is moderately correlated with disconnections. With that report as a basis, CFC extends the income correlation to the increase in retail billing price. CFC suggests that the increase SoCalGas proposes for TY 2019 will impact household budgetary decisions, causing more customers to have to juggle bills, ultimately leading to a gradual increase in disconnections within one year of a rate change, and subsequently, reconnections.[8]

SoCal Gas disagrees with CFC's rationale and assumptions and will address each below.

III. REBUTTAL TO PARTIES' MISCELLANEOUS REVENUE PROPOSALS

A. CFC's first argument that, historically, SoCalGas Reconnection Charges have grown every year from 2012, except for 2014, may appear true on its face, but it ignores other considerations. CFC states the following:

> "For the five years shown, Reconnections Charges varied, ranging from $1.25M in 2014 to $1.80M in 2016. Although the total fluctuated during those years, it is notable that only 2014 featured a lower total than the 'initial' year of 2012. Aside from 2014, each of the other years shown exhibited increased Reconnections Charges revenues compared to 2012."[9]

Customer Services - Field forecasted reconnection orders of 101,034 for TY 2019 as shown in the Revised Direct Testimony of Gwen Marelli (Exhibit SCG-18-R).[10] The projected

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[6] *Id.* at 3-4.

[7] *Id.* at 4.

[8] *Id.* at 5.

[9] *Id.* at 3-4.

[10] Ex. SCG-18-R (Marelli) at GRM-C-2, line 29.

TY 2019 orders are less than the orders worked in BY 2016. That order volume forecast is directionally consistent with the forecasted Miscellaneous Revenue – Reconnection Charges for TY 2019. However, revenues of $1.72M as proposed by CFC would assume reconnection orders of approximately 107,000. That order volume would create a need for additional staffing and/or support in the Customer Services - Field area, neither of which are contemplated in SoCalGas' TY 2019 GRC request. CFC's testimony does not acknowledge these considerations.

B. CFC's second argument is that the historical 3-year period SoCalGas used for forecasting was artificially low due to economic conditions and due to the disconnection restrictions implemented during the 2008 economic crisis.

This argument assumes that SoCalGas' current policies and practices have reverted back to exactly those in place prior to 2010. While the disconnection restrictions enacted in 2010 to address arrearage management and shutoff prevention for residential customers during the economic downturn were lifted beginning in 2014, it should be noted that SoCalGas has voluntarily continued the end of year holiday moratorium as well as the extreme weather policy that was part of the SCG/SDG&E Disconnection OIR Settlement Agreement[11]even after those restrictions were lifted. Both policies have become a part of the Credit Moratorium policies included in the SoCalGas Credit Policy and Process outlined in the Supplemental Testimony of Michael Baldwin (Exhibit SCG-19-S),[12] and are examples of the way policies can change over time. In addition, the CPUC Policy Division report on disconnections published in December 2017, that CFC also cites in its testimony,[13] states that "IOU and CPUC policies, practices, and decisions have the biggest influence on the disconnection rate."[14]

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[11] Decision (D.) 10-12-051.

[12] February 7, 2018, Supplemental Testimony on Customer Service Office Operations, Exhibit SCG-19-S (Michael Baldwin) at MHB-4.

[13] Ex. CFC-04-R (Roberts) at 5.

[14] Richard White & Marzia Zafar, *A Review of Residential Customer Disconnection Influences & Trends*, CPUC POLICY & PLANNING DIV. at 2 (Dec. 28, 2017), http://www.cpuc.ca.gov/uploadedFiles/CPUC_Public_Website/Content/About_Us/Organization/Divisions/Policy_and_Planning/PPD_Work/PPD_Work_Products_(2014_forward)/Disconnection%20Report(1).pdf.

C. CFC's third argument correlating income with disconnections and reconnections within one year of a rate change assumes a correlation between the requested increase in rates and greater disconnections for non-payment of bills, leading to higher reconnections. This assumption is not supported by data.

CFC states that, given the requested increase in rates in this GRC, the expectation is that SoCalGas will have even greater disconnections for non-payment of bills. As illustrated in Table AS-3, the data shows that this is not always the case. SoCalGas received its TY 2016 decision in June 2016 and implemented the new rates on August 1, 2016 and yet 2017 Reconnection revenue is lower than 2016. Even accepting the CFC's assumption that disconnections would be delayed a year from the implementation of the rate increase, there should be some uptick in 2017 Reconnection revenue following the August 1, 2016 rate increase. However, SoCalGas did not experience this growth as shown below in Table AS-3.

