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

Application 10-12-___
Exhibit No.: (SCG-33)

PREPARED DIRECT TESTIMONY OF

ROBERT C. LANE

ON BEHALF OF SOUTHERN CALIFORNIA GAS COMPANY

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

DECEMBER 2010

SCG Doc #249937

TABLE OF CONTENTS

PREPARED DIRECT TESTIMONY OF

ROBERT C. LANE

ON BEHALF OF SOUTHERN CALIFORNIA GAS COMPANY

(NON-TARIFFED PRODUCTS & SERVICES)

I. INTRODUCTION

A. Purpose of Testimony

The purposes of this testimony are to propose sharing mechanisms for different categories of non-tariffed product and services (NTP&S) and to explain why granting these requests promotes the public interest, benefits ratepayers, and complies with Commission policy.

B. Summary

SCG and SDG&E generally meet the needs of their customers through the provision of tariffed services. The Commission has long recognized, however, that an important role exists for NTP&S. Among other beneficial goals, NTP&S can advance technology, promote efficiency, and create value for customers, ratepayers and shareholders. To protect ratepayers and potential competition, the Commission has adopted accounting and other safeguards to prevent utilities from using tariffed products and services to cross-subsidize their NTP&S.

SCG and SDG&E propose three NTP&S sharing mechanisms to create the proper incentives for SDG&E and SCG to grow NTP&S revenues while allowing ratepayers to garner benefits from the expansion of these services. The proposed sharing mechanisms are designed to fairly allocate the benefits from the successful offering of NTP&S while protecting ratepayers from the risk of loss due to NTP&S. With respect to all three NPT&S sharing mechanisms, SCG and SDG&E propose accounting safeguards that will prevent cross subsidies and assure that any incremental costs associated with the offering of NTP&S are borne entirely by utility shareholders. These accounting safeguards will also protect against anti-competitive cross subsidies.

In addition, this proposal will not result in increased rates for customers in this GRC because the revenues from NTP&S services that are part of the forecasted Miscellaneous Revenue remain in that forecast and remain part of that offset to the revenue requirement of the utilities. To the extent that revenues from these existing NTP&S increase above the level adopted in this GRC, ratepayers will see those benefits flow to them via balancing account treatment.

II. NON-TARIFFED PRODUCTS AND SERVICES SHARING MECHANISM

Ratepayers, customers, and shareholders can benefit from utility offerings of NTP&S. Recognizing this, the CPUC provided for NTP&S in the Commission’s Affiliate Transaction Rules.

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.

Below, SCG and SDG&E propose three reasonable cost sharing mechanisms: One to cover existing NTP&S, one to cover new NTP&S that do not require significant additional shareholder expenditure, and one to cover NTP&S that require significant additional shareholder expenditure. The objective of these cost sharing mechanisms is to fairly allocate the benefits between ratepayers and shareholders based on the relative risk each assumes, while also providing significant incentives for the Utilities to maximize revenues from these services.

The sharing mechanisms described below for new NTP&S would be utilized for all new NTP&S offered by the Utilities after a final decision in the TY2012 GRC is issued. Until that time, SCG and SDG&E will continue to propose, as required under Affiliate Transaction Rule VII.D, a mechanism to reasonably allocate the benefits between ratepayers and shareholders for NTP&S for each service as it is proposed via the advice letter requirement of Affiliate Transaction Rule VII.E. After the final decision in the TY2012 GRC, any sharing mechanism established in that decision will apply prospectively. Those services offered prior to the final decision for each company's TY2012 GRC will continue to be subject to the sharing mechanism adopted by the Commission in each resolution authorizing the service. SDG&E and SCG plan to propose in each advice letter seeking authority to offer a new NTP&S between now and the issuance of a final decision in GRC (TY2012) a sharing mechanism that is consistent with the proposal made herein.

