

Application No.: A.03-09-

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**PREPARED DIRECT TESTIMONY OF  
JEFFREY B. HORN AND JOSEPH S. VELASQUEZ  
SOUTHERN CALIFORNIA GAS COMPANY**

**September 3, 2003**

**2005 BIENNIAL COST ALLOCATION PROCEEDING**

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1 **B. SOCIALGAS NONCORE REVENUE TREATMENT AND COST**  
2 **ALLOCATION**

3 The market conditions and business environment that provided the original basis  
4 for placing SoCalGas shareholders at risk for noncore revenue throughput has changed  
5 markedly. Imposing that risk is no longer appropriate under or consistent with today's  
6 gas market and regulatory structures. The Commission should continue to provide 100%  
7 balancing of noncore throughput for the 2005 BCAP period by continuing that treatment  
8 as adopted in D.02-12-017.

9 Until issuance of D.02-12-017, SoCalGas shareholders had been at risk for  
10 noncore transportation revenue (throughput) since the implementation of D. 86-12-009  
11 and D. 86-12-010. In those decisions the Commission provided SoCalGas the flexibility  
12 to enter into negotiated contracts with noncore customers to compete with alternative  
13 fuels, and placed SoCalGas at risk for noncore revenues so the utility would "act  
14 responsibly." When the Commission put SoCalGas at risk for noncore revenue, it  
15 recognized "that utilities face increasing competition at a time when utilities appear to  
16 have excess capacity..."<sup>1</sup> In light of that recognition, the Commission decision was  
17 "concerned with the pricing of 'transportation' in a way that would enhance economic  
18 efficiency"<sup>2</sup> by allowing the utilities to negotiate contracts that might compete with  
19 alternate fuels to gain and retain load. The basis, therefore, for putting SoCalGas at risk  
20 for noncore throughput was to incentivize the utility to gain and retain load, compete with  
21 alternate fuels, utilize excess capacity, and encourage responsible behavior.

22 Despite adding this risk and incentive to the utilities, the Commission required  
23 SoCalGas to submit all short term negotiated contracts with the Commission's Evaluation  
24 and Compliance Division<sup>3</sup> and reserved the right to review the contracts at some later  
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26 <sup>1</sup>D.86-12-009 pp. 6-7

27 <sup>2</sup> *ibid*, p. 7

28 <sup>3</sup> *ibid*, p. 39, "A most effective safeguard will provide that the utility be required to file copies of all contracts with our Evaluation and Compliance Division..."

1 date for reasonableness.<sup>4</sup> The Commission also required that long term contracts (those  
2 having terms of five years or more) be submitted by advice letter for approval, and  
3 admonished the utilities that, "...our approval will not insulate their shareholders from  
4 bearing some of the risks of long term contracts where it can later be shown that the  
5 utility failed to take into account material information of which it was or should have  
6 been aware...."<sup>5</sup> These Commission requirements and admonitions continue in force  
7 today.

8           However, over the past 17 years, the gas market and alternate fuel environment  
9 have changed dramatically. There is little alternate fuel competition from fuel oil due in  
10 part to restrictive air quality regulations, which are expected to remain in force for the  
11 duration of this 2005 BCAP period. Furthermore, given I.00-11-002, D.02-11-073 and  
12 the California Energy Commission's Electricity and Natural Gas Assessment Report and  
13 the Integrated Energy Policy Report, it is clear that the State has increased its emphasis  
14 on conservation to ensure that transmission facilities maintain a healthy slack capacity  
15 factor. California is no longer interested in pursuing policies that encourage SoCalGas to  
16 utilize excess capacity.

17           The key drivers for placing SoCalGas at risk, alternate fuel competition and  
18 utilization of excess capacity, are not primary concerns of public policymakers today.  
19 Furthermore, in light of the Commission' reasonableness review rights and approval  
20 requirements for short and long-term contracts, respectively, one must question whether  
21 adding shareholder risk on noncore throughput is intended to somehow further impact  
22 SoCalGas' competitive behavior or is merely punitive. This is especially true when one  
23 considers that the key causes of year-to-year changes in noncore throughput are beyond  
24 SoCalGas' control.

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26 <sup>4</sup> *ibid*, p. 40, "We of course reserve the right to later review these contracts for reasonableness."

27 <sup>5</sup> *ibid*, p. 41

1 Putting SoCalGas at risk for noncore throughput effectively makes SoCalGas  
2 shareholders responsible in large part for controlling the uncontrollable. The primary  
3 driver for noncore revenues from year to year, is electric generation (“EG”) usage. As  
4 SoCalGas witness Luis Pando describes in his testimony in this proceeding, EG gas  
5 demand in SoCalGas’ territory is highly dependent on the availability of hydroelectric  
6 generation in the WECC, in particular, from the Pacific Northwest (“PNW”), end-use  
7 electricity demand, availability of traditional base load generation sources, such as  
8 nuclear and coal plants, and construction of new generation facilities. Therefore, in the  
9 environment we have today there is no logic to, or policy rationale for, putting SoCalGas  
10 at risk for noncore demand with the idea that this will create a more critical approach to  
11 serving the noncore market.  
12

13 In fact, putting SoCalGas at risk for noncore demand is antithetical to  
14 customers’ interests in promoting conservation and maintaining slack capacity. These are  
15 interests that the State and the Commission have gone to extensive efforts to promote.  
16 For example, recently enacted Public Utilities Code Section 739.10 states: “The  
17 commission shall ensure that errors in estimates of demand elasticity or sales do not  
18 result in material over or undercollections of the electrical corporations.” While  
19 obviously applicable only to electrical corporations, this legislation is exemplary of State  
20 policy to ensure utility revenue recovery is not dependant upon sales. Under the old  
21 75%/25% (ratepayer/shareholder) balancing of noncore throughput, shareholders (and  
22 therefore the corporation) were incentivized to increase sales during a BCAP period in  
23 order to insure against incurring a loss of revenue. However, many of the factors that  
24 once led SoCalGas to enter into special contracts with customers to maintain their load  
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1 are no longer relevant, and public policy is now focused upon conservation and  
2 maintaining slack capacity factors for gas utilities in order to insure service under all but  
3 the most extreme conditions.

4 In conclusion, SoCalGas believes that continuing the treatment of noncore  
5 revenue as adopted in D.02-12-017 is appropriate and constructive for this 2005 BCAP  
6 period. The original environment, a competitive alternate fuels market and recognition of  
7 excess utility capacity that led to a Commission policy to place the utility at risk for  
8 noncore revenue, has changed dramatically. Sufficient and significant regulatory controls  
9 remain in place to ensure that SoCalGas acts appropriately in competitive situations.  
10 Putting SoCalGas at risk for noncore revenue when the factors that create the greatest  
11 swings in noncore load are outside of SoCalGas' control lacks purpose and frustrates  
12 energy conservation policies. Current public policy promoting conservation and slack  
13 capacity are not advanced by putting SoCalGas shareholders at risk for under-recovery of  
14 gas throughput forecasts. Finally, stable rates may be achieved better when the utility,  
15 customers and interveners share an incentive to collaborate on noncore usage forecasts  
16 and are not working to achieve inconsistent agendas created by an outdated regulatory  
17 artifice.  
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21 **C. PROPOSAL TO SEGMENT RETAIL NONCORE CUSTOMERS**  
22 **INTO LARGE AND SMALL SEGMENTS**

23 SoCalGas proposes a new segmentation of noncore customers that, with the  
24 adoption of an associated rate design, is intended to lead to more efficient system  
25 planning and investment and, ultimately, more stable and competitive noncore rates.  
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1 SoCalGas' largest firm transportation customers and potential customers, as a  
2 group and individually, are often drivers for SoCalGas system planning and investment  
3 because these customers, typically large oil refineries and power plants, have extremely  
4 large and concentrated loads. When they make changes to their facilities or operations,  
5 for example adding equipment or responding to new environmental regulations, those  
6 changes are usually much larger than for smaller noncore customers, e.g. hospitals,  
7 universities, hotels. The resulting impact on SoCalGas' system can be significant.

8 To better align rate design with system planning, we propose to segment noncore  
9 customers into "Large" and "Small." "Large" noncore customers will be defined as any  
10 Commercial and Industrial ("C&I"), EG or Enhanced Oil Recovery ("EOR") customer  
11 whose historical peak day usage is equal to or greater than ten thousand decatherms per  
12 day (i.e., 10 Mdtherms/day) on any day over the previous 24 months. This definition was  
13 chosen because the Large segment includes SoCalGas' largest customers, whose  
14 operations and changes in operations have the largest impact on SoCalGas' system, and  
15 who are typically identified individually for system planning. The Small segment  
16 consists of customers who typically are not considered individually for system planning.  
17 EG customers with annual consumption equal to or greater than 3 million therms in the  
18 most recent 12-month period will also be designated as "Large" noncore customers.<sup>6</sup> The  
19 "Small" noncore customer segment will include all other retail noncore customers.  
20 Attachment 1 hereto contains the proposed revisions to SoCalGas' tariff rules and rate  
21 schedules that would implement the proposals made herein. This includes changes to  
22 SoCalGas Tariff Rule 1 defining "Large" and "Small" Noncore Customers.

23 SoCalGas serves approximately 1,070 retail noncore customers. Of these, a total  
24 of 67 customers (or 6%) would meet the proposed "Large" noncore customer definition.

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25 <sup>6</sup> The segmentation for the EG class at 3 million therms per year is consistent with the settlement signed by  
26 SoCalGas and the California Cogeneration Council (CCC) and Watson Cogeneration and filed in the PE-  
27 Enova merger application 98-03-073 and the segmentation approved by the Commission in SoCalGas' last  
28 BCAP decision, D. 00-04-060.

1 These 67 customers represent over 75% of total noncore retail gas usage. The remaining  
2 approximately 1,000 customers represent less than 25% of noncore retail gas demand.

3 These 1,000 or so customers would be classified as “Small” noncore under this  
4 segmentation proposal.

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6 **D. PROPOSAL FOR NEW SERVICE OFFERINGS FOR NONCORE  
RETAIL CUSTOMERS**

7  
8 **1. Increase noncore customer commitment to firm transportation service**

9 There has historically been a mismatch between the financial commitments  
10 SoCalGas and its ratepayers make to provide noncore firm transportation service and the  
11 financial commitments noncore customers make to use or pay for those utility services  
12 Currently, noncore customers have the option to select 2-year, full requirements contracts  
13 for firm transportation service. While they commit to take service only from SoCalGas  
14 and not to burn alternate fuels for the relatively short contract duration, those customers  
15 are not required to use natural gas nor are they committed to pay for the facilities that  
16 SoCalGas and its ratepayers must install or maintain to provide the firm service. A full  
17 requirements obligation to serve Large noncore customers without a corresponding  
18 commitment from those customers to use or pay for the necessary facilities and service  
19 shifts investment risk almost entirely to SoCalGas’ remaining ratepayers.

20 The challenge for SoCalGas is to forecast noncore load accurately and build  
21 efficiently to serve noncore customers’ demand for firm transportation service. Under  
22 the current rate structure, noncore customers have no direct, long-term, stake in  
23 SoCalGas’ system investment decisions. It is specifically these customers that are in the  
24 best position to accurately assess their own long-term needs for, and value of, firm  
25 service. Unfortunately, the current rate design provides no incentive for these customers  
26 to either share that information with SoCalGas or, more importantly, for them to  
27 financially commit to their own forecasts for utility planning purposes. This is most true  
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1 for Large noncore customers such as EGs, whose operation is extremely variable from  
2 year-to-year and whose usage is subject to displacement by off-system generators. Large  
3 noncore customers are the most likely to take service from an alternate service provider,  
4 fuel switch, or migrate out of SoCalGas' service territory without replacement. Because  
5 of their large size, these actions can have a significant impact on SoCalGas' system  
6 planning and utilization, and the rates paid by other customers.

7 A long-term commitment to firm service from noncore customers is key to  
8 effective system planning and efficient infrastructure investment. Customers are in the  
9 best position to provide SoCalGas with the information SoCalGas needs to accurately  
10 assess long-term customer requirements and system improvements. A long-term  
11 commitment is a clear indication that a customer values firm service, plans to use utility  
12 service, and will not switch to an alternate service provider or fuel. With a long-term  
13 commitment, SoCalGas can better plan and schedule required changes to its operating  
14 systems confident that system improvements will be used and paid for by the people for  
15 whom the improvements were made.

16 Long term noncore customer commitment to firm utility service will help ensure  
17 that firm noncore customers bear a reasonable assignment of utility transportation costs  
18 over the life of required investments. Through longer term commitments a  
19 disproportionate share of the facility costs will not be borne by other customers that do  
20 not have alternatives to utility service or are by their nature committed to using utility  
21 service for the long term. If firm noncore customers' gas requirements result in  
22 construction of new capital facilities with depreciation schedules in excess of 30 years, it  
23 is appropriate that these investments be supported with appropriate long-term  
24 commitments. Absent these commitments, any unrecovered costs associated with  
25 expansions for firm service to customers who subsequently elect non-utility providers or  
26 who expect to shut down, migrate out of territory, or bypass the utility will unfairly fall  
27 on the remaining utility customers.

1 The opportunity to bypass to FERC regulated pipelines has recently been  
2 promoted by some of SoCalGas' largest noncore customers. For example, on July 8,  
3 2003 FERC granted Questar's Motion for Extension of Time to Complete Construction  
4 and Commence Service of Questar Southern Trails' ("QST") West Zone, providing an  
5 extension of their certificate until and including January 31, 2005. Southern California  
6 Generation Coalition ("SCGC"), Watson Cogeneration, and ChevronTexaco,  
7 representing a significant percentage of SoCalGas' noncore load, each filed in support of  
8 the extension, with SCGC quoted as saying that putting the West Zone into service  
9 would, "...expose SoCalGas to a degree of competition for the provision of gas  
10 transmission service to the Southern California load center." In their June 30, 2003  
11 Motion for Extension, Questar noted that, "Based on current negotiations, QST  
12 anticipates that it will file an amendment to this application in order to provide service to  
13 one or more customers in Southern California. The amendment is intended to be filed  
14 before or during the fourth quarter of 2003."

15 The Commission has already shown its interest in longer-term commitments from  
16 noncore customers. In D.02-11-073, the Commission stated, "Long-term contracts, when  
17 coupled with a system of tradable rights, would allow SDG&E to better its resource  
18 planning..." In the same decision, the CPUC established a reliability standard of 1 in 10  
19 for firm noncore transportation service, established a procedure for allocating existing  
20 firm capacity in two potentially constrained areas in SoCalGas territory and all of  
21 SDG&E, established a use-or-pay commitment for firm noncore transportation service,  
22 and ordered SDG&E to differentiate its rates for firm and interruptible noncore  
23 transportation service. The decision did not address noncore service to customers outside  
24 of these areas or what customer commitments are needed to justify system expansions.  
25 The opportunity for the Commission to address those issues applicable to SoCalGas'  
26 entire service territory is in this BCAP proceeding. SoCalGas proposes in this  
27 proceeding to build on the policy guidance of the Transmission OII.  
28

1           Currently, there is no tariff option to provide noncore customers firm service  
2 when or where the utility lacks firm capacity. Lacking long-term commitments from  
3 customers to justify an expansion in such areas, SoCalGas has limited firm noncore  
4 intrastate transportation service to match existing capacity consistent with the allocation  
5 procedure specified by the Commission in D. 02-11-073. While limiting firm noncore  
6 intrastate transportation service in this way promotes efficient investment and protects  
7 existing customers from bearing costs of inefficient expansions, it also poses a risk factor  
8 for customers considering expansions and new customers wishing to build on SoCalGas'  
9 system.

10           To eliminate the uncertainty of the availability and timing of firm noncore  
11 transportation service, SoCalGas proposes to provide firm noncore service to any noncore  
12 customer willing to make a long-term commitment to utility service, even when  
13 additional investments in the transmission system are required. This proposal eliminates  
14 any need to suspend or ration firm service to customers, assuming adequate time is  
15 provided to plan and build the needed capacity.

16           In conclusion, long-term commitments are a rational approach to building  
17 economically efficient system expansions, which are correspondingly long-term  
18 investments. This efficiency should lead to lower utility costs, greater certainty of the  
19 availability of firm noncore service when needed, and, ideally, lower, stable rates in the  
20 long run.

## 22           **2. Firm Transportation Tariff for Large Noncore Retail Customers**

23           SoCalGas proposes to offer large noncore customers a revised firm transportation  
24 service tariff. This revised tariff for firm transportation service to Large noncore  
25 customers, will require significant changes to the rate design and terms of the current  
26 firm service tariff, Schedule GT-F. Large noncore customers will be able to secure firm  
27 transportation service for a 15-year duration by executing 15-year contracts for firm  
28

1 service at a specified Daily Contract Quantity (“DCQ”) and with a corresponding annual  
2 use-or-pay (“UOP”) obligation.

3 Attachment 1 illustrates the changes to the tariff language required to implement  
4 this proposal. To highlight the provisions of this service offering, a redlined version of  
5 Schedule GT-F is presented for the Firm Tariff service. SoCalGas also takes this  
6 opportunity to make other refinements to the tariff for simplification or clarification.

### 7 8 **3. Tariff Firm Service**

9 The transportation rate for firm tariff service will be in accordance with applicable  
10 charges specified in the Tariff Rate Schedule No. GT-F in effect at the time and as  
11 periodically revised by the Commission. The firm tariff service will contain a provision  
12 for an annual a UOP commitment based on 60% of a customer’s DCQ.

13 The UOP obligation will be computed on an annual basis. The UOP calculation  
14 reflects the applicable class rates, excluding the monthly customer charge and surcharges,  
15 such as the Public Purpose Program Surcharge (“PPPS”) for C&I customers. At the end  
16 of each contract year, the customer’s actual usage, excluding interruptible throughput<sup>7</sup>,  
17 will be compared to its self-selected DCQ times the number of days in the contract year.  
18 If the customer’s actual firm usage is less than 60% of its annualized DCQ, then the  
19 customer will be obligated to pay 100% of the applicable tariff tier rate in effect during  
20 the last month of the contract year times the difference between its actual firm usage and  
21 its UOP requirement (i.e., 60% of DCQ times the number of days in the contract year).

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27 <sup>7</sup> Daily usage in excess of the customer’s self-selected DCQ is served under the Interruptible tariff.  
28 Revenues associated with Interruptible service are not included in the UOP calculation for Firm service.

1                                   **a. Assignment of UOP Volume**

2           In order to help Large noncore customers manage their financial obligations under  
3 the foregoing rate design, SoCalGas proposes to allow those customers flexibility in  
4 meeting their contractual UOP obligations. A customer may assign part or all of its  
5 contracted DCQ for the remaining contract term to another creditworthy party. After  
6 assigning its DCQ and acceptance of the assignment by SoCalGas, the Assignor will  
7 receive interruptible service status and pay interruptible rates for its transportation  
8 service. The Assignee will pay the UOP in accordance with the applicable firm service  
9 option for the remaining term for the DCQ assigned and the applicable firm tariff rate of  
10 the Assignee’s customer class.

11           To ensure the reliability of SoCalGas’ firm-service offering, SoCalGas reserves  
12 the right to evaluate transactions on an individual basis to ensure the assignment will not  
13 exceed the available local transmission and distribution capacity within the area of the  
14 Assignee.

15  
16                                   **b. Banking UOP Obligation**

17           In addition to assignability of UOP volumes, customers with long-term financial  
18 commitments may value additional flexibility. SoCalGas proposes to allow Large, firm  
19 service, customers to “bank” firm transportation volumes in excess of their minimum  
20 DCQ obligation as a credit towards their UOP volume obligation in future years.

21           A customer can accumulate these banked firm volume credits throughout the  
22 contract term for use in subsequent years. At the end of the 15-year contract term,  
23 however, any remaining firm volume credits will be voided, i.e. cannot be used to offset  
24 the UOP obligation in a subsequent 15-year contract.

25           For example, a customer selects a DCQ of 10 Mdth per day and has a minimum  
26 UOP obligation of 6 Mdth per day or 2,190 Mdth annually. If the customer transports an  
27 average of 8 Mdth per day (all firm) or 2,920 Mdth in Year 1, then 730 Mdth will be

1 credited towards the customer's UOP obligation for subsequent years. If the customer  
2 transports an average of 3 Mdtherms per day or 1,095 Mdth in Year 2, the 730 Mdth  
3 balance from Year 1 will be credited towards the UOP obligation for Year 2 and the  
4 customer will have to pay for a shortfall of 365 Mdth.

#### 5 **4. Long-Term Firm Service Offering for Small Noncore Customers**

6 SoCalGas is also proposing to expand its transmission capacity in order to serve  
7 the firm needs of Small noncore retail customers. In order to better ensure that  
8 expansions will continue to be utilized, SoCalGas proposes to extend the contract term of  
9 its currently authorized firm tariff service from two years to five years for Small noncore  
10 customers. In addition, Small noncore customers electing Full Requirements service  
11 continue to have set Monthly Contract Quantities (MCQs) pursuant to their Master  
12 Services Contract Schedule A (Intrastate Transmission Service - Form 6597-1). The  
13 MCQs will be based on the customer's monthly historical peak usage or negotiated based  
14 on a customer's operational forecast in the case of new customers or when peak day  
15 usage information is not available.

16 Consistent with the current tariffs, Small noncore customers electing Full  
17 Requirements service commit not to use alternate fuels or bypass pipeline for the term of  
18 their contracts. The five-year contract term appears appropriate to SoCalGas based on  
19 the historically, relatively stable demand of such customers, and the magnitude of  
20 improvements that would likely be needed to meet their needs.

21 SoCalGas recognizes that there may be circumstances whereby a customer may  
22 wish to modify its firm service agreement (e.g., a significant change in operation or  
23 service). SoCalGas proposes that both the customer and SoCalGas must mutually agree  
24 on any changes to the firm service agreement. If agreed to by both SoCalGas and the  
25 customer, then the new firm service agreement will replace the existing one and trigger a  
26 new five-year contract term.

1 SoCalGas believes this proposal is a better solution than simply rationing existing  
2 capacity under a partial requirements service for a two-year period, which is currently the  
3 tariff authorization applicable to portions of the San Joaquin Valley and Imperial Valley.  
4 Under this proposal, SoCalGas eliminates rationing, eliminates the need for use-or-pay  
5 charges for Small noncore customers, once again offers Full-Requirements service and  
6 commits to expand its system to serve the needs of Small noncore customers who elect  
7 firm service.

8 Small noncore customers may also elect Partial Requirements service. Partial  
9 Requirements customers will self-select a Daily Contract Quantity (DCQ) applicable for  
10 the entire five-year term. The customer will have a UOP obligation computed on a  
11 monthly basis. The UOP calculation reflects the applicable class rates, excluding the  
12 monthly customer charge and surcharges, such as the Public Purpose Program Surcharge  
13 ("PPPS") for C&I customers. At the end of each month, the customer's actual usage,  
14 excluding usage billed as interruptible<sup>8</sup>, will be compared to its self-selected DCQ times  
15 the number of days in the billing month. If the customer's actual firm usage is less than  
16 60% of its DCQ multiplied by the days in the month, then the customer must pay 100%  
17 of the applicable tariff tier rate for the month times the difference between its actual firm  
18 usage and its minimum UOP requirement (i.e., 60% of DCQ times the number of days in  
19 the billing month).

20 In the event a Full Requirements customer's monthly usage exceeds the stated  
21 MCQ in the customer's Master Services Contract Schedule A, or a Partial Requirements  
22 customer monthly usage exceeds the set DCQ times the days in that month, such volumes  
23 will be billed under the interruptible service tariff. Attachment 1 illustrates the tariff  
24 changes required to implement this proposal.

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27 <sup>8</sup> Monthly volumes that exceed the DCQ times the days in the month will be billed as interruptible usage.

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**5. Implementation of Firm Service Proposals**

In order to provide time for customer communications system wide, SoCalGas proposes to hold an open season within 60 days of the commission’s decision approving SoCalGas’ proposal. The open season would last 90 days in order to give customers ample time to assess their alternatives and obtain the necessary approvals to enter long-term contracts. During the 150-day period, customers would continue to take service under their existing contracts.

**6. Short-Term Interruptible for Noncore Retail Customers**

With the exception of the specific transportation rate, SoCalGas proposes no other changes to its currently authorized interruptible transportation tariff. If a customer elects to contract for short-term transportation service or desires to take transportation service in excess of its firm DCQ commitment or MCQ, in the case of Small noncore customers, then transportation service will be provided on an interruptible basis. This is an option for customers who do not want to make a commitment to firm service, and SoCalGas is not obligated to curtail firm service customers or expand its pipeline system capacity to meet the requirements of interruptible customers.

SoCalGas proposes to differentiate pricing between long-term and short-term transportation service. Customers who make long-term commitments to utility service deserve a lower per unit transportation tariff rate than those customers who don’t make similar commitments. The long-term financial commitment made by firm customers translates directly into value for all ratepayers. The commitment to use and pay for the system on a long-term basis should be encouraged by a lower per unit transportation tariff rate. Also, SoCalGas believes that the economic and social impacts of gas curtailments may go beyond the private interests of the customer that is curtailed. Curtailments lead to facility shut downs and/or the burning of less environmentally friendly fuels which has impacts on the economy and the environment. SoCalGas believes that it is in the public interest that the Commission encourage firm service over interruptible service and adopt

1 a lower per unit tariff price for firm service. Therefore, SoCalGas proposes to set the  
2 transmission charge for short-term interruptible tariff service at 130% of the transmission  
3 charge for long-term standard tariff service. Short-term transportation customers will  
4 continue to take interruptible utility service without an extended contract term or a UOP  
5 requirement.

6 Under this proposal, the revenue from interruptible transportation service will be  
7 credited to the noncore fixed cost balancing account (NCFA) to keep future noncore tariff  
8 rates lower for all noncore customers.

9 **E. REGULATORY TREATMENT OF REVENUES FROM NONCORE**  
10 **SERVICE OFFERINGS:**

11 **1. Firm Tariff:**

12 The Firm Tariff offerings for both Small and Large noncore customers will  
13 continue to be updated in periodic cost allocation proceedings and annual revenue  
14 update filings. The revenues above or below the annual revenue requirement will  
15 be included in the NFCA. No special treatment of these revenues is necessary.

16  
17 **2. Short-term Interruptible Transportation Service:**

18 The revenue collected for interruptible service will be credited to the NFCA. In  
19 subsequent rate updates, this credit will serve to lower noncore transportation  
20 rates. For the 2005 BCAP period, the throughput forecast includes both firm and  
21 interruptible service demand. In subsequent cost allocation proceedings, the  
22 Commission can re-visit whether interruptible throughput should be forecast  
23 prospectively or handled with a one-year lag through the regulatory account  
24 treatment.

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**F. TRADABLE LOCAL TRANSMISSION RIGHTS**

As a companion program to its proposals for new long term contracts for Large and Small noncore customer (addressed above), SoCalGas also proposes a mechanism for managing and trading the obligations in those contracts. This is consistent with what the Commission stated in D.02-11-073, Conclusion Of Law, paragraph No. 5, which states, “if SDG&E wants to pursue long-term contracts, it can file an application for tradable rights setting forth a mechanism for management of those rights.” SoCalGas proposes that DCQ rights for Large firm noncore customers and Small noncore customers taking partial requirements service be sold and traded on the electronic bulletin board in the SoCalGas gas management system, Envoy. A customer will be able to acquire capacity from another customer as long as there is sufficient capacity to accommodate that trade. Customers could sell their rights for whatever term, quantity, or price the market would bear. All trades would be subject to SoCalGas approval based upon consistency with system planning and appropriate credit checks of counter parties.

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For example, a Large firm transportation customer located in the potentially constrained area of the Imperial Valley, who expects a reduction in use, could trade all or a portion of its DCQ to a new customer or an expanding customer in Orange County. Assuming that there is available firm capacity in Orange County and the Assignee has appropriate credit, SoCalGas would authorize the trade. The releasing customer in Imperial Valley would be relieved of its traded DCQ financial obligation to SoCalGas, and the acquiring customer would bear that DCQ obligation to SoCalGas. In addition, for this case, the physical capacity available in the Imperial Valley would be increased by the amount of the traded DCQ.

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This program would go into effect upon implementation of SoCalGas’ new tariffs for Large and Small noncore customers subject to the establishment of the appropriate electronic bulletin boards.

1 **G. CURTAILMENT PROPOSAL**

2 **1. SoCalGas Curtailment Policy**

3 SoCalGas is proud of its record in providing highly reliable gas service, which  
4 includes more than 12 years of no curtailment to either interruptible or firm customers.  
5 As discussed earlier in this testimony, SoCalGas' segmentation and rate design proposals  
6 will provide a mechanism for system improvements that SoCalGas believes will continue  
7 to enhance reliability. Nevertheless, SoCalGas needs to plan for natural gas curtailments,  
8 even if such events may be unlikely, and align the curtailment provisions with the  
9 modifications to firm service proposed in this testimony.

10 The following proposal is intended to make curtailment easier to implement for  
11 both customers and SoCalGas. SoCalGas proposes to split the curtailment order for firm  
12 intrastate transportation service into two categories: (1) Small firm noncore customers  
13 and (2) Large firm noncore customers. Currently, no size segmentation exists for firm  
14 intrastate transportation service in the event of a curtailment, as referenced in Section  
15 C.1. (6) of SoCalGas' Rule No. 23.

16 SoCalGas proposes that contracted firm intrastate transportation service for Large  
17 noncore customers be curtailed ahead of firm intrastate transportation service to Small  
18 noncore customers and that firm intrastate transportation service to Large noncore  
19 customers be curtailed on a prorata, or equal percentage, basis. A Large customer will  
20 have daily firm service equal to its firm DCQ. This DCQ serves as the base for any  
21 prorating during curtailment. As specified in SoCalGas' currently authorized Tariff Rule  
22 No. 23 and recently confirmed in the Commission's interim order D.01-06-008 relating to  
23 SDG&E's system, SoCalGas will retain the provision that cogeneration customers be  
24 curtailed after UEG customer. Prorata curtailment of over 1000 small noncore would be  
25 both impractical and time-consuming to implement. For this reason, SoCalGas is  
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1 proposing to retain the existing “curtailment block” structure when curtailing firm  
2 intrastate transportation service to Small noncore customers.

