Application 07-12-006
(U 39 M)
Exhibit No.:
Date: March 21, 2008
Witnesses: Raymond E. Blatter
Gillian A. Wright

SAN DIEGO GAS & ELECTRIC COMPANY (U 902 G)
SOUTHERN CALIFORNIA GAS COMPANY (U 904 G)
PACIFIC GAS AND ELECTRIC COMPANY (U 39 G)

STATE-MANDATED SOCIAL PROGRAM COST ALLOCATