Application No: A.11-11-002
Exhibit No.:
Witness: Beth Musich

In the Matter of the Application of San Diego Gas & Electric Company (U 902 G) and Southern California Gas Company (U 904 G) for Authority to Revise Their Rates Effective January 1, 2013, in Their Triennial Cost Allocation Proceeding	)))))))	A.11-11-002 (Filed November 1, 2011)

REVISED REBUTTAL TESTIMONY OF

BETH MUSICH

SAN DIEGO GAS & ELECTRIC COMPANY

AND

SOUTHERN CALIFORNIA GAS COMPANY

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

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REVISED REBUTTAL TESTIMONY OF

BETH MUSICH

A. PURPOSE

The purpose of my rebuttal testimony is to respond to the following proposals presented by intervenors in their November 16, 2012 direct testimony:

- The proposal by the Division of Ratepayer Advocates (DRA) that SoCalGas and SDG&E be put at risk for 10% of their noncore transportation revenue requirement;
- The proposal by DRA that the gas demand throughput model of SoCalGas and SDG&E be re-run to include 2011 actual demand data, and that DRA's updated throughput gas demand forecasts be adopted by the Commission, rather than the utilities' gas demand throughput forecasts;
- The proposal by SCE for a Southern System Minimum Flow Order; and
- The proposal by Southern California Generation Coalition (SCGC) that the SoCalGas System Operator be required to discount interruptible Backbone Transmission Service (BTS) at Ehrenberg to zero prior to implementing other System Operator tools to meet minimum flow requirements on the SoCalGas Southern Transmission System (Southern System).

B. SOCALGAS AND SDG&E SHOULD NOT BE PUT AT RISK FOR NONCORE TRANSPORTATION THROUGHPUT

DRA proposes that SoCalGas and SDG&E be put at risk for 10% of their noncore transportation revenue requirement.[1] The rationale for this change, according to DRA, is as follows:

[1] DRA-07 (Sabino) at 2-1.

> When the utilities' [sic] are put at risk 100%, they become more invested in the outcome of keeping costs at reasonable levels for their customers to ensure cost recovery. On the other hand, with 100% balancing account protection, the utilities will be assured of cost recovery in their noncore revenues even if actual sales volumes are below the adopted throughput forecast in the TCAP. A 100% balancing account protection provides revenue certainty, and as such, utilities have less stake in keeping costs at reasonable levels. Under a 100% balancing account protection scenario, customers will tend to be less assured that utilities will be doing what is in the best interest of customers to keep costs at reasonable levels.[2]

This recommendation should not be adopted by the Commission. As discussed at length in my direct testimony, continuation of the 100% balancing account treatment currently in place for system throughput will continue to align shareholder, customer, and Commission interests in achieving energy efficiency goals.[3] Now is not the time to make a change to long-standing Commission policy on this issue, and place SoCalGas and SDG&E shareholders at risk for noncore throughput for the first time since 2003.

In D.09-09-047, the Commission affirmed that cost-effective energy efficiency measures are the State's highest energy priority. The Commission instituted a comprehensive, long-term energy efficiency strategy to achieve the ultimate goal of making energy efficiency a way of life. It would send the wrong message to place shareholders at risk for system throughput by providing an incentive to increase energy usage.

In its testimony, DRA presents data on SoCalGas and SDG&E's spending and energy savings for our Energy Efficiency Program.[4] These exhibits show variations that would reasonably be expected when dealing with programs that require customer actions beyond the control of SoCalGas and SDG&E. DRA concludes that this data somehow decouples the need for 100% balancing account protection and the achievement of energy efficiency goals. I

[2] DRA-07 (Sabino) at 2-1 and 2-2.
[3] *See* Prepared Direct Testimony of Beth Musich at 2-6.
[4] DRA-07 (Sabino) at 2-11 and 2-12.

respectfully disagree. California's "Flex Your Power" website touts the advantages of decoupling, stating that "California's decoupling policy is largely responsible for making California the nation's most energy efficient state, while promoting economic growth."[5] This site goes on to explain that "[b]y breaking the link between the utility's sales and profits, decoupling creates an incentive for utilities to sell less energy and focus on energy efficiency."[6] Clearly the State of California believes that decoupling is in the best interests of the ratepayers, even if DRA does not.

DRA's concern that imposition of an at-risk condition is required to ensure that SoCalGas and SDG&E rates are developed appropriately, and to ensure that discounted transportation contracts are negotiated when necessary to prevent bypass, is unfounded. DRA provides no evidence that our costs are unreasonably high, or that an at-risk condition would lead to lower such costs. Moreover, mechanisms are already in place for interested parties, including DRA, to examine SoCalGas and SDG&E's rate proposals, throughput forecasts, and discounted contracts in order to help ensure that our costs are reasonable. The Commission needs to recognize that the factors that influence noncore and electric generation (EG) demand on our systems are largely influenced by factors outside SoCalGas and SDG&E's control. As a result, there would be no policy served by placing SoCalGas and SDG&E at risk for throughput. Moreover, such a change would create a more antagonistic and burdensome regulatory environment, where parties seek to shift forecasting risk to SoCalGas' and SDG&E's shareholders.

[5] *See* http://www.fypower.org/pdf/Decoupling.pdf.
[6] *Id.*

In support of its proposal to put SoCalGas and SDG&E at risk for noncore throughput, DRA asserts that PG&E is at risk for 100 percent of its entire noncore transmission throughput.[7] This contention is not accurate. As a result of the most recent Gas Accord Settlement, PG&E has 50/50 sharing of noncore revenues on its backbone system, and 75/25 sharing of noncore revenues on its local transmission system. In addition, as part of that same settlement, PG&E shareholders enjoy higher storage earnings than does SoCalGas. SoCalGas and SDG&E's BTS structure, on the other hand, is predicated on 100% balancing account treatment. Many elements of that structure would be untenable under PG&E's at-risk transmission structure—such as firm alternate rights and the ability to contract for firm rights at the same rate under terms as short as one day.

Placing SoCalGas and SDG&E at risk for recovery of transportation costs would encourage us to increase throughput, contrary to the Commission's energy conservation goals – all for no discernible benefit. The Commission should continue to follow the policies described in the "Flex Your Power" website, and decline to take the big step backwards being promoted by DRA.

C. IF GAS DEMAND FORECASTS ARE UPDATED TO INCLUDE 2011 ACTUALS, *ALL* FORECASTS SHOULD BE UPDATED

DRA proposes that the gas demand throughput model of SoCalGas and SDG&E be re-run to include 2011 actual demand data.[8] According to DRA, its recommended throughput forecasts reflect 2011 actual demand data, and, on that basis, DRA urges the Commission to adopt its gas demand forecasts rather than the forecasts presented by SoCalGas and SDG&E.[9]

[7] DRA-07 (Sabino) at 2-8.
[8] DRA-01 (Peck) at 3.
[9] DRA-01 (Peck) at 3. DRA's actual proposed gas demand forecasts are presented in DRA-02 (Sierra).

SoCalGas and SDG&E are comfortable moving forward with the throughput forecasts we have presented in our direct testimony, and we do not believe that it is necessary to update our forecasts to include 2011 demand data. Any throughput forecast represents a snapshot in time, and our forecasts are not faulty just because they do not include data developed after the forecasts were created. That said, SoCalGas and SDG&E are not opposed to DRA's recommendation that we re-run our gas demand throughput model to include 2011 data. Data from 2011 is now available, and would make our forecasts somewhat more current.

SoCalGas and SDG&E do, however, strongly oppose adoption of the gas demand forecast numbers presented by DRA. As explained in the rebuttal testimony of Mr. Wetzel, DRA has selectively updated certain forecasts to include 2011 data, while not updating other forecasts. This approach is not appropriate. To help ensure a level playing field among customer classes, all gas demand forecasts in a particular cost allocation proceeding should be based on the same approach to forecast development. If some gas demand forecasts are based on 2010 data, *all* forecasts should be based on 2010 data. Likewise, if some gas demand forecasts are based on 2011 data, then *all* forecasts should be based on 2011 data. In fact, *consistency* in forecast methodology is probably more crucial to achieving a fair result that using one vintage of data versus another.

In the spirit of cooperation, SoCalGas and SDG&E will voluntarily update all of their gas demand forecasts to include 2011 data. We will endeavor to provide the revised forecasts, along with updated rate tables that incorporate the revised forecasts, to all parties in the next few weeks. Actual timing of this production will depend on the number and nature of data requests we receive regarding our rebuttal testimony, but we hope to provide this updated material to parties no later than the first week in January. If we are able to complete the work more quickly, we will. SoCalGas and SDG&E will be willing to sponsor the revised forecasts and updated rate tables if the Commission and parties would like to use the updates. But we are also willing to continue sponsoring our existing forecasts and related rate tables.

D. THE COMMISSION SHOULD DECLINE TO ADOPT THE SOUTHERN SYSTEM PROPOSALS OF SCE AND SCGC

SCE proposes that the Commission adopt a Southern System Flow Order (SSFO) that would require each customer on the SoCalGas Southern System, on days when forecasts indicate that minimum flows on the Southern System will not be met by flowing supplies, "to bring in an amount of gas within the determined tolerance of the amount of gas that customer burns on that day."[10] SCGC proposes that the SoCalGas System Operator be required to discount interruptible BTS at Ehrenberg to zero prior to implementing other System Operator tools to meet minimum flow requirements on the SoCalGas Southern System.[11] Neither of these proposals should be adopted by the Commission.

1. Proposals to Deal with Minimum Flows on the Southern System Should Not be Considered in Phase 2 of this Proceeding

When it approved the memorandum in lieu of contract (MILC) between the SoCalGas System Operator and Gas Acquisition in Resolution G-3468, the Commission expressed certain concerns about the transfer of minimum flow responsibility from Gas Acquisition to the System Operator, and required SoCalGas to provide an assessment of the transfer in Phase 2 of this TCAP. I provided the requested assessment in my Supplemental Direct Testimony, submitted on September 10, 2012. Pursuant to the Commission's direction, this assessment discussed each of the following topics:

- Steps taken by the System Operator since the transfer of responsibility;

[10] SCE-3 (Grimm) at 9.
[11] Direct Testimony of Catherine Yap at 24-27.

- Cost before and after the transfer of responsibility;
- Additional steps and timing necessary to effect the full intent of the transfer; and
- An assessment of the System Operator's capability to take those steps.

SoCalGas has not proposed any new System Operator tools in this proceeding, or presented any other proposals for dealing with minimum flows on the Southern System. Our direct showing with respect to Southern System issues has been limited to an assessment of the transfer of minimum flow responsibility from Gas Acquisition to the System Operator.

As explained in my Supplemental Direct Testimony, SoCalGas is not satisfied with the current situation in which Southern System needs cannot be physically served by flows from other parts of SoCalGas' system, and SoCalGas is concerned that the current situation in which customers have no responsibility for bringing flowing supplies into the Southern System (other than bundled core customers pursuant to the Revised MILC), may not be the optimal situation for system reliability and cost control.[12] SoCalGas is currently considering whether changes need to be made to the status quo with respect to the Southern System, including a new Southern System Minimum Flow Requirement for *all* end-use customers, and possible physical enhancements to the SoCalGas system that would mitigate or eliminate the need for flowing gas supply requirements on the Southern System.[13]

It would not be fair for SoCalGas and SDG&E to present either a new Southern System Minimum Flow Requirement proposal for *all* end-use customers, or a new proposal for physical enhancements to the SoCalGas system, for the first time in our rebuttal testimony. Yet, it would also not be fair (or efficient) for the Commission to consider SCE's and SCGC's proposal for

[12] Supplemental Direct Testimony of Beth Musich at 14.
[13] Supplemental Direct Testimony of Beth Musich at 14-16.

dealing with Southern System flow requirements without also considering competing proposals that SoCalGas and SDG&E believe are better alternatives.

In addition, as discussed in more detail below, Southern System issues are complex, and touch on issues of electric grid reliability and cost. In addition, Southern System minimum flow requirements, and the costs of serving those requirements, are being exacerbated by the on-going outages at the San Onofre Nuclear Generating Station (SONGS). Conversely, the record with respect to Southern System issues in this proceeding is very limited – consisting of just my Supplemental Direct Testimony focusing on the transfer of minimum flow responsibilities from one SoCalGas department to another, nine pages of testimony from SCE describing Southern System minimum flow issues and presenting SCE's SSFO proposal,[14] and three pages of testimony relating to the Southern System from SCGC.[15] This is not enough of an evidentiary record for the Commission to understand Southern System issues, let alone make a reasoned decision regarding proposals to deal with Southern System minimum flow requirements.

SoCalGas and SDG&E believe that Southern System issues should be dealt with outside of Phase 2 of this proceeding. We have been contemplating filing an application to obtain additional tools to deal with Southern System minimum flows. If, however, the Commission wishes to take up the question of possible additional measures to deal with Southern System minimum flow requirements in this TCAP, SoCalGas and SDG&E strongly recommend that the Commission establish a Phase 3 in this proceeding devoted to Southern System minimum flow issues and related proposals. This would allow SoCalGas and interested parties to develop an appropriate record, and present their proposals in an inclusive environment that will allow for all proposals to be given the attention they deserve. SoCalGas and SDG&E would further suggest

[14] SCE-3 (Grimm) at 2-10.
[15] Direct Testimony of Catherine Yap at 24-27.

that the Commission convene facilitated all-party workshops to consider Southern System minimum flow issues -- along the lines of the workshops that have been successfully used in the various phases of the Commission's ongoing fire safety rulemaking, R.08-11-005. SoCalGas and SDG&E believe that an informal workshop environment could be helpful in facilitating the development of necessary technical information (particularly information regarding the potential effects on the electric grid and electric costs of any potential new Southern System proposals), and may also be conducive to the development of consensus proposals.

If the Commission is nonetheless determined to consider SCE's and SCGC's Southern System proposals in Phase 2 of this proceeding, SoCalGas and SDG&E respectfully request that the Commission either decline to adopt their proposals for the reasons outlined below, or at least give SoCalGas, SDG&E, and other parties interested in these issues an opportunity to further develop an evidentiary record regarding Southern System issues, to submit testimony with respect to competing Southern System minimum flow proposals, and to submit rebuttal testimony with respect to such competing proposals.