3 Attachment No. 3 contains a redlined version of SoCalGas’ currently authorized  
4 Tariff Rule No. 23 reflecting the changes discussed in this section.

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6 **2. Advantages of SoCalGas’ Curtailment Proposal**

7 Prorating curtailment among the Large noncore customers spreads the curtailment  
8 requirement across a much larger base of load and may avoid total curtailment of any one  
9 customer. Large noncore customers have indicated a specific preference for pro-rata  
10 curtailment compared to the existing rotating blocks. Given the smaller number of  
11 customers in the Large segment, this is administratively feasible for that group. In Phase  
12 I of the Capacity OII, SDG&E proposed similar curtailment procedures for its noncore  
13 customers. In that proceeding, Duke Energy, Cabrillo, PG&E NEG/Calpine, and ORA  
14 supported prorata curtailment of EGs before noncore C&I and cogeneration customers.

15 The Commission has already expressed support for a comparable curtailment  
16 proposal in D.02-11-073, which modified SDG&E Rule No. 14 to require the pro rata  
17 curtailment of EGs on the SDG&E system. In Findings of Fact No.3, the Commission  
18 stated, “The curtailments of the firm noncore Commercial and Industrial customers  
19 caused considerable economic harm to these customers, yet the small amount of capacity  
20 that is gained by shutting down these customers has a negligible effect on increasing the  
21 capacity for EG customers.” SoCalGas believes the same rationale applies to its Large  
22 and Small noncore customers. Therefore, SoCalGas proposes implementation of  
23 curtailment in a similar fashion.

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1 **H. COST ALLOCATION OF SELF-GENERATION PROGRAM**

2 Assembly Bill 970 (AB 970), signed by Governor Davis on September 6,  
3 2000, required the CPUC to initiate certain load control and distributed generation  
4 activities. In response, the CPUC issued Decision (D.) 01-03-073 which adopted  
5 the CPUC Energy Division’s proposal for a distributed generation program and  
6 ordered the state’s investor-owned utilities to work with the Energy Division, the  
7 California Energy Commission and the San Diego Regional Energy Office  
8 (SDREO)<sup>9</sup> to develop program details for a Statewide Self-Generation Incentive  
9 Program (SGIP). The SGIP began operation in the summer of 2001. The SGIP  
10 provides a financial incentive for the installation of new, qualifying self-  
11 generation equipment installed to meet all or a portion of the electric needs of a  
12 customer’s facility.

13 D.01-03-073 established an annual budget for the SGIP of \$17 million for  
14 SoCalGas. Ordering Paragraph (OP) 2 stated, “...SoCal shall include the costs of the  
15 programs allocated to gas customers in their next gas rate recovery proceeding, e.g., the  
16 Biennial Cost Adjustment Proceeding.” Although primarily an electric program, the  
17 Commission stated on page 13 of D.01-03-073 that “some of the costs for self-generation  
18 are assigned to gas ratepayers, as well as electric ratepayers, to reflect the public benefits  
19 (e.g., environmental) that will accrue to gas ratepayers as well.” In proposing a cost  
20 allocation for its SGIP, SoCalGas is relying on D. 01-03-073 and the intent of AB 970 to  
21 identify the intended beneficiaries of this program. SoCalGas believes that those who  
22 benefit from the SGIP should pay for the SGIP.

23 In Finding of Fact No. 3 of D.01-03-073, the Commission states:

24 “The self-generation programs adopted today will produce significant public  
25 (e.g., environmental) benefits for all ratepayers, including gas ratepayers.”

26 On page 22 of the attachment to D.01-03-073 , the rationale for the SGIP program  
27 is provided as follows:

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<sup>9</sup> The CPUC ordered San Diego Gas and Electric (SDG&E) to contract with the SDREO to implement and administer the program in SDG&E’s service territory.

1 “In AB970, the California Legislature demonstrated that renewable technologies  
2 and self-generation are a public priority. Self-generation and the use of  
3 renewables can provide significant benefits to Californians by improving the  
4 quality and reliability of the state’s electricity distribution network, which is  
5 critical to the state’s economic vitality, while protecting the environment and  
6 developing “green” technology.”....

7 ....“It is in the best interest of all Californians to reduce the strains on  
8 infrastructure, economy, and environment, by actively promoting renewable and  
9 super-clean technologies.”

10 As identified by the Commission and the Legislature the beneficiaries of this  
11 program are all Californians. As such, SoCalGas believes that its original proposal<sup>10</sup> that  
12 the entire public and not just utility ratepayers fund this program is the most appropriate.  
13 However, given that this is no longer viable, SoCalGas believes that at least 50% of this  
14 program be funded by all gas rate payers (equally by meter) as a reasonable proxy to  
15 ensure that as many “Californians” in our service territory fund the program created  
16 specifically to provide them with the public/human environmental benefits, with the  
17 exception of two customer classes. Assuming approximately 5.1 million meters pay for  
18 50% of the program budget costs, residential customers will pay less than 14¢ a month  
19 for these public/human environmental benefits.<sup>11</sup> As discussed next, SoCalGas proposes  
20 the other 50% of the program be funded by the customer classes that are the beneficiaries  
21 of the incentive funding provided by the program.