A. Type I: Existing Non-Tariffed Products and Services[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. The TY2012 forecasted miscellaneous revenue attributed to SCG’s portfolio of NTP&S is $6.8 million. SCG proposes that the incremental gross revenues above $6.8 million be shared with 90% of the increase going to shareholders and 10% allocated to ratepayers. The forecasted TY2012 miscellaneous revenue attributed to SDG&E’s portfolio of NTP&S is $3.8 million. SDG&E proposes that the incremental gross revenues above $3.8 million be shared, with 90% of the increase going to shareholders and 10% allocated to ratepayers. This sharing mechanism

[1] For a listing of existing NTP&S please see SCG and SDG&E’s 2009 Annual Report on Non-Tariffed Products and Services included in SCG-33-WP and SDG&E-40-WP.

is similar to the 90/10 sharing mechanism adopted by the CPUC in D.99-09-070 for Southern California Edison.

It is appropriate to exclude existing forecasted NTP&S revenues from the new sharing mechanism because the incentive should be structured to induce incremental activity by the utility that creates incremental revenue from existing NTP&S. With this sharing mechanism in place for existing services SCG and SDG&E will be incentivized to maintain, at a minimum, the current level of revenues from these existing NTP&S, because the utility is at risk for any decrease in these revenues below that forecast in TY2012.

It is also appropriate for the rewards to be shared based on the risks either shareholders or ratepayers bear. In the case of a gross sharing mechanism where ratepayers are protected from any downside risk and will gain from every incremental dollar of revenue generated, it is appropriate to award 10% of the benefit to ratepayers. Moreover, ratepayers are guaranteed to at least break even, even if there are no incremental revenues above adopted TY2012 forecast and will benefit from every incremental dollar above that amount.

Likewise, it is appropriate to award 90% of the benefit to shareholders because they bear the risk that the revenues, after ratepayers 10% share is taken, are insufficient to cover the incremental costs incurred by the utility to offer the service. Further, shareholders bear the risk of any shortfall of NTP&S revenues below the adopted TY2012 forecast.

"Existing NTP&S" is defined as those NTP&S showing revenue in SDG&E and SCG 2009 NTP&S Reports filed with the Commission on June 24, 2010. A list of NTP&S with 2009 revenues and as such defined as "Existing NTP&S" is provided in Appendix – B.

Services for which no revenue is recorded for 2009 should be treated as "New NTP&S" and should be subject to either of the two sharing mechanisms for New NTP&S described below. While these services may have already been authorized by the Commission, they are currently not generating revenues and should, therefore, qualify as New NTP&S. This creates the proper incentives for NTP&S not currently generating revenue. These authorized NTP&S that are not generating revenues, are not included in the TY2012 Miscellaneous Revenues forecast.

B. Type II: New Non Tariffed Products and Services that Do Not Require Significant Additional Shareholder Expenditure

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.

SCG and SDG&E propose that those NTP&S where less than 50% of the total utility cost to offer the services are incremental costs borne by shareholders be defined as not having significant incremental shareholder expenditures and subject to the 90/10 sharing. Again, this sharing mechanism is similar to SCE's mechanism, adopted by the Commission in D.99-09-070 and creates a strong incentive for the utilities to seek ways to maximize the value of existing utility assets, capacity, and capabilities for the benefit of ratepayers and shareholders. This 90/10 sharing of gross revenue works well for NTP&S where there is little incremental cost required to offer the NTP&S and provides sufficient opportunity for the utility to recover its incremental expenses and is easy to calculate and administer.

As stated above, this sharing mechanism will apply to new NTP&S offered by the Utilities that do not require significant incremental shareholder expenditures after a final decision in the TY2012 GRC is issued. Until that time, SCG and SDG&E will continue to propose for each new NTP&S, as required under Affiliate Transaction Rule VII.D, a mechanism to reasonably allocate the benefits between ratepayers and shareholders. Those services approved prior to a final TY 2012 GRC decision will continue to be subject to the sharing mechanism adopted by the Commission in each resolution authorizing the service. But, SDG&E and SCG plan to propose in each advice letter seeking authority to offer a new NTP&S between now and the issuance of a final decision in GRC (TY2012) a sharing mechanism that is consistent with the proposal made herein. So, before the GRC is resolved, SDG&E and SCG will propose 90\10 sharing, as described above, for new NTP&S that do not require significant incremental shareholder expenditures.