2. SCE's SSFO Proposal Should Be Rejected

SCE's SSFO proposal would impose a potential minimum flow responsibility only for SoCalGas customers located on the Southern System. This proposal would unfairly put a substantial additional balancing requirement on one subgroup of customers for no reason other than their geographic location. Customers on our system pay postage stamp rates, and the cost of system improvements are paid for by all customers, even if specific improvements (e.g., new pipeline facilities in Kern County) are not actually used by customers located far from such facilities. SCE's proposal starts taking SoCalGas rates down the road to "pathing." The Commission should not take such a step without a thorough examination of the implications of such an approach (e.g., If flow requirements are more onerous for EGs located on our Southern

System, does that have cost or reliability implications for electric customers? Would it affect siting decisions for future EGs?)

In addition, SCE's proposal that SSFOs only be in place on days when forecasts indicate that minimum flows on the Southern System will not be met by flowing supplies could have potential unanticipated consequences in the natural gas marketplace. Edison's approach is unworkable because SoCalGas is usually not aware until after Cycle 1 that minimum flows will not be met, forcing customers on the Southern System to purchase gas in the potentially more expensive and less liquid later daily gas scheduling cycles. SoCalGas and SDG&E believe that, for a variety of reasons, a more appropriate approach would be a limited delivery requirement each and every day, rather than a requirement that applies only once SoCalGas calls for additional supplies. This particular aspect of SCE's proposal should not be considered by the Commission without a thorough evaluation of the pros and cons of alternative approaches.

3. SCGC's Proposed BTS Discounting Requirement Should be Rejected

As noted above, SCGC is proposing that the SoCalGas System Operator be required to discount interruptible BTS at Ehrenberg to zero prior to implementing other System Operator tools to meet minimum flow requirements on the SoCalGas Southern System. This ill-advised proposal can and should be rejected by the Commission without further consideration here, in a Phase 3, or in a separate Southern System application proceeding.

First, SCGC misunderstands Southern System issues, mistakenly stating that "[t]here are periods during the year when there is insufficient deliverability between the northern and southern portions of the system otherwise known as minimum flow conditions."[16] In reality, there is a Southern System minimum flow requirement *every* day of the year. Put another way, a

[16] Direct Testimony of Catherine Yap at 25.

certain level of flowing supplies are needed at Southern System receipt points all year round. SCGC is incorrect when it asserts that we have "failed to systematically pursue the discounting of interruptible BTS capacity as a cost effective means of attracting flowing gas supplies to the Southern System." As my supplemental testimony explained, we have been aggressively discounting BTS into the Southern System every month since December of 2011. Despite aggressive BTS discounting ($6.9 million over the annual period ending August 31, 2012), the System Operator is still regularly buying gas to meet Southern System needs.

SoCalGas should not be required to implement any one of its existing System Operator tools before it can use the others. If, for example, SoCalGas is required to see if BTS discounting will produce the necessary minimum flows, and BTS discounting does not, the only option available to SoCalGas would be late-cycle spot purchases. Such supplies are likely to be more expensive than other alternatives, and may not be available at all under certain circumstances. BTS discounts can be a valuable tool, and we are already using them as such. But for the sake of low costs and system reliability, they should not be given the preeminent status proposed by SCGC.

SCGC's recommendation to reduce the BTS interruptible rate to zero prior to purchasing flowing supplies to meet minimum flow conditions will not work unless the price of BTS into the Southern System is always set at zero. Such a strategy would be very expensive, and may not produce the desired results. The System Operator does not know until after Cycle 1 (the morning of the day before the flow date) that insufficient supplies are scheduled into the Southern System, and thus most Southern System purchases by the System Operator occur in Cycle 2. If SoCalGas were to follow the recommendation of Ms. Yap and discount towards zero after we know there is a shortfall of supplies at Blythe, then we would not offer BTS discounts until Cycle 2 -- when most shippers have already scheduled their gas. And if those discounts proved to be insufficient, then the Hub would be required to purchase spot gas supplies in Cycle 3 when supplies tend to be more costly. Contrary to Ms. Yap's proposal, SoCalGas has been setting the price for daily interruptible discounts *ahead* of Cycle 1 and monthly discounts *ahead* of bidweek, when we still have the opportunity to influence shipper behavior. Ms. Yap's suggestion would simply occur too late in the process to help with the Southern System minimum.

For all of these reasons, the Commission should summarily reject SCGC's proposal to require the System Operator to discount interruptible BTS at Ehrenberg to zero prior to implementing other System Operator tools to meet minimum flow requirements on the Southern System.

This concludes my revised prepared rebuttal testimony.