22 Without making a determination on cost allocation, the Commission directed the  
23 utilities to track the program costs and benefits by customer class. In response to this,  
24 SoCalGas tracked the customers that have received incentives from this program and the  
25 customer classes to which these customers originally belonged. SoCalGas is proposing  
26 that the other 50% of the program be funded by each of the customer classes based on  
27 their respective level of incentive funding. The specific breakdown of how the costs are  
28 allocated based on this proposal is found in Mr. Lango’s direct prepared testimony.

In order to avoid “double” charging, SoCalGas proposes to exclude two classes of  
customers from the foregoing cost allocation. Wholesale customers should be excluded

<sup>10</sup> In the proceeding that lead to D.01-03-073 and the establishment of the self generation program in Rulemaking 98-07-037.

<sup>11</sup> 50% of the annual SGIP budget (\$8.5 million)/5.1 million meters/12 monthly bills.

1 because some wholesale customers may have already or could choose to establish their  
2 own Self-Generation program (e.g., SDG&E has \$15.5 million program) and should not  
3 have to fund SoCalGas' and their own program as well. SoCalGas also proposes to  
4 exclude large electric generators because these customers are primarily wholesale  
5 generators that provide power to local electric distribution companies or municipalities  
6 many of whom are already funding their own self-generation or renewable programs (e.g.  
7 SCE's \$32.5 million SGIP program and Los Angeles Department of Water and Power  
8 \$150 Million Photovoltaic Program).

### 9 **I. SEMPRA-WIDE NGV RATE**

10 As stated in Steve Lango's testimony, SoCalGas and SDG&E propose to establish  
11 a single Sempra-wide NGV rate for use across both service territories. This approach is  
12 being taken to provide a single, consistent rate for a transportation market that is  
13 integrated throughout Southern California. NGVs, such as taxis or shuttles, often travel  
14 across both service territories. Providing these customers with a consistent price for fuel  
15 avoids dramatic price differences between the service territories and will encourage the  
16 further integration and growth of environmentally friendly transportation throughout  
17 Southern California.

18 Absent a single Sempra-wide NGV rate, customers fueling NGVs in the SDG&E  
19 service territory will pay approximately 12.3 ¢ therm<sup>12</sup> (or >215%) more than customers  
20 fueling NGVs in the SoCalGas service territory. Such a significant rate differential will  
21 encourage NGV owners in SDG&E's service territory to drive to lower cost NGV fueling  
22 stations in SoCalGas' service territory, thereby wasting fuel. A Sempra-wide NGV rate  
23 avoids this rate-induced incentive thereby conserving fuel and time. Similar to the  
24 Sempra-wide electric generation rate, which assures that the most efficient electric  
25 generation facility is dispatched first, thereby saving energy, a Sempra-wide NGV rate  
26 will advance California's energy conservation goals.

27 <sup>12</sup> SDGE&E stand alone NGV rate for uncompressed service would be approximately 18.0¢/therm  
28 compared to SoCalGas 5.7¢/therm.

1 Further, due to the much higher NGV-related throughput in the SoCalGas  
2 service territory, providing a Sempra-wide NGV rate will have little effect on the  
3 rates charged to SoCalGas customers. Customers fueling NGVs in the SoCalGas  
4 service territory will see rates rise only 1.1¢/therm<sup>13</sup> as a result of creating a  
5 single, consistent rate for NGVs while customers in SDG&E's service territory  
6 will see rates decline by a dramatic 11.2¢/therm.

7 This concludes our testimony.  
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25 <sup>13</sup> Sempra-wide NGV rate for uncompressed service is estimated to be 6.8¢/therm compared to 5.7¢/therm  
26 on SoCalGas stand alone basis.  
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## **J. QUALIFICATIONS**

### **Qualifications of Joseph S. Velasquez**

My name is Joseph S. Velasquez. I am employed by SoCalGas as Commercial and Industrial Markets Manager. I work for both SoGalGas and SDG&E. My business address is 555 West Fifth Street, Los Angeles, California 90013-1011.

I received a Bachelor of Science degree in Chemical Engineering from California State University, Northridge in 1985 and a Master of Business Administration from Pepperdine University in 1990.

I have been employed by SoCalGas since 1986 in various positions of increasing responsibility. I have been in my current position since 1998. One of my responsibilities is to develop and implement natural gas transportation service proposals for both SoCalGas and SDG&E noncore commercial and industrial customers.

### **Qualifications of Jeffrey B. Horn**

My name is Jeffrey B. Horn. My business address is 555 West Fifth Street, Los Angeles, California 90013-1011.

I am employed by SoCalGas as the Energy Markets Manager in the Major Markets Customer Services Department. I work for both SoCalGas and SDG&E. I received a Bachelor of Science degree in Chemical Engineering from the University of California at Davis in 1980 and a Masters of Business Administration from the University of California at Los Angeles in 1991.

I have been employed by SoCalGas since 1986, and have held positions of increasing responsibilities in the marketing and customer services departments. I have been in my current role as Energy Markets Manager for the past 15 months. In my current position, one of my responsibilities includes developing gas transportation service offerings for our largest noncore customers.

# **ATTACHMENT 1**