

Application of San Diego Gas & Electric Company (U902M) for Authority, Among Other Things, to Increase Rates and Charges for Electric and Gas Service Effective on January 1, 2012.

A.10-12-005  
(Filed December 15, 2010)

Application of Southern California Gas Company (U904G) for authority to update its gas revenue requirement and base rates effective on January 1, 2012.

A.10-12-006  
(Filed December 15, 2010)

Application: A.10-12-005/ A.10-12-006  
Exhibit No.: SCG-233/SDG&E-240

**PREPARED REBUTTAL TESTIMONY OF  
ROBERT C. LANE  
ON BEHALF OF SAN DIEGO GAS & ELECTRIC COMPANY AND  
SOUTHERN CALIFORNIA GAS COMPANY**

**BEFORE THE PUBLIC UTILITIES COMMISSION  
OF THE STATE OF CALIFORNIA**

**OCTOBER 2011**



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ROBERT C. LANE  
ON BEHALF OF SOUTHERN CALIFORNIA GAS COMPANY**

**I. INTRODUCTION**

My rebuttal testimony addresses intervenor testimony of the following parties, regarding Southern California Gas Company's ("SCG") sharing mechanism for non-tariffed products and services (NTP&S):

- Southern California Generators Coalition (SCGC);
- The Utility Reform Network (TURN).

This rebuttal also updates certain NTP&S related revenue figures to reconcile with adjustments in San Diego Gas & Electric (SDG&E) and SCG's rebuttal testimony.<sup>1</sup>

In my direct testimony, I laid the groundwork for a new sharing mechanism for NTP&S, explaining that greater and more secure shareholder incentives are an important part of ensuring that NTP&S opportunities are explored and implemented for the benefit of both ratepayers and shareholders. SCG proposed the following three sharing ratios under defined circumstances:

- For existing NTP&S, a 90/10 sharing mechanism of gross incremental revenue between shareholders and ratepayers, respectively, to induce incremental activity commensurate with risk assumption;<sup>2</sup>
- For new NTP&S that do not require significant incremental shareholder expenditures to develop and market, a Gross Revenue Sharing Mechanism where

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<sup>1</sup> SCG-232 and SDG&E-239.

<sup>2</sup> SCG-33, RCL-2.

1 shareholders will retain 90% of the gross revenues and ratepayers will get 10% of  
2 gross revenues;<sup>3</sup> and

- 3 • For new NTP&S that require significant incremental shareholder expenditures to  
4 develop and market, a 50/50 sharing of after-tax net earnings above a rate of  
5 return benchmark, where shareholders retain half of the net after-tax earnings  
6 above the benchmark and ratepayers retain the other half.<sup>4</sup>

7 My direct testimony explained that NTP&S fosters many beneficial goals, including  
8 advancing technology, promoting efficiency, promoting green energy, providing innovative  
9 solutions to help customers meet their energy needs and creating value for customers, ratepayers  
10 and shareholders. The Commission has long recognized these benefits, and has adopted  
11 accounting and other safeguards to prevent utilities from using tariffed products and services to  
12 cross-subsidize their NTP&S. SCG's proposed sharing mechanisms would create appropriate  
13 incentives for exploring and implementing NTP&S opportunities, while advancing the above  
14 goals and benefiting ratepayers. Moreover, these opportunities are explored at no risk to  
15 ratepayers.<sup>5</sup>

16 SCGC and TURN testimony fails to recognize how important a reliable sharing  
17 mechanism with appropriate compensation for risk could be to promoting NTP&S expansion and  
18 benefits. In developing a new NTP&S or expanding an existing one, the utility could fund  
19 extensive research and expend substantial efforts to prepare for and plan initiating a new or  
20 expanded NTP&S program, only to have that program die at any stage – exploration, planning,  
21 company approval or regulatory approval. Even if an NTP&S plan is eventually implemented, the  
22 company would not be able to reasonably forecast earnings for a particular NTP&S project,

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<sup>3</sup> SCG-33, at page RCL-3.

<sup>4</sup> SCG-33, at page RCL-4.

<sup>5</sup> SCG-33, at pages RCL-1, -2.

1 because currently, there is no set sharing mechanism for NTP&S. This creates a substantial  
2 amount of risk for shareholders to assume, with no assurance of approval or fair allocation of  
3 revenues. A known, equitable sharing mechanism is warranted for a utility to bear the risk of  
4 exploring new NTP&S opportunities. If the sharing mechanism is not known or is not  
5 reasonable, exploring these projects may become unreasonably risky and costly for the company.  
6 This would inhibit execution of the Commission's longstanding policy to encourage full use of  
7 utility assets and shared benefits (while protecting ratepayers), through NTP&S. As shown  
8 below, SCGC's and TURN's testimony hinders NTP&S exploration, contrary to Commission  
9 goals and ratepayer interests.

## 10 **II. NTP&S SHARING MECHANISM - SCG REBUTTAL TO SCGC**

11 SCGC witness Catherine E. Yap's direct testimony takes issue with SCG's proposed  
12 NTP&S sharing mechanisms and recommends that the Commission deny SCG's proposal.

13 Specifically Ms. Yap proposes:

- 14 • The Commission should restrict SoCalGas's ability to pursue NTP&S activities in  
15 accordance with Affiliate Rule VII.D.
- 16 • The Commission should reject SoCalGas' Category 1 proposal as being unduly  
17 favorable to shareholders.
- 18 • The Commission should deny SoCal Gas Category 2 proposal as giving too much  
19 to shareholders and instead should share revenues on a 90/10 basis between  
20 ratepayers and shareholders after incremental costs are recovered.
- 21 • The commission should deny SoCalGas' Category 3 proposal as being  
22 extraordinarily generous to shareholders and inconsistent with the Commission's  
23 Affiliate Transaction rules.

1 My testimony rebuts Ms. Yap's recommendations and also corrects an error in her  
2 testimony attributable to a SCG data response to SCGC. Further, my testimony urges the  
3 Commission to reject SCGC attempts to eliminate incentives for offering NTP&S and their effort  
4 to restrict SCG's ability to offer certain types of NTP&S.

5 **A. Incremental Revenues from Existing NTP&S Activities**

6 As discussed in my prepared direct testimony, SCG's TY 2012 forecast revenues from  
7 existing NTP&S activities (subject to the sharing mechanism) is \$6.8 million.<sup>6</sup> I excluded  
8 NTP&S related to oil production because those services already have Commission-approved  
9 sharing mechanisms in place.<sup>7</sup> SCGC states that SCG revenues from existing NTP&S activities  
10 will result in \$67.1 million in miscellaneous revenues in the test year.<sup>8</sup> This incorrect \$67.1  
11 million can be partially attributed to an incorrect data response provided to SCGC by SCG.<sup>9</sup> In  
12 preparing the response to a data request SCG inadvertently identified "Shared Assets Revenue  
13 Gas Distrib." as an NTP&S.<sup>10</sup> This was an inadvertent error occurring during the course of  
14 discovery but is represented correctly in my prepared direct testimony<sup>11</sup> and work papers.

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<sup>6</sup> This forecast of TY2012 revenues has been revised to \$6.9 million due to changes reflected in Mr. Todd Cahill's rebuttal testimony (Exhibit SCG-32), and is discussed further below.

<sup>7</sup> Direct Testimony of Robert Lane RCL-9:10-12.

<sup>8</sup> Prepared Direct Testimony of Catherine E. Yap at 2:11-16.

<sup>9</sup> SCG discovered this error in its response to SCGC DR-05 question 5.1.1 on October 7, 2011 as Mr. Lane was preparing this rebuttal testimony to Ms. Yap's Direct Testimony. Upon recognizing the error, SCG notified SCGC of the error and immediately sent a corrected response to SCGC.

<sup>10</sup> This line item is described in the Workpapers of SCG witness Mr. Todd Cahill (SCG-32-WP, TJC-25) as: "Revenue from shared assets reflects the use of SCG assets, primarily information computer hardware and software, and communication equipment, by San Diego Gas & Electric Company (SDG&E), Sempra Energy Corporate (SECC) and its unregulated affiliates."

<sup>11</sup> See Appendix B of my opening testimony (SCG-33) providing a list of NTP&S defined as existing services. Shared Assets Revenue Gas Distrib. is not listed. It is also not included in SCG annual reports of NTP&S revenues to the CPUC.

1 Ms. Yap thus errs when she indicates that “SoCalGas projects that existing NTP&S will  
2 result in \$67.1 million in miscellaneous revenues.”<sup>12</sup> Rather, Ms. Yap has calculated this figure  
3 herself based on the inadvertent incorrect data response described above.

4 Correcting for this error, NTP&S revenues should be changed to reflect the elimination of  
5 the \$54.7 million SCGC attributed to inclusion of “Shared Assets Revenue Gas Distrib.” This  
6 results in a calculation of existing NTP&S of \$12.3 million. This amount is supported by my  
7 testimony and workpapers and includes \$6.8 million of NTP&S subject to the sharing  
8 mechanism.<sup>13</sup>

9 Of the \$12.3 Million of existing NTP&S revenues forecast for TY2012, \$5.6 million  
10 relates to NTP&S revenues associated with oil production (see table 1 below). These items have  
11 their own specific sharing mechanisms. For this reason, my direct testimony proposed that oil  
12 revenues associated with the production of oil in association with natural gas storage fields (i.e.,  
13 the Montebello, Honor Rancho, Aliso, and Playa del Ray storage facilities) be excluded from the  
14 NTP&S Sharing Mechanism described above.<sup>14</sup>

15 The Commission already has a regulatory treatment in place for oil revenues at the  
16 Montebello storage facility.<sup>15</sup> SCG is not seeking to change the treatment of Montebello oil  
17 revenues with this proposal.<sup>16</sup>

18 Similarly, SCG is not seeking to change this recently adopted ratemaking treatment for  
19 incremental oil production associated with the expansion of Honor Rancho and excludes it from  
20 the revenue sharing mechanism proposed for existing NTP&S. SCG does not apply the NTP&S  
21 sharing mechanism proposed in SCG Exhibit-33 to incremental revenue from incremental oil

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<sup>12</sup> Prepared Direct Testimony of Catherine E. Yap at 2:15, 16.

<sup>13</sup> This forecast of TY2012 revenues has been revised to \$6.9 million due to changes reflected in Mr. Todd Cahill’s rebuttal testimony (Exhibit SCG-32).

<sup>14</sup> Direct Testimony of Mr. Lane, SCG-33 at RCL-9:10-12.

<sup>15</sup> Adopted in D.01-06-081.

<sup>16</sup> Direct Testimony of Mr. Lane, SCG-33 at RCL-9:16-17.

1 production associated with the capacity expansion at the Honor Rancho storage facility because  
2 in Decision (D).10-04-034 the Commission established a ratemaking mechanism for these  
3 revenues.<sup>17</sup>

4 Likewise, in D.06-06-065, the Commission adopted a revenue-sharing mechanism for  
5 incremental oil and gas revenues that might result from SCG's Native Gas Program at its active  
6 storage fields (excluding Montebello, which is no longer used for storage of gas). SCG is also  
7 not proposing to change that mechanism.<sup>18</sup>

8 With respect to revenues that result from existing oil production at SCG's Aliso Canyon,  
9 Honor Rancho and Playa del Rey storage facilities, SCG proposes to exclude these from  
10 NTP&S. The major driver of changes in revenue is the price of oil in the global oil market.  
11 Also, each of these already has in place a Commission approved sharing mechanism. For these  
12 reasons, SCG proposes to exclude these oil revenues from the sharing mechanism described  
13 above. The Commission should reject SCGC's claim that the sharing mechanism only applies to  
14 10% of NTP&S revenue and accept SCG proposal to share incremental gross revenues above the  
15 2012TY forecast amount on a 90/10 shareholder ratepayer basis.

<b>Table 1</b>	
<b>Description</b>	<b>TY2012 Forecast (000)<sup>19</sup></b>
Honor Rancho Oil Rev.	\$3.527
Aliso Shallow Zone	\$503
Aliso PEOC	\$269
PDR Sesnon Oil Reimb	\$1,264
Total	\$5,562 <sup>20</sup>

<sup>17</sup> *Id.* at RCL-9:18-21.

<sup>18</sup> *Id.* at RCL-9:22-25.

<sup>19</sup> Source SCG – 32 WP, SCG – 33 WP.

<sup>20</sup> Per Mr. Todd Cahill's Rebuttal Testimony (SCG-32) the revised forecast of these oil related revenues excluded from the NTP&S Sharing Mechanism for Existing NTP&S is \$6,654,000.



1           **B.     The Commission should not restrict SoCalGas’ ability to pursue NTP&S**  
2           **Activities in a General Rate Case (“GRC”) Proceeding.**

3           SCGC proposes that the Commission restrict SoCalGas’s ability to pursue NTP&S  
4 activities in a GRC in accordance with the affiliate rules.<sup>21</sup> SCGC would have the Commission  
5 restrict SCG ability to offer NTP&S’s despite the fact that SCG is not seeking authority to offer  
6 any new NTP&S in this GRC proceeding. Under the Commission’s affiliate transaction rules,  
7 before a utility can offer an NTP&S it must first seek Commission approval. SCG would seek  
8 Commission authority to offer a new NTP&S the Commission (by either a CPUC application or  
9 advice letter filing) where the Commission would have the opportunity to review and examine  
10 the relevant facts to make a determination if the new NTP&S would be in accordance with the  
11 Affiliate Rule VII.D.<sup>22</sup> Ms. Yap asserts that SoCalGas makes “several proposals to promote the  
12 development of New NTP&S programs,”<sup>23</sup> and that SoCalGas’ promotion of NTP&S activities  
13 is in stark contrast to the Commission’s observation in its order adopting the currently effective  
14 affiliate rules. Ms. Yap cites a Commission finding that “Respondent electric and natural gas  
15 utilities exist to provide energy services in a safe, reliable and environmentally sustainable  
16 manner at the lowest reasonable cost.” Notably, NTP&S is not mentioned in that statement.  
17 And, a new NTP&S may be an “energy service” that is simply offered on a non-tariffed basis.  
18 Also, fully utilizing utility assets, capacity and capabilities may result in greater efficiency and  
19 result in other tariffed utility services to be offered at a lower rate. Already existing NTP&S  
20 lower the SCG revenue requirement as \$6.8 million in revenue is flowed through to offset the  
21 Test Year 2012 (“TY2012”) revenue needs of SCG. In fact, the Commission recently approved

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<sup>21</sup> Prepared Direct Testimony of Catherine E. Yap at 5:19.

<sup>22</sup> In Rule VII.D.2 of the Affiliate Transaction Rules, the Commission requires utilities to implement a reasonable mechanism for the benefits and revenues derived from NTP&S. The Commission has also sought to ensure that NTP&S are designed in a manner that protects ratepayers. Exhibit SCG-33, at page 2 (lines 1-3).

<sup>23</sup> Prepared Direct Testimony of Catherine E. Yap at 5:21-23

1 a new NTP&S for both SCG and SDG&E, Mover Services,<sup>24</sup> contrary to Ms. Yap's claim that  
2 the offering of new NTP&S activities are in "stark contrast" to the Commission's view on the  
3 issue of NTP&S.

4 Ms. Yap argues that Affiliate Rules VII.D limits the provision of NTP&S activities to  
5 those that use a portion of an existing utility asset or capacity. Ms Yap cites the wrong section  
6 of the Affiliate Rules. Affiliate Rule VII.D is the section of the Commission's Affiliate  
7 Transaction Rules that requires that the utility have in place a "reasonable mechanism for  
8 treatment of benefits and revenues derived from offering such products and services."<sup>25</sup> It is this  
9 very mechanism, called for in VII.D, that SCG is proposing.

10 Rather, the relevant section of the Commission's affiliate transaction rules is VII.C. It is  
11 this section of the affiliate rules that requires the following regarding NTP&S:

- 12 • the project utilizes a portion of a utility asset or capacity;
- 13 • such asset or capacity has been acquired for the purpose of and is necessary and  
14 useful in providing tariffed utility services;
- 15 • the involved portion of such asset or capacity may be used to offer the product or  
16 service on a nontariffed basis without adversely affecting the cost, quality or  
17 reliability of tariffed utility products and services;
- 18 • the products and services can be marketed with minimal or no incremental  
19 ratepayer capital, minimal or no new forms of liability or business risk being  
20 incurred by utility ratepayers, and no undue diversion of utility management  
21 attention; and

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<sup>24</sup> Resolution G-3456, October 6, 2011.

<sup>25</sup> See CPUC Affiliate Transaction Rule VII.D.2.

- 1           •       the utility’s offering of such non-tariffed product or service does not violate any  
2                    law, regulation, or Commission policy regarding anticompetitive practices.<sup>26</sup>

3 The appropriate place to determine whether a proposed NTP&S is offered in accordance with  
4 Affiliate Rule VII.C or any other section of the Affiliate Transaction rules is in the proceeding  
5 where such authorization is actually sought. SCG is not seeking authorization to offer any  
6 NTP&S in this proceeding. Only by examining the specific facts raised by a particular NTP&S  
7 can the Commission determine whether the NTP&S would be offered in accordance with the  
8 NTP&S rules.

9           **C.       SCG’s Proposed Sharing Mechanism for Incremental Revenue from Existing**  
10           **NTP&S Activities should be approved.**

11           Ms Yap erroneously asserts that SCG does not make any recommendations regarding  
12 how any incremental revenues from the remaining \$60.3 million in “Category 1” services  
13 forecasted revenues should be treated.<sup>27</sup> Contrary to her assertion, my direct testimony clearly  
14 recommends that the revenues from various oil production related NTP&S be excluded from the  
15 proposed NTP&S sharing mechanism and the sharing mechanism adopted for those services in  
16 various Commission decisions continue to govern the sharing of those revenues.<sup>28</sup> The  
17 remainder of the \$54.7 million is related to the inadvertent discovery error described in  
18 Subsection II.A above.

19           SCGC urges the Commission to reject SCG’s proposal for a 90/10 sharing mechanism of  
20 the gross revenues above the \$6.8 million revenues that SCG forecasts for the existing NTP&S  
21 as defined in my direct testimony.<sup>29</sup> As discussed above, due to the error in SCG’s response to  
22 SCGC DR-05 Question 5.1.1, Ms. Yap erroneously concluded that the services subjected to the

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<sup>26</sup> See CPUC Affiliate Transaction Rule VII.C.

<sup>27</sup> Prepared Direct Testimony of Catherine E. Yap at 4:8-10.

<sup>28</sup> Direct Testimony of Mr. Lane, SCG-33 at RCL-9:9-29.

<sup>29</sup> Prepared Direct Testimony of Catherine E. Yap at 6:17-22.

1 NTP&S were “less than 10 percent of the existing NTP&S.”<sup>30</sup> Once corrected for the error  
2 explained above, the definition of existing NTP&S for which the proposed sharing mechanism  
3 would apply excludes only those services identified in my direct testimony in the section titled  
4 “Exclusion of Oil Revenues from NTP&S Sharing Mechanism.”<sup>31</sup>

5 While D.99-09-070 adopted a settlement, as Ms. Yap correctly notes in her testimony,<sup>32</sup> it  
6 was not offered as precedent, but rather as an example of a “similar” sharing mechanism. To  
7 ignore it would be to deprive the Commission of information with which to evaluate the  
8 reasonableness of SCG proposal.

9 After characterizing D.99-09-070 as “lacking precedential significance,” Ms. Yap then  
10 castigates SCG for not following the method adopted in that decision.<sup>33</sup> It is never advanced by  
11 SCG that its proposed sharing mechanism follow D.99-09-070, yet Ms. Yap would have the  
12 Commission require that SCG follow this decision that Ms. Yap herself admits is “lacking  
13 precedential significance.”<sup>34</sup>

14 An examination of SCG’s 2009 annual NTP&S report demonstrates that the vast  
15 majority, 87%, of revenues of existing NTP&S for which the proposed sharing mechanism  
16 would apply would be considered “active” under the framework laid out in D.99-09-070.<sup>35</sup>

17 SCG has proposed a different sharing mechanism for NTP&S than that adopted as part of  
18 the settlement approved in D.99-09-070. SCG’s proposal does not depend on the rubric of  
19 dividing services into “active” or “passive.” In order to keep it simple and straightforward, SCG  
20 proposed the 90/10 gross revenues sharing mechanism for all existing services rather than the  
21 framework of 90/10 for some, and 70/30 for others (as determined by D.99-09-070 for Southern

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<sup>30</sup> *Id.* at 6:19-20.

<sup>31</sup> Direct Testimony of Mr. Lane, SCG-33 at RCL-9:9-29.

<sup>32</sup> Prepared Direct Testimony of Catherine E. Yap at 6:23-26.

<sup>33</sup> Prepared Direct Testimony of Catherine E. Yap at 6:23-28.

<sup>34</sup> Prepared Direct Testimony of Catherine E. Yap

<sup>35</sup> See SDG&E 2009 NTP&S Report to the CPUC.

1 California Edison (SCE)). Additionally, the use of a single sharing mechanism sends a balanced  
2 signal to the company that it should seek to grow all revenues of these services equally instead of  
3 creating different incentive levels for some existing services over others. Ms. Yap's testimony  
4 seeks to hold SCG to this framework, even though, as she recognizes, it was part of a settlement,  
5 which "lacks precedential value."

6 Ms. Yap states that I have not "claimed that SCG would have to make incremental  
7 investment in order to produce incremental revenue from existing NTP&S."<sup>36</sup> However, it is  
8 clear that at least two of the NTP&S services related to appliance parts sales to residential and  
9 commercial customers would incur significant additional costs in order to produce additional  
10 revenue. This highlights a significant flaw in the "active" versus "passive" NTP&S rubric of the  
11 sharing framework contained in D.99-09-070, which is the difficulty in parsing "active" services  
12 from "passive" services.

13 **D. SCGC's Proposal for Treatment of Revenues from Type I NTP&S should**  
14 **not be adopted.**

15 SCGC recommends that 100 percent of any revenues that are realized from Type 1<sup>37</sup>  
16 activities above the level projected by SCG for TY2012 should be credited to customers.<sup>38</sup> This  
17 proposal should be rejected by the Commission, as it does not provide a means for SCG to  
18 recover any of the incremental costs associated with increasing those revenues. Hence, the  
19 utility would face a significant disincentive to grow the revenues for these services. For  
20 example, if SCG increase the sales of residential parts,<sup>39</sup> under Ms. Yap's proposal 100% of the  
21 additional revenue would be "credited" to ratepayers. Yet in order to sell more parts SCG would

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<sup>36</sup> Prepared Direct Testimony of Catherine E. Yap at 7:4-5.

<sup>37</sup> Type 1: For existing NTP&S, SCG proposes that any increase in revenues above the forecasted miscellaneous revenue as adopted for TY2012 by the Commission that is attributed to SCG's and SDG&E's portfolio of NTP&S would be shared on a gross revenue basis 90/10 between shareholders and ratepayers, respectively. Exhibit SCG 33, at page 2.

<sup>38</sup> Prepared Direct Testimony of Catherine E. Yap at 7:13-14.

<sup>39</sup> "Residential parts" are the sale and installation of parts for customer-owned gas appliances and equipment.

1 have to purchase more parts to sell. Under Ms. Yap’s proposal, this incremental cost of goods  
2 sold would not be recovered, because 100% of the gross revenues would be credited to  
3 ratepayers. This is hardly a “sharing” mechanism.

4 Ms. Yap offers a variation of her 100%-to-ratepayers “sharing” proposal that would  
5 allow shareholders to garner just 10% of the net revenues.<sup>40</sup> Inherent in Ms. Yap’s alternative  
6 proposal to limit SCG shareholders to only a 10% share of revenues is an assumption that the  
7 cost of generating this incremental revenue is less than 10% of the price charged for the service.  
8 Ms. Yap’s proposal is not reasonable, as it provides no mechanism for the utility to recover its  
9 incremental costs of the NTP&S. Generally, the incremental costs of providing an NTP&S are  
10 recovered from the incremental revenues generated by that service. Ms. Yap’s proposal would  
11 have 100% of the revenue credited to ratepayers, leaving shareholders with no revenue to  
12 recover the incremental costs incurred.

13 The SCGC proposal to credit ratepayers with 100% should be rejected. If the  
14 Commission rejects SCG proposed treatment of sharing incremental revenues for existing  
15 NTP&S, it should simply continue the current treatment of continued cost of service type  
16 treatment of these NTP&S services and allow the revenues continued treatment as miscellaneous  
17 revenues. Ms. Yap provides no basis for her approach of replacing the status quo with a  
18 draconian and unworkable sharing mechanism, thus her proposal should be rejected.

19 **E. SCGC Proposed Sharing Mechanism for Type 2 NTP&S Services Should be**  
20 **Rejected.**

21 As with Type 1 NTP&S, SCGC also objects to my pointing to the framework in place for  
22 Southern California Edison (“SCE”) as having a “similar” sharing mechanism. Ms. Yap admits  
23 that SCE has a 90/10 sharing mechanism for some of its NTP&S. SCE also has a sharing

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<sup>40</sup> Prepared Direct Testimony of Catherine E. Yap at 7:14-18.

1 mechanism of 70/30 for others. Again, Ms. Yap states that D.99-09-070 was adopted in a  
2 contested settlement and cannot be claimed as support for SCG proposal. Yet again, rather than  
3 discussing SCG's proposed sharing mechanism on its own merits, Ms. Yap compares it to the  
4 one adopted in D.99-09-07.

5 For these Type 2<sup>41</sup> NTP&S, Ms. Yap provides a sharing of net revenues after the  
6 incremental costs paid by shareholders have been recovered.<sup>42</sup> Ms. Yap provides that after  
7 recovery of these incremental costs that ratepayers receive 90% of the net revenues and  
8 shareholders receive only 10% of the net incremental revenue. At best, this provides a very  
9 weak incentive to utilities to develop and grow new NTP&S.

10 This basic structure is very similar to the 50/50 net sharing proposed by SCG for Type 3  
11 services. The net revenues above the benchmark rate of return are split equally, on an after-tax  
12 basis, between ratepayers and shareholders. The benchmark rate of return includes a 50 basis  
13 point adder to reflect a higher cost of capital due to the higher risk to shareholders associated  
14 with offering an NTP&S versus service offered under a traditional cost of service framework.  
15 SCG believes that a 90/10 (shareholder/ratepayer) gross revenue sharing mechanism should be  
16 used for Type 2 NTP&S. However, should the Commission adopt a net sharing mechanism for  
17 such services, as SCGC proposes, it should adopt a 50/50 sharing mechanism on an after-tax  
18 basis rather than the 10/90 sharing proposed by SCGC. A 50/50 sharing mechanism (after-tax)  
19 creates an equal partnership with shareholders and ratepayers and provides a balanced incentive  
20 for the utility to increase NTP&S revenues to the benefit of ratepayers. SCGC's proposed 10/90  
21 (shareholder/ratepayer) sharing mechanism provides little incentive. Furthermore, their proposal

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<sup>41</sup> Type II: For new NTP&S that do not require significant incremental shareholder expenditures to develop and market, SDG&E and SCG propose a Gross Revenue Sharing Mechanism where shareholders will retain 90% of the gross revenues and ratepayers will get 10% of gross revenues. Exhibit SCG-33, at p. 3.

<sup>42</sup> Prepared Direct Testimony of Catherine E. Yap at 8-9.

1 is silent as to whether this 10/90 sharing takes place on a pre-tax or after-tax basis. If it is pre-  
2 tax, much of this meager incentive is further eliminated.

3 SCG proposed a gross revenue sharing mechanism for Type 2 NTP&S in large part  
4 because it was simple and easy to use and does not raise the issues surrounding the level of  
5 incremental costs. SCG believes that this gross revenue approach works well for services that do  
6 not have significant capital expenditures or upfront costs. The Commission in Resolution G-  
7 3456 (adopted October 6, 2011) authorized a 70/30 shareholder ratepayer split of gross revenues  
8 for a Type 2 service. It did so because, it found that if you applied the “passive” versus “active”  
9 framework contained in D.99-09-070 to the particular service at issue, the Mover Services  
10 Program, would fall into the definition of “passive.” It is important to note that the Commission  
11 did not say that all services that would be classified as Type 2 NTP&S would be classified as  
12 “passive.”

13 Should the Commission consider a 70/30 split for those NTP&S subject to Type 2  
14 sharing mechanism with incremental costs less than \$250,000 per year, and hence would fall into  
15 the “passive” category under the D.99-09-070 framework; and allow for those Type 2 NTP&S  
16 that fall into the “active” category due to incremental shareholder expenditures in excess of  
17 \$250,000 per year to be subject to a 90/10 gross revenues split, the Commission should  
18 recognize that the greater the ratepayer share, the greater the possibility that some potential  
19 NTP&S would be economic for the utility to provide under a 90/10 split would be uneconomic at  
20 a higher level of ratepayer sharing.

21 The Commission should adopt the sharing mechanism proposed by SCG for Type 2  
22 NTP&S as it is a reasonable allocation of the benefits relative to the risks. Ratepayers risk no  
23 incremental costs, yet under the SCG proposal would get 10% of revenues from an NTP&S.



1           **F.       Commission Should Not Restrict SCG’s ability of Pursue NTP&S Activities**  
2           **in Accordance with Affiliate Rules for Services Subject to Type 3 Sharing**

3           SCGC is under the mistaken impression that SCG is seeking expanded authority to offer  
4 new NTP&S in this GRC proceeding. This is not the case. SCG is not seeking authority to offer  
5 any specific NTP&S in this application. Ms. Yap errs again when she states that SCG has made  
6 a “proposal to undertake Category 3 activities.”<sup>43</sup> Yet nowhere in its application does SCG seek  
7 authority to undertake any Category 3 activities.<sup>44</sup>

8           SCGC provides a significant amount of testimony and raises issues as to whether or not  
9 SCG should be allowed to offer Bio-Gas Conditioning and Bio-Gas Energy Production  
10 Services<sup>45</sup> while providing very little testimony discussing the actual merits of SCG’s proposed  
11 sharing mechanism for categorical Type 3 services. She raises concerns regarding the offering  
12 of Type 3 NTP&S that are better raised in the specific proceeding, whether via advice letter or  
13 application, where SCG seeks authority to offer a specific service as an NTP&S subject to the  
14 Type 3 sharing mechanism. She raises the issue with regard to whether NTP&S would have  
15 anti-competitive consequences and specifically raises issues regarding the offering of Bio-Gas  
16 Conditioning and Bio-Gas Energy Production Service.<sup>46</sup> Under the Affiliate Transaction Rules,  
17 the issues raised by Ms. Yap in her direct testimony are required to be examined and resolved in  
18 the process though which utilities seek authority to offer new NTP&S. This would be the  
19 appropriate place for Ms. Yap to raise these issues, just as SCGC and other did in the case of  
20 Advice Letter (AL) 4172.<sup>47</sup>

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<sup>43</sup> Prepared Direct Testimony of Catherine E. Yap at 10:15-16.

<sup>44</sup> Type III: For new NTP&S that require significant incremental shareholder expenditures to develop and market, SCG and SDG&E propose a 50/50 sharing of after-tax net earnings above a rate of return benchmark, where shareholders retain half of the net after-tax earnings above the benchmark and ratepayers retain the other half. Exhibit SCG-33, at page 4.

<sup>45</sup> Prepared Direct Testimony of Catherine E. Yap at 9:26-10:2.

<sup>46</sup> *Id.*

<sup>47</sup> See Resolution G-3456, October 6, 2011.

1 Ms. Yap seeks to use biogas conditioning and biogas production, as an “excellent  
2 illustration” of the alleged Type 3 NTP&S activities contemplated by SCG.<sup>48</sup> Biogas  
3 conditioning and biogas production services may or may not be illustrative of future Type 3  
4 NTP&S. Only time will tell depending on what NTP&S SCG actually offers and whether or not  
5 they resemble this application. However, what it does illustrate is the adequacy of the existing  
6 regulatory process for reviewing advice letters or applications for authority to offer new NTP&S.  
7 Thus, the current regulatory process adequately addresses the very issues raised by Ms. Yap with  
8 respect to the offering of services that would be under the Type 3 NTP&S sharing mechanism.  
9 Ms. Yap’s proposal to the Commission to prohibit the offering of NTP&S that would be subject  
10 to Type 3 sharing should be rejected as overly broad and unnecessary, as existing regulatory  
11 structures adequately address the issues raised by Ms. Yap.

12 In my direct testimony, SCG is simply proposing a sharing mechanism that would apply  
13 should, in the future, the Commission grant authority for SCG to offer a NTP&S that would meet  
14 the criteria established in this GRC. The Commission would grant authority for SCG to offer  
15 NTP&S in accordance with the affiliate rules in ruling on the advice letter or application though  
16 which SCG would be seeking authority to offer a specific NTP&S.

17 Ms. Yap characterizes NTP&S as “non-utility services.”<sup>49</sup> NTP&S are not “non-utility”  
18 services. They are services offered by a utility that are offered on a non-tariffed basis. SCG has  
19 authority to provide fuel cells to customers as an NTP&S. What about this makes that service a  
20 “non-utility service”? It is a service offered that was provided by a utility, approved via an  
21 application to the Commission and provided to utility customers. Before broadly classifying

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<sup>48</sup> Direct Testimony of Catherine E. Yap at 10:12-14.

<sup>49</sup> *Id.* at 5:19-6:7.

1 every NTP&S as a “non-utility service,” Ms. Yap should provide the Commission with an  
2 established definition of utility service.

3 A NTP&S is simply that, a service offered by a utility that is not tariffed. The fact that a  
4 service is not tariffed does not make that a non-utility service. Ms. Yap’s limited view of what a  
5 utility may or may not offer, or what she considers utility service does not reflect the  
6 increasingly dynamic nature of the energy utility sector. The Commission should reject Ms.  
7 Yap’s parochial view and allow the Commission to make its own determination when reviewing  
8 a specific request for an NTP&S whether that service is appropriate to be offered by a public  
9 utility.

10 Ms. Yap claims that the NTP&S sharing mechanism proposed by SCG is not a good deal  
11 for ratepayers and that it is overly generous to shareholders but does not provide any alternative  
12 for the Commission’s consideration. Rather, Ms. Yap mistakenly believes that SCG is seeking  
13 authority in this proceeding to offer Type 3 NTP&S services. That simply is not the case. In this  
14 proceeding, SCG is simply seeking to establish a sharing mechanism should, at some point in the  
15 future, SCG be authorized to provide a service that would fall into this category. In order for the  
16 Energy Division to approve a new NTP&S via an advice letter, it is helpful that major issues of  
17 policy, such as the appropriate sharing mechanism, be fully adjudicated and the outcome  
18 determined in a more formal process, such as this GRC. In order to provide the Commission  
19 staff with the necessary guidance with respect to the appropriate sharing mechanism to have in  
20 place, SCG is proposing a sharing mechanism in this GRC so that the Commission can adopt a  
21 just and reasonable framework that its staff can apply in reviewing future advice letters seeking  
22 authority to offer an NTP&S.

1 SCG is not seeking authority to offer any specific NTP&S in this application. Ms. Yap  
2 errs when she states that SCG has made a “proposal to undertake Category 3 activities.”<sup>50</sup> Yet  
3 nowhere in this application is SCG seeking authority to undertake any Category 3 activities.

4 Ms. Yap argues that because utility employees have expertise and knowledge of the  
5 biogas market and technologies that the utility should be prevented from offering an NTP&S that  
6 utilizes some of that expertise and capabilities. Ms. Yap’s proposal would prevent the utilization  
7 of this knowledge, capabilities and expertise to providing a beneficial service to the potential  
8 customers of the NTP&S and would deny any opportunity for ratepayers to gain from the  
9 utilization of this knowledge, capabilities and expertise. Ms. Yap complains, “ratepayers would  
10 receive very little if any revenues from these activities.”<sup>51</sup> Yet under Ms. Yap’s proposal  
11 ratepayers fare even worse and would have zero revenues from these services. It is not  
12 economically efficient for this knowledge, capabilities and expertise to be not fully utilized.  
13 SCGC’s recommendations would prevent utility knowledge, capabilities and expertise from  
14 providing beneficial services to NTP&S customers and would eliminate any possibility that  
15 ratepayers could gain. Ms. Yap seems to be stuck in an outdated paradigm where for  
16 shareholders to win, ratepayers must lose. Moreover, the proposal of SCGC aligns the incentives  
17 of shareholders with ratepayer’s interests creating a balanced incentive for the utility to engage in  
18 beneficial NTP&S service that would help meet the needs of specific customers, while providing  
19 ratepayers with the potential to benefit should these services be successful in the marketplace.

### 20 **III. NTP&S SHARING MECHANISM REBUTTAL TO TURN**

21 TURN opposes SCG and SDG&E’s proposals for a NTP&S sharing mechanism “in part  
22 because the utilities do not have any evidence that the current sharing mechanism is preventing

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<sup>50</sup> *Id.* at 10:15-17.

<sup>51</sup> Prepared Direct Testimony of Catherine E. Yap at 13:6, 7.

1 them from pursuing any NTP&S.”<sup>52</sup> What Mr. Finkelstein apparently does not understand is that  
2 SCG and SDG&E do not have a “current” sharing mechanism in place. Revenues from NTP&S  
3 currently are afforded Miscellaneous Revenue treatment, flowing through each GRC cycle.<sup>53</sup>  
4 While flowing NTP&S revenues through the GRC cycle carries with it certain incentives due to  
5 the multiple year rate case cycle, this is not a “sharing mechanism.” Rather these incentives are  
6 the same broad efficiency incentives that the Commission created when it adopted a multiple  
7 year rate case cycle. These incentives do not create a long-term incentive for shareholders to  
8 grow NTP&S services over time as with each rate case, the forecast revenues are flowed back  
9 through the GRC to ratepayers.

10         Affiliate Transaction Rule VII.D, requires that each utility have a mechanism to  
11 reasonably allocate the benefits between ratepayers and shareholders for any proposed NTP&S  
12 offering. SCG and SDG&E are proposing a NTP&S sharing structure that will apply to NTP&S  
13 going forward that will provide greater certainty to the utilities about the sharing mechanism  
14 under which they will be operating and under which they must evaluate the economics of the  
15 project. Furthermore, adoption of a sharing mechanism in this proceeding will relieve the  
16 Commission of having to revisit this issue with each advice letter or application seeking approval  
17 to offer an NTP&S. Additionally, Commission staff will have clear direction from the  
18 Commission regarding the sharing mechanism that should apply. TURN objects to the proposed  
19 sharing mechanism, but does not propose an alternative. While TURN offers criticism of SCG  
20 and SDG&E’s proposals, TURN does not advance any solutions to the problems they indentify.

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<sup>52</sup> Direct Testimony of Mr. Finkelstein at 11.

<sup>53</sup> See Prepared Direct Testimony of Mr. Cahill, SCG-32.

1           **A.     90/10 Gross Revenue Sharing Ratio is Reasonable for Revenues from both**  
2           **Type 1 and Type 2 NTP&S.**

3           TURN believes that the 90% shareholder savings it to high.<sup>54</sup> Yet, ratepayers get 10% of  
4 the incremental revenue created through the offering of NTP&S (or growth of existing NTP&S),  
5 through 100% of the incremental costs of generating this revenue are borne by shareholders.  
6 Ratepayers win as 10% of the revenue is flowed through to them in the form of lower rates,  
7 regardless of whether the NTP&S is successful. TURN is correct that the 90/10 sharing  
8 mechanism is similar to that adopted by the Commission for SCE in D.99-09-070.

9           TURN is correct in stating that the mechanism has a 90/10 sharing mechanism for some  
10 NTP&S described as “active” and 70/30 for those deemed “passive.” In Resolution G-3456 the  
11 Commission adopted a 70/30 sharing mechanism for a new NTP&S for SDG&E’s and SCG’s  
12 new Mover Services Program.<sup>55</sup> Currently, both SCG and SDG&E are evaluating the economics  
13 of the Mover Services Program to see if this service is still economic to offer given the increased  
14 risk and reduced realized revenue to shareholders a 70/30 split between shareholders and  
15 ratepayers entails. This demonstrates the very real possibility that the effect of lowering the  
16 shareholder sharing can result in fewer NTP&Ss proving to be economic. In effect, TURN is  
17 arguing for a larger slice of a smaller pie for ratepayers. While it is not explicit, it appears that  
18 TURN’s testimony supports a 70/30 sharing mechanism for some NTP&S and a 90/10  
19 mechanism for others, as is the case for SCE, yet TURN offers no specifics as to how this should  
20 be accomplished. Thus, the Commission should adopt the concrete proposed sharing mechanism  
21 proposed by SCG and SDG&E so that the conditions of Affiliate Transaction Rule VII.D can be  
22 met; so that SDG&E and SCG can beginning the process of bringing new innovative services to  
23 customers to help them address their needs.

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<sup>54</sup> Direct Testimony of Mr. Finkelstein at 11.

<sup>55</sup> See Resolution G-3456, October 6, 2011.

1           **B.       SCG Sharing Mechanism for Type 3 NTP&S Activities is Reasonable**

2           TURN objects to SCG’s and SDG&E’s proposal that NTP&S that require significant  
3 incremental costs (Type 3 NTP&S) should be afforded a net sharing mechanism arguing not that  
4 this is an unreasonable way to fairly allocate the benefits of the new NTP&S between  
5 shareholders and ratepayers but because of the need to “determine the reasonableness of  
6 forecasts of ‘incremental costs.’”<sup>56</sup> TURN points out that an advantage of a gross revenue  
7 sharing mechanism over a net revenue mechanism is the avoidance of having to develop a  
8 forecast of reasonable costs. TURN’s objection to a net revenue sharing mechanism places  
9 TURN at odds not only with SCG and SDG&E, but also with SCGC, the only other party in this  
10 proceeding to file testimony with respect to SDG&E and SCG’s NTP&S sharing mechanism,  
11 who argued for just such a net revenues sharing approach.<sup>57</sup>

12           Mr. Finkelstein objects to SDG&E and SCG proposed 50/50 net revenue sharing  
13 mechanism for Type 3 NTP&S services, those that require significant incremental expenditures,  
14 because of the alleged burden it would place on the Commission’s Energy Division. Yet, Mr.  
15 Finkelstein does not propose an alternative NTP&S sharing mechanism for evaluation and  
16 adoption by the Commission in this proceeding. Thus, should TURN prevail and SDG&E’s and  
17 SCG proposal not be adopted, creating the necessity for Energy Division and the Commission to  
18 revisit this very issue in every Advice Letter or Application in which SDG&E and SCG seek  
19 authority to offer a NTP&S.