Table AS-3

SoCalGas Recorded Miscellaneous Revenues – Reconnection Charges

	2012	2013	2014	2015	2016	2017
Total Reconnection Charges (in millions)	$1.30	$1.40	$1.25	$1.49	$1.80	$1.66

Additionally, as stated by Mr. Baldwin (Ex. SCG-19-S), "since 2010, SoCalGas' residential class average rate has fluctuated year over year, as has the number of disconnections for non-payment[, yet] SoCalGas observes that the annual number of residential disconnections does not appear to correlate to the fluctuations in the residential class average rate."[15]

Finally, as mentioned in Section III.A above, the first key observation and finding in the CPUC Policy Division report on disconnections published in December 2017, is that IOU and CPUC policies, practices, and decisions have the biggest influence on the disconnection rate.[16]

IV. CONCLUSION

To summarize, based on the above discussion, SoCalGas concludes that CFC's proposed increase in Miscellaneous Revenues – Reconnection Charges is inconsistent with the current

[15] Ex. SCG-19-S (Baldwin) at MHB-5.

[16] White & Zafar, *supra* note 14.

credit and collections policies, disconnection practices, and forecasted Customer Services - Field availability as described in SoCalGas' TY 2019 GRC request.

SoCalGas recommends the Commission adopt the forecast of $1.513 million for Miscellaneous Revenues – Reconnection Charges and $83.114 million in total Miscellaneous Revenue for TY 2019 as requested.

This concludes my prepared rebuttal testimony.

APPENDIX A
Data Request ORA-SCG-148-MRK

ORA DATA REQUEST
ORA-SCG-148-MRK
SOCALGAS 2019 GRC – A.17-10-008
SOCALGAS RESPONSE
DATE RECEIVED: MARCH 1, 2018
DATE RESPONDED: MARCH 16, 2018

Exhibit Reference: SCG-41
SCG Witness: Annette M. Steffen
Subject: Miscellaneous Revenues

Please provide the following:

1. According to the spreadsheet documentation in SCG-41-WP-R_Steffen Misc Revenue Revised Workpapers.xls, the estimates for Residential parts are based on three year averages of historical data. However, the estimates are unsupported since the entries in the corresponding cells are hard coded numbers rather than being computed via Excel calculations based on any other data. Similarly, the calculation for Commercial parts and for the Connect Appliance program are unsupported since the entries in the corresponding cells are hard coded rather than being computed via Excel calculations based on any other data.

The estimates for Ownership Charges are also unsupported inasmuch as the spreadsheet documentation is misleading. The documentation indicates that the Ownership Charges are computed using a three year average times a growth rate. However, the spreadsheet forecasts of Ownership Charges for 2017 to 2019 are hardcoded numbers which are then used to compute the indicated growth rates, rather than using growth rates to compute the Ownership Charges. This circular approach to estimation does not provide any information as to how the hardcoded numbers were derived.

Please now supply a working Excel spreadsheet in which all forecast estimates in the Ex. SCG-41 testimony are represented by cells whose numerical entries are computed by Excel calculations based on historical data as indicated in the documentation in the spreadsheet. For instance, the forecasts for Residential parts should be based on three years of history, the forecasts for Commercial parts should be based on five years of history (as indicated in the spreadsheet documentation), and the forecasts for Ownership Charges should be based on three years of historical data. The historical data being used should be included in the spreadsheet.

SOCALGAS Response 01:

While preparing the response to this data request, SoCalGas discovered that the forecast methodology discussion for the Residential Parts Program, Commercial Parts Program, Connect Appliance Program and Other Customer Service Revenues contained in Exhibits SCG-41-R and SCG-41-WP-R were incorrect and do not reflect the actual methodology used to develop the 2017 – 2019 miscellaneous revenue forecasts.

ORA DATA REQUEST
ORA-SCG-148-MRK
SOCALGAS 2019 GRC – A.17-10-008
SOCALGAS RESPONSE
DATE RECEIVED: MARCH 1, 2018
DATE RESPONDED: MARCH 16, 2018

SOCALGAS Response 01 Continued:

The four miscellaneous revenue items from Workpaper, Ex. SCG-41-WP-R are listed below with the correct forecast methodology used to derive the miscellaneous revenue forecast. The forecast methodology discussion for these four miscellaneous revenue items in revised testimony Exhibit SCG-41-R will be updated at the next available opportunity.

- Tab 4: FERC Account 488 - Residential Parts Program Forecast: The 2019 forecast is based on the 2016 average transaction percentage of sales orders per Customer Service Field order, multiplied by the Customer Service Field forecasted orders, multiplied by the 2016 average recorded miscellaneous revenues per sales order transaction. This forecast methodology aligns with the activity forecast presented in the Customer Services - Field testimony of Gwen Marelli (Ex. SCG-18-R).

- Tab 5: FERC Account 488 – Commercial Parts Program Forecast: The 2019 forecast is based on the 2016 average transaction percentage of sales orders per Customer Service Field order, multiplied by the Customer Service Field forecasted orders, multiplied by the 2016 average recorded miscellaneous revenues per sales order transaction. This forecast methodology aligns with the activity forecast presented in the Customer Services - Field testimony of Gwen Marelli (Ex. SCG-18-R).

- Tab 6: FERC Account 488 – Connect Appliance Program Forecast: The 2019 forecast is based on the 2016 average transaction percentage of sales orders per Customer Service Field order, multiplied by the Customer Service Field forecasted orders, multiplied by the 2016 average recorded miscellaneous revenues per sales order transaction. This forecast methodology aligns with the activity forecast presented in the Customer Services - Field testimony of Gwen Marelli (Ex. SCG-18-R).

- Tab 10: FERC Account 488 – Other Customer Service Revenues Forecast: The 2019 forecast is based on the 2016 average transaction percentage of sales orders per Customer Service Field order, multiplied by the Customer Service Field forecasted orders, multiplied by the 2016 average recorded miscellaneous revenues per sales order transaction. This forecast methodology aligns with the activity forecast presented in the Customer Services - Field testimony of Gwen Marelli (Ex. SCG-18-R).

Please refer to Tab 4b of the attached Excel file: ORA-SCG-148-MRK_SCG-41-WP-R_Steffen Misc Revenue Workpapers, for the detailed calculations to derive the forecast for the miscellaneous revenue items described above.

The file also contains the calculations for all other miscellaneous revenue line items, as requested.

APPENDIX B
Revised Return Check Forecast

SOUTHERN CALIFORNIA GAS COMPANY
MISCELLANEOUS REVENUES
TAB 15: FERC ACCOUNT 495 RETURNED CHECK CHARGE FORECAST

A. Account Description: # 15 Returned Check Charge

The returned check charge is $7.50, which is assessed to customers whose checks are returned from the bank for insufficient funds pursuant to SoCalGas Tariff Schedule/Rule 12.

B. Forecast Methodology

The 2019 estimate is based on a three year historical average (2014-2016). A three year historical average was adopted to reflect increased Field activity in 2016 and a sustained Field activity at a slightly decreased level.

	2012	2013	2014	2015	2016	3 YR AVG
Returned Check Charges Actual	492	463	450	494	557	500

	2017	2018	2019
Forecast Growth Rate	0.00%	0.00%	0.00%
FORECAST = 3 Year Avg x Growth Rate	500	500	500

C. Summary of Results

Line	Miscellaneous Revenues	Total ($000)
1.	**2016 Actual**	557
2.	**2017 Estimated**	500
3.	**2018 Estimated**	500
4.	**2019 Test Year**	500

SCG 2019 GRC Testimony Revision Log – June 18, 2018

Exhibit	Witness	Page	Line or Table	Revision Detail
SCG-41-2R	Annette Steffen	AMS-2	2-8	Added clarification between ORA's testimony, which pointed to an earlier version of SoCalGas' miscellaneous revenue proposal of $84.923, and the Second Revised testimony of $83.110.
SCG-41-2R	Annette Steffen	AMS-2	3	Added footnote 2 which identifies the forecast methodology errors found while answering ORA data request, ORA-SCG-148-MRK and points to Appendix A for the full response.
SCG-41-2R	Annette Steffen	AMS-2	10-14	Identifies Returned Check forecast error of $4,000 in increased miscellaneous revenue and points to Appendix B for correction.