Again, it is appropriate for the rewards to be shared based on the risks either shareholders or ratepayers bear. As stated above, for gross sharing mechanism where ratepayers are protected from any downside risk and will gain from every incremental dollar of revenue generated, it is appropriate to award 10% of the benefit to ratepayers. It is appropriate to award 90% of the benefit to shareholders because they bear the risk that the incremental revenues, after inclusion of the ratepayers' 10% share, are sufficient to cover the incremental costs incurred by the utility to offer the service.

C. Type III: New Non Tariffed Products and Services that Require Significant Additional Shareholder Expenditure

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. SCG and SDG&E propose that "significant shareholder funding" be defined to mean that more than 50% of the total utility cost to offer the services are incremental costs borne by shareholders. These incremental costs include depreciation of any incremental capital investment and the return on that investment at a benchmark rate of return. Also included are any incremental O&M or A&G costs that are required to be funded by shareholders consistent with the Commission's Affiliate Transaction Rules. SCG and SDG&E proposes that "after-tax net earnings" be defined as "the gross revenue received from customers of NTP&S, minus the incremental costs allocated to the NTP&S, including a rate of return equal to a benchmark rate of return, minus corporate income taxes on the NTP&S net earnings." Incremental costs would also include a rate of return on invested capital equal to the ROR benchmark of these same services.

SCG and SDG&E further propose that the gross revenue and incremental costs for these NTP&S that require significant shareholder expenditures be aggregated so that all of the revenues derived from such NTP&S would be netted out against all incremental costs. The netting would determine the net, pre-tax earnings. Any such pre-tax earning that fall above a certain benchmark would be shared on a 50/50 basis.

This 50/50 sharing mechanism differs from the 90/10 sharing mechanisms discussed above because of the significant incremental costs at issue in these types of NTP&S offerings.   A 90/10 sharing of gross revenues does not provide sufficient assurance to the utility that its costs will be recovered from the revenue of the project. For capital intensive projects, there may be very thin margins that would be completely eliminated by a 10% sharing of gross revenues with ratepayers. Also, a 10% sharing of gross revenues with ratepayers could make the offering uncompetitive. In both cases, the utility would not move forward with the new NTP&S service, denying customers the benefits of the service and denying ratepayers their share of the net revenues that would have resulted. Such an outcome is not in the interest of ratepayers, the specific customer desiring the NTP&S service, and is contrary to the public interest. Further, any environmental benefits that accompany any new NTP&S would not occur. Thus, to assure that economic projects can go forward, it is important that the sharing mechanism for services requiring significant incremental shareholder expenditure be based on net earnings rather than gross revenues.

Generally, to ensure economic efficiency rewards should go to those who bear the actual costs and burdens of the risks engendered by particular economic actions. The 50/50 net sharing mechanism allocates the net benefits from the NTP&S equally after the utility has been fairly compensated for the risks it undertakes in providing the NTP&S. By allowing the utility to recover its incremental costs plus the recovery of its capital costs before the sharing of net benefits, the Commission provides a reasonable opportunity for the utility to be compensated for the incremental investment risk it undertakes in providing the service. After shareholders have been compensated for their risk-taking, an equal distribution of these net earnings is appropriate and balanced.

For example, when determining the gain on sale of non-depreciable assets the Commission adopted this principle that the rewards should do to those who bear the actual costs and burdens of the risks created by specific economic actions, in that case asset purchases and sales. In that case, the Commission applied the principle that "risk is the best determinant of how to allocate gains and losses on sale" of utility assets.[2] For allocating the net benefits engendered by the offering of a NTP&S, SCG and SDG&E propose that the same basic principle should apply.

For services requiring significant incremental shareholder investment, the shareholder is bearing risk of that investment and should be allowed to be compensated for that risk. However, once compensated for this additional risk, the risk equation is balanced out and it is appropriate for shareholders and customers to share the benefits equally.

Sharing is also a means by which regulators seek to create incentives for utilities. For example, SCG has in place a 40/60 sharing mechanism for the revenues from RD&D investments between shareholders and ratepayers, respectively.[3] With respect to RD&D, shareholders did not face significant additional risk as the program is funded by ratepayers, but instead the Commission wanted to create an incentive for SCG to maximize revenues for the benefit of shareholders. As noted by Gillian Wright in her testimony (Exhibit SCG-09), ratepayers have received $2.7 million in shared revenue from RD&D equity investment and royalty income through this sharing mechanism. The 50/50 SCG proposes for the sharing of net earnings above the benchmark rate of return acts in the same way, to create an incentive for SCG to maximize these net earnings to the ratepayers' benefit.

The proposed sharing mechanism creates an incentive for SCG and SDG&E to expand revenues from NTP&S. Just as with SCE's NTP&S sharing mechanism for its NTP&S, SCG and SDG&E seek an incentives structure where ratepayers are benefited and the utilities are incented to find sensible opportunities to increase miscellaneous revenue opportunities.[4] For SCG and SDG&E to have an incentive to engage in sensible NTP&S opportunities that require significant incremental shareholder investment requires that there must be a at least a reasonable opportunity for capital cost

[2] D.06-05-041, at p. 91, Conclusion of Law 2.
[3] See Testimony of Ms. Wright (Exhibit SCG-09); In D.97-07-054 (SCG 1997 Performance Based Ratemaking decision) the Commission authorized a 50/50 royalty sharing mechanism splitting royalties and other revenues from RD&D investments between ratepayers and shareholders. Subsequently in D.08-07-046 (SCG TY 2008 GRC decision), the Commission modified the sharing of royalties and other revenues from RD&D investments to 40/60 (Shareholders/Ratepayers).
[4] See D.99-09-070, 2 CPUC 3d 579 (1999) at 582.

recovery. Such a mechanism is found in the 50/50 net earnings (above the benchmark rate of return) sharing mechanism being proposed by SCG and SDG&E. The 50/50 sharing of the net benefits provides a further incentive for the utility to seek to increase net benefits, both by minimizing costs and by increasing revenues, to the benefit (50%) of ratepayers.

As stated above this sharing mechanism will apply to new NTP&S offered after a final decision in the TY2012 GRC is issued. Until that time, SCG and SDG&E will continue to propose, as required under Affiliate Transaction Rule VII.D, a mechanism to reasonably allocate the benefits between ratepayers and shareholders for any proposed NTP&S offering. For those services approved prior to the final TY2012 GRC decision, the sharing mechanism will be that adopted by the Commission in each resolution authorizing the service. But, as noted above, SDG&E and SCG plan to propose the 50/50 sharing mechanism described above in each advice letter seeking authority to offer a new NTP&S between now and the issuance of a final decision in GRC (TY2012).

1. Calculation of Pre-Tax Net Revenue Sharing Required to Yield a 50/50 After-Tax Sharing

SCG and SDG&E propose the after-tax sharing of the 50/50 sharing mechanism to mean "the gross revenue received from customers of NTP&S, minus the incremental costs allocated to the NTP&S, minus corporate income taxes on the NTP&S net revenues." In order to achieve a 50/50 sharing of after-tax net revenues, a larger share of pre-tax net revenues must be allocated to shareholders than to ratepayers. Based on an average state and federal tax rate 40.75% for SCG and SDG&E the share of pre-tax net revenues is allocated 62.8% to shareholders and 37.2% to ratepayers. This will ensure that ratepayers and shareholders share the net-after tax revenues on an equal basis. See Appendix RCL-A for how this calculation is derived.

2. Benchmark Rate of Return

SCG and SDG&E propose that the benchmark rate of return be set equal to the utilities' authorized rate of return plus 50 basis points. It is appropriate to include a return in calculating the incremental costs associated with a project that requires incremental capital expenditure to compensate for the Utilities' risk. It is further appropriate to have this cost at least equal to the cost of capital authorized by the utility, to reflect the cost of capital faced by the utility. A 50 basis point adder is appropriate to reward shareholders for being entirely at risk for their incremental capital expenditure. This is consistent with the earnings sharing mechanism proposed by Mr. Emmrich in his testimony (SCG-39; SDG&E-46).

The authorized rate of return is appropriate for utility investments that are part of base margin or otherwise recovered via regulated utility rates. However, the incremental capital provided by shareholders to provide NTP&S is accounted for below the line. Such investments face a fundamentally different risk profile, in large part because the utility is entirely at risk for any losses. It is reasonable to compensate shareholders for this additional risk through a 50 basis point adder above the authorized rate of return. Earnings above this level would be shared 50/50 with ratepayers as described above.

SCG and SDG&E also propose the right to request from the Commission through the advice letter seeking authority to offer an NTP&S, as required under Affiliate Transaction Rule VII.E, an additional 25 to 50 basis points (above the 50 basis points described above) to the benchmark return for specific categories of NTP&S that: 1) provide significant environmental benefit; 2) support the development of renewable energy; and/or 3) promote the development of new technologies.

It is appropriate for the Commission to apply a 25-50 basis point adder (above the 50 basis points risk adjustment adder) because it fosters the development of NTP&S that promote the Commission's broad policy objectives to reduce Green House Gas (GHG) and air pollutant emissions as well as improve energy efficiency and promote the development of renewable energy sources. Because these investments in NTP&S are below the line, the CPUC has broad discretion to set the benchmark. Allowing a 25 to 50 basis point adder to the benchmark creates a strong incentive for the utility to seek out NTP&S opportunities that advance the Commission's and the state's policy and can go beyond that allowed under California Public Utilities Code § 454.3, which applies to return on above the line, rate based assets. Such an adder will also provide additional compensation to SCG and SDG&E to compensate for the additional risk associated with the use of new, less proven technologies.

D. Ratemaking Treatment

The ratepayer allocation resulting from the three sharing mechanisms discussed above will be recorded as appropriate in SCG's or SDG&E's Rewards and Penalties Balancing Account (RPBA). This will ensure that ratepayers receive the benefit in a timely fashion and will provide a simple and straightforward way of crediting ratepayers with these shared revenues.

The ratepayer share of revenues will also be excluded from the post-test year earning sharing mechanism described by Mr. Emmrich in his testimony.[5]

[5] See Exhibit SCG-39 and Exhibit SDG&E-46.

In subsequent GRCs, NTP&S revenues in excess of the amount adopted by the Commission for TY2012 will be excluded from the calculation of base margin and will not be part of the Miscellaneous Revenues for purposes of calculating subsequent revenue requirements for the utility. In addition, the level of NTP&S included in the adopted TY2012 revenue requirement will be carried forward from GRC to GRC and not subject to further forecast. This will be the baseline level of NTP&S and will ensure that ratepayers continue to garner the benefits of the current level of NTP&S revenues into the future. This also creates a long-term incentive for the companies to maximize the benefits to ratepayers and to potential customers of these services.

E. Exclusion of Oil Revenues from NTP&S Sharing Mechanism

SCG proposes that oil revenues associated with the production of oil in association with natural gas storage fields (i.e., the Montebello, Honor Rancho, Aliso, and Playa del Ray storage facilities) be excluded from the NTP&S Sharing Mechanism described above.

The Commission has already in place a regulatory treatment, as adopted in D.01-06-081 regarding the treatment of revenues of oil revenues at the Montebello storage facility. Oil revenues produced in association of the decommissioning of Montebello are recorded in a tracking account, as are all costs, with net revenues shared equally between ratepayers and shareholders. SCG is not seeking to change the treatment of Montebello oil revenues with this proposal.

In D.10-04-034 the Commission established a ratemaking mechanism for incremental revenues from incremental oil production associated with the capacity expansion at the Honor Rancho storage facility. Again, SCG is not seeking to change this recently adopted ratemaking treatment for incremental oil production associated with the expansion of Honor Rancho.

Moreover, in D.06-06-065, the Commission adopted a revenue-sharing mechanism for incremental oil and gas revenues that might result from SCG's Native Gas Program at its active storage fields (excluding Montebello, which is no longer used for storage of gas). SCG is not proposing here to change that mechanism, either.

With respect to revenues that result from existing oil production at SCG's Aliso Canyon, Honor Rancho and Playa del Rey storage facilities, SCG proposes to exclude these from the NTP&S as well. The major driver of changes in revenue is the price of oil in the global oil market. For this reason SCG proposes to exclude these oil revenues form the sharing mechanism described above.[6]

[6] These are also excluded from the list of Existing NTP&S in Appendix RCL-B.

Revenues from oil production for these facilities and from existing oil production at Honor Rancho would continue to be forecast in the estimates of Miscellaneous Revenues as proposed in Todd Cahill's testimony (Exhibit SCG-32).

III. COMPLIANCE WITH RULE VII OF THE AFFILIATE TRANSACTION RULES

A. Rule VII.D

Rule VII.D sets forth the following general conditions that must be met before a utility can offer any new NTP&S. A utility may offer new NTP&S only if the Commission has adopted and the utility has established:

1. A mechanism or accounting standard for allocating costs to each new product or service to prevent cross-subsidization between services a utility would continue to provide on a tariffed basis and those it would provide on a non-tariffed basis;
2. A reasonable mechanism for treatment of benefits and revenues derived from offering such products and services, except that in the event the Commission has already approved a performance-based ratemaking mechanism for the utility and the utility seeks a different sharing mechanism, the utility should petition to modify the performance-based ratemaking decision if it wishes to alter the sharing mechanism, or clearly justify why this procedure is inappropriate, rather than doing so by application or other vehicle;
3. Periodic reporting requirements regarding pertinent information related to non-tariffed products and services; and
4. Periodic auditing of the costs allocated to and the revenues derived from non-tariffed products and services.

SCG and SDG&E have in place accounting standards that require all of the future incremental costs associated with the provision of NTP&S, including those incremental costs required to expand existing NTP&S, to be booked "below the line" and excluded from the calculation of the utilities regulated revenue requirement. This prevents cross-subsidization between the services the utilities provide on a tariffed basis and those provided on a non-tariffed basis. This accounting safeguard also helps assure that the utility does not harm any existing competition by cross subsidizing NTP&S.

SCG and SDG&E are proposing sharing mechanisms for NTP&S, as described above. These sharing mechanisms fairly allocate the benefits based on the additional risk shareholders and ratepayers take on. Neither SCG nor SDG&E are currently subject to a performance-based ratemaking mechanism and neither currently has a sharing mechanism for the benefits associated with the offering of NTP&S. This sharing mechanism meets the requirement of Rule VII.D of the Commission's Affiliate Transaction Rules for SCG and SDG&E's new and existing NTP&S.

B. Rule VII.H

SCG and SDG&E will continue to report program revenues and will report related earnings allocation from the NTP&S program in an annual report in compliance with Rule VII.H. The Commission requires that the SCG and SDG&E report provide a brief description of the non-tariffed product and service categories it offers, costs allocated to, and revenues derived from, each category, and information on the proportion of relevant utility assets used to cover each category of product and service. This report will include the allocation of benefits between ratepayers and shareholders. Thus, the information in this report will also satisfy the Commission's requirement in Rule VII.E. Furthermore, to ensure compliance with the requirements of Rule VII, SCG will use its biennial independent audit of compliance as required by Affiliate Transaction Rule VI.C to review its NTP&S.

IV. CONCLUSION

Granting the NTP&S program and sharing mechanisms described above is the public interest as it provides significant incentive for the utility to produce additional revenue by offering of these non tariffed products and services, which will benefit ratepayers, customers, and shareholders.

The Commission should grant the request above because doing so is in the public interest for the reasons described above.

V. STATEMENT OF QUALIFICATIONS

My name is Robert C. Lane. I am currently employed by San Diego Gas and Electric as Director - FERC, CAISO and Compliance and am a shared service employee with SCG. I have had this position since November 2010. From April 2010 to November 2010, I was Director - Regulatory Strategy at SDG&E and also a shared service employee with SCG. Prior to this position, I was Manager - Corporate Regulatory Policy at Sempra Energy.

Prior to joining the Sempra Energy family of companies in April of 2007, I was employed by the California Public Utilities Commission as Advisor: Policy and Planning and Chief of Staff to Commissioner John Bohn. I was appointed by Governor Schwarzenegger as Advisor: Policy and Planning in April of 2004 and began serving as Commissioner Bohn's Chief of Staff in May of 2005.

From May of 2003 through April of 2004, I was an independent consultant providing consulting service to telecommunications companies regarding CPUC procedures and policies and provided expert testimony in the arbitration of commercial disputes. From May 2002 through May of 2003, I was a district representative for Congressman Bill Thomas in Bakersfield, CA.

From June of 2000 until September of 2001, I was Program Manager at The Yankee Group, a Boston, MA based technology and market research consulting firm where I was part of the company's Consumer Market Convergence group. In that role, I was responsible to providing expert analysis of emerging trends in the telecommunications industry focusing and the convergence of voice, video and data markets and service in the consumer market.

I began my professional career at the California Public Utilities Commission in June of 1988, where I started as a Public Utilities Regulatory Analyst (PURA I) in the Commission's Division of Ratepayer Advocates. I served as a Public Utility Regulatory Program Specialist I[7] in what was then called the Commission's Advisor and Compliance Division (CACD), where I was part of a team of economists, engineers and lawyers that represented the CPUC and the people of the State of California in interstate natural gas matters before the Federal Energy Regulatory Commission. I was a Public Utility Regulatory Program Specialist IV in the Commissions' Division of Strategic Planning, where I worked on the Commissions Telecommunications Infrastructure Study and electric industry restructuring. In October of 1993, I became Advisor to Commissioner Jessie J. Knight working on telecommunications, water, transportation and energy issues. I served Commissioner Knight in this

[7] Equivalent to a PURA III by current CPUC classifications

capacity until the end of his term in 1998. I also served as an interim advisor to Commissioner Joel Hyatt in 1999. I left the Commission in June of 2000.

I received my Bachelors of Arts degree in Economics from New Mexico State University in May of 1986. I also received a Master of Arts degree in Economics in May of 1988 from New Mexico State where I was part of a specialized degree program on the economics of public utilities. While attending New Mexico State University, I was an intern at United Telephone in Overland Park, KS and for US West in Denver Colorado. I was also a US West Research Fellow in 1988.

I have previously testified before the CPUC, the Federal Energy Regulatory Commission and before the legislatures of California, Nevada and Maine.

This concludes my testimony

APPENDIX RCL – A

Formula for Calculation of Pre-Tax Net Revenue Sharing Required To Yield a 50/50 After-Tax Sharing

The correct allocation of pre-tax net revenues to shareholders and ratepayers respectively, can be calculated, as follows, where "t" is the corporate average state and federal tax rate (40.75 percent for SCG and SDG&E) and "k" is the ratio of ratepayer to shareholder after-tax net revenues. Incremental cost includes depreciation and a return on invested capital (net of accumulated depreciation) set equal to the benchmark rate of return.

$$\text{Shareholder Share} = (\text{Pre-Tax Net Revenues}) / (2 - t)$$

$$\text{Shareholder Share} = (\text{Pre-Tax Net Revenues}) /(2 - 0.4075)$$

$$\text{Shareholder Share} = 62.79\% \times (\text{Pre-Tax Net Revenues})$$

APPENDIX -- RCL- B

LIST OF NTP&S DEFINED AS EXISTING SERVICES
Those NTP&S With Revenues In 2009

SCG

Category and Product or Service Descriptions *	Product / Service Revenues 2009 $
INSTALLATION AND MAINTENANCE OF GAS FACILITIES FOR CUSTOMERS	
Installation and Maintenance of Gas Facilities for customers (77 jobs) Down from 92 jobs in '08	$ 1,794,187
SALE AND INSTALLATION OF PARTS FOR CUSTOMER-OWNED GAS APPLIANCES AND EQUIPMENT	
Residential Parts Program (28,081 orders) Down from 44,508 in '08	$ 1,576,013
Commercial Parts Program (14,934 orders) Down from 16,319 in '08	$ 2,984,289
GAS METER RELATED SERVICES	
Meter testing and repair services. Service primarily provided to utilities, cities, private industry. (One contract in 2009) 0 in '08	$ 3,150
NGV Facilities Calibration and Repair Services. (9 service contracts) Down from 10 in '08	$ 131,204
OPERATIONS SERVICES FOR OTHER UTILITIES, ENERGY SERVICE PROVIDERS, AND MUNICIPALITIES	
All Training - (142 classes) Up from 115 in 2008 (Distribution, Customer Service and Operator Qualification-Transmission)	$ 101,827
Engineering services (including testing of equipment and gas analysis) (6 contracts) Down from 10 in '08	$ 14,240
Gas Transmission -- Consulting Consulting and training services - one customer	$ 26,860
Line Item Billing (One contract)	$ 127,711
DISTRIBUTED (ON-SITE) POWER GENERATION	
None	

INFORMATION, NETWORK AND SOFTWARE PRODUCTS AND SERVICES		
Mapping service, i.e., custom preparation of maps of local areas showing utility facilities, as well as sale of copies of existing map sheets (One contract)	$	3,622
ENVIRONMENTAL MANAGEMENT PRODUCTS AND SERVICES		
Brokering of air emissions credit trading (12.9 tons NOx Mobile Source Emission Reduction credits)	$	79,322
ASSET-BASED SERVICES		
Aliso-Crimson agreement - Disposal fee for waste water	$	77,550
Aliso-TERMO - fee for fresh water, water disposal and road maintenance usage	$	37,145
Transmission Road Access Fees	$	23,600
Goleta Arguello Emissions Credit	$	1,023,200
Rental or leasing of SoCalGas buildings other than ERC (3 leases) Same as '08	$	57,065
Rental or leasing of SoCalGas property (other than buildings or the ERC) (24 leases) Same as '08 SCG Land & Right of Way - Admin. Fees collected for real property documents Special event parking - Anaheim Hdqts.	$	397,065
Leasing of excess microwave communications capacity. (1 lease)	$	26,715

Category and Product or Service Description*	Product / Service Revenues 2009 $
PROCUREMENT ASSISTANCE	
None	
ASSET BASED SERVICES	
Pole Attachment fees for telecommunications carriers, etc... (22 customers) Same as '08	$ 1,240,885
Licensing of excess microwave capacity (One customers) Note (2) Down from 2 in '08 + corrections from prior years	$ 18,920
REVENUE CYCLE SERVICES	
None	
CALL CENTER AND CUSTOMER CONTACT SERVICES	
None	
AFTER METER SERVICES	
None	
ENGINEERING AND TECHNICAL SERVICES	
Street light inspection and connection fees (23 street lights) Up from 20 in 2008	$ 244
TRANSMISSION AND DISTRIBUTION SYSTEM ENHANCEMENT AND RELOCATION	
None	

ENVIRONMENTAL CONSULTING SERVICES	
Chemical and other substance testing (9 customers) Up from 6 in 08	$ 192,803
Sale of surplus air emission credits (5 tons) down from 6.5 tons in '08	$ 3,800
OTHER CONSULTING SERVICES	
None	
NGV/ELECTRIC VEHICLE RELATED SERVICES	
Revenue from the use of utility expertise and experience in site design, construction and operation of vehicle fueling and charging stations. Note: Some NGV fueling stations are included in rate base tariffed revenues Note (1)	
EQUIPMENT MANUFACTURING / ASSEMBLY	
None	
REAL ESTATE SERVICES	
Use of gas, electric and common property, property rights and associated real estate services	$ 48,000
Miscellaneous rents and leases from excess property and right-of-ways (CRE - 17 licenses) (Asset Mgmt - 4,115 feet of conduit) Down from 22 in '08	$ 421,692
Communications rents and leases (29 licenses) Up from 28 in '08	$ 594,512
Parking (18 licenses) Down from 22 in '08	$ 197,605
Agriculture rents and leases (8 licenses) Down from 9 in '08	$ 103,283

INFORMATION AND NETWORK SYSTEM SERVICES	
None	
INCIDENTAL PRODUCTS AND SERVICES	
Incidental value of utility services and operational byproducts for 13 customers (down from 25 customers in 2008)	$ 14,975
CORPORATE SUPPORT SERVICES	
None	
GENERATION SUPPORT	