20           To address the issues raised by Mr. Finkelstein on page 13 of his direct testimony,  
21 SDG&E and SCG propose that the default be a 90/10 sharing mechanism and that only if SCG  
22 and SDG&E are able to adequately demonstrate that the majority of the total costs are

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<sup>56</sup> Direct Testimony of Mr. Finkelstein at 13.

<sup>57</sup> See Direct Testimony of Ms. Yap at 8.

1 incremental costs borne by shareholders, would a 50/50 after-tax sharing of revenues above a  
2 benchmark rate of return be adopted.

3           TURN argues that any revenue sharing mechanism must reflect the ratepayer funded  
4 assets used to provide the NTP&S.<sup>58</sup> Unfortunately, TURN does not propose any means to do  
5 so. It is important to note that the total utility cost, referred to by Mr. Finkelstein, are either sunk  
6 costs, or costs that if otherwise not spent would have accrued to shareholders between rate cases  
7 cycles. Between rate cases, should costs be lower than the adopted revenue requirement, for  
8 whatever reason, the savings accrue 100% to shareholders. If costs in fact are higher than the  
9 revenue requirement, shareholders, except in limited cases due to the opportunity of a Z-factor  
10 adjustment, bear 100% of these above revenue requirement costs.

11           In the case of Type 1 NTP&S, existing NTP&S, shareholders get 100% of the TY2012  
12 forecast revenues adopted by the Commission in this proceeding, and 10% of all incremental  
13 revenues above that level to compensate them for the use of utility assets utilized to provide  
14 those services. In the case of Type 2 NTP&S, those that do not require significant incremental  
15 shareholder expenditure, ratepayers receive 10% of all revenues generated by these new NTP&S  
16 as compensation for the use of existing utility assets. In the case of Type 3 NTP&S, those that  
17 require significant shareholder expenditure to offer, the sharing of net revenues above the  
18 benchmark rate or return is the compensation for the use of utility capabilities in providing the  
19 resource. It is important to remember that for these Type 3 NTP&S, more than 50% of the total  
20 cost, and 100% of the incremental cost to offer the service are borne by shareholders.

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<sup>58</sup> Direct Testimony of Mr. Finkelstein at 15-16.



1           **C.     Details of Specific NTP&S Should Not Be Required At This Time as SCG**  
2           **and SDG&E are Not Seeking Authority to Offer Any New NTP&S**

3           TURN's witness, Mr. Finkelstein, takes issue with the fact that SCG and SDG&E did not  
4 provide significant evidence regarding the specific NTP&S services that the two utilities might  
5 offer.<sup>59</sup> Mr. Finkelstein argues that in Application (A.)97-06-021, SCE made a significant  
6 showing, "accompanied by an[sic] lengthy report prepared by Hagler Bailly that presented  
7 extensive analysis of the various markets that SCE could be expected to participate in with  
8 NTP&S."<sup>60</sup>

9           SCG and SDG&E are not proposing to be allowed to offer any specific NTP&S or to  
10 enter any specific markets in this proceeding. SCG and SDG&E are simply seeking to have the  
11 Commission adopt a sharing mechanism in this proceeding so as to provide guidance to both the  
12 utilities and to Commission Staff regarding the appropriate sharing of the benefits required by  
13 the Commission's Affiliate Transaction Rules.

14           SCG and SDG&E expect that analysis of a specific NTP&S, and the market it would  
15 impact, would be conducted in the proceeding in which the utilities actually sought approval to  
16 offer such service. Under the Commission's Affiliate Transaction Rules, the Commission must  
17 specifically authorize a utility to offer an NTP&S. SCG and SDG&E are not seeking authority  
18 to offer any new NTP&S in A.10-12-005 and A.10-12-006. Consequently the utilities would  
19 have to seek specific authority from the Commission to offer a new NTP&S in a subsequent  
20 proceeding. It is in that proceeding that the Commission would have an opportunity to analyze a  
21 specific NTP&S.

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<sup>59</sup> Direct Testimony of Mr. Finkelstein at 12.

<sup>60</sup> *Id.*

1           **D.     Net Revenue Versus Gross Revenue Sharing Mechanism**

2           Mr. Finkelstein states that under a 50/50 gross sharing mechanism, which no one in this  
3 proceeding is advocating – not TURN, nor SCGC nor SDG&E and SCG, that if a NTP&S  
4 generated revenues of \$1,000,000 that ratepayers share would be \$500,000 whether the utilities  
5 incremental costs total \$100,000 or \$250,000 or \$600,000.<sup>61</sup> However, a closer examination  
6 reveals the truth, that at \$600,000, the ratepayer would receive zero dollars. This is because if  
7 the incremental costs were seen to be above the revenue share to the utility, the utility would not  
8 offer the service; so ratepayers would get 50% of nothing.

9           The Commission should pay little attention to TURN’s illustrative examples used to  
10 attack a net revenues sharing mechanism. In the examples given, SCG is able to charge a 90%,  
11 75% and 40% margin. Mr. Finkelstein provides neither evidence nor support for margins of this  
12 magnitude as those given in his examples. In competitive markets, particularly where significant  
13 capital investment is required, the margins may be significantly less than these purely  
14 hypothetical examples TURN presents.

15           Mr. Finkelstein also argues that under a “net sharing” approach the Commission has a  
16 perverse incentive to increase the costs of offering the service. In the purely hypothetical  
17 example that he utilizes, he states that under a 50/50 net mechanism that the utility total recovery  
18 would increase as costs go up.<sup>62</sup> However, just like any business, it is the revenue is fixed and  
19 costs go up, the utility earnings go down. Mr. Finkelstein would have the Commission believe  
20 that the utility would inflate costs and hence reduce earnings from NTP&S subject to this sharing  
21 mechanism. Contrary to Mr. Finkelstein’s implication, SCG and SDG&E would have every  
22 incentive to minimize costs for the NTP&S under a 50/50 net sharing mechanism to maximize

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<sup>61</sup> *Id.* at 17.

<sup>62</sup> *Id.*

1 earnings for shareholders. Such incentive also creates value for ratepayers as well because to  
2 grow the utilities share of the net revenues, the ratepayers share also increases. Thus, contrary to  
3 TURN's assertion that there is a perverse incentive, there is a strong and proper incentive for the  
4 utility to minimize costs, creating benefits for both ratepayers and shareholders. The 50/50 net  
5 sharing aligns ratepayer and shareholder interest.

6 **E. SCG Numbers Do Add up**

7 Mr. Finkelstein states that there are discrepancies in the figures for SCG figures for the  
8 revenues that would be deemed the threshold above which numbers the sharing would apply for  
9 the incremental revenues from expansion of existing NTP&S.<sup>63</sup> Mr. Finkelstein is wrong.

10 Mr. Finkelstein says that one "obvious discrepancy" is related to Rent from Property  
11 Used in Operation. Here he falsely claims that the revenue that the revenue sharing threshold  
12 and the amount forecast in Mr. Cahill's testimony for 2012 are different.<sup>64</sup> They are not. I  
13 utilized Mr. Cahill's forecast and his workpapers, and the forecast for these two items are the  
14 same. Mr. Finkelstein correctly states that Mr. Cahill's direct testimony states that the Rent from  
15 Property Used in Operation is \$586,000. Mr. Cahill's forecast of Rent from Property Used in  
16 Operation includes four different line items, the *Rent from Property Used in Oper., Goleta Lease*  
17 *Fee, Aliso Rental for Telecom Sites, and Rents for Prop Use - Non-tariff Gas*. These four line  
18 items make up the \$586,000 in NTP&S Revenues described as *Rent from Property Used in*  
19 *Oper*. Line items described in Mr. Cahill's Testimony reconcile perfectly with the revenues  
20 forecast for this service in my workpapers (*See SCG – 32 WP*).

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<sup>63</sup> *Id.* at 18.

<sup>64</sup> *Id.* at 18-19.

		Cahill (SCG-32 WP)	Lane (SCG 33 WP)
<i>Rent from Property Used in Oper</i>		\$ -	\$ -
<i>Goleta Lease Fees</i>		\$ 8	\$ 8
<i>Aliso Rental for Telecom Sites</i>		\$ 19	\$ 19
<i>Rents for Prop Use - Non-tariff Gas</i>		\$ 559	\$ 559
	<b>Sub-Total</b>	<b>\$586</b>	<b>\$586</b>

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Mr. Finkelstein claims that SCG forecasted for the NTP&S revenues sharing threshold revenues of \$121.711 for Line Item Billing. This is incorrect. Mr. Finkelstein points to Appendix B of my direct testimony and seeks to have the Commission see this as a forecast, when in fact, this exhibit identifies this as revenues for 2009 as reported in SCG 2009 Affiliate Report to the Commission. The Commission must disregard Mr. Finkelstein's incorrect analysis, which compares publically reported 2009 revenues with a forecast.

Mr. Finkelstein points out that in the case of three services, Pipeline Services, Residential Parts and Commercial Parts and TURN has proposed different revenue forecasts than those proposed my Mr. Cahill. This is true; Mr. Cahill and Mr. Marcus are in disagreement on these items. However, Mr. Finkelstein attempts to use this dispute to cast aspersions on the robustness of the NTP&S proposal. Forecast differences between parties should not be characterized as discrepancies.

The Commission should disregard Mr. Finkelstein's claim that there are discrepancies in SCG figures for the revenues that would be deemed above the threshold which sharing mechanisms would apply. SCG numbers do add up.

1 **IV. REVENUE RECONCILIATION**

2 In his rebuttal testimony for both SoCalGas and SDG&E, Mr. Todd Cahill has made  
3 minor adjustments to his TY2012 revenue forecasts for certain NTP&S-related services.<sup>65</sup>  
4 Specifically, Mr. Cahill made minor adjustments to SCG TY2012 revenue forecasts for Property  
5 Used in Operations and Training. For SDG&E Mr. Cahill made minor adjustments to SDG&E's  
6 TY2012 revenue forecasts for pole attachments

7 Below I describe how these changes impact revenue figures provided in my prepared  
8 direct testimony.

9 **A. NTP&S Revenue Forecast Adjustments for SCG**

10 **1. Property Used in Operations**

11 Mr. Cahill's direct testimony forecasts of \$586,000 for revenue related to the rent/lease of  
12 various SCG property used in operations have been adjusted upward by \$80,000, to \$666,000.<sup>66</sup>

13 **2. Training**

14 Mr. Cahill's direct testimony forecasts revenue from training activity as \$73,000 in test  
15 year 2012, but acknowledges a calculation error and revises his forecast to \$108,000 in  
16 rebuttal.<sup>67</sup>

17 **3. Adjustment of Forecast of Revenue from Existing Services**

18 My direct testimony used forecasted miscellaneous revenue attributed to SCG's portfolio  
19 of NTP&S of \$6.8 million.<sup>68</sup> Due to rebuttal revisions to this forecast, the appropriate level of  
20 forecasted miscellaneous revenue attributed to SCG's portfolio of NTP&S is \$6.9 million.

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<sup>65</sup> Rebuttal Testimony of Mr. Todd Cahill SCG232 and SDG&E 239.

<sup>66</sup> Rebuttal Testimony of Mr. Todd Cahill SCG232 at2:18-20.

<sup>67</sup> *Id* at 4:2-5.

<sup>68</sup> Direct Testimony of Mr. Robert lane at RCL2:26.

1           **B.     NTP&S Revenue Forecast Adjustments for SDG&E**

2           The rebuttal adjustment for pole attachment revenues results in a change in the revenues  
3 associated with pole attachments from \$2,287,912 to \$1,524,441.<sup>69</sup> This adjustment reduces the  
4 TY2012 NTP&S revenues subject to sharing from \$3.8 million to \$3.1 million, with 90% of the  
5 increase going to shareholders and 10% allocated to ratepayers.

6           **V.     CONCLUSION**

7           Both SCGC and TURN criticize SDG&E and SCG's proposed sharing mechanisms for  
8 NTP&S but do not provide the Commission with workable alternatives. SDG&E and SCG are  
9 required to have a mechanism that fairly distributes the benefits derived from NTP&S between  
10 ratepayers and shareholders per the Commission's Affiliate Transaction Rules. SCG and  
11 SDG&E have proposed reasonable and workable sharing mechanisms that will properly incent  
12 the utilities to engage in these NTP&S services for the benefit of both ratepayers and  
13 shareholders.

14           Both SCGC and TURN sought to raise issues related to the offering of specific NTP&S.  
15 However, SCG and SDG&E are not seeking authority to provide any specific NTP&S in A.10-  
16 12-005/006. Rather, SCG and SDG&E intend to, as required by the Affiliate Transaction Rules,  
17 to seek specific authority to offer individual NTP&S in separate proceedings. At that time, the  
18 issues raised by a specific NTP&S can be addressed and the Commission can examine the  
19 specific facts raised by the NTP&S in question. TURN's and SCGC's arguments should be  
20 rejected and the Commission should adopt SCG and SDG&E's proposed NTP&S Sharing  
21 Mechanism as presented in my direct testimony.<sup>70</sup>

22           This concludes my prepared rebuttal testimony.

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<sup>69</sup> Rebuttal Testimony of Mr. Todd Cahill SDG&E 239 at TJC-2:1 to TJC-3:10.

<sup>70</sup> See Direct Testimony of Mr. Lane; SCG-33 and SDG&E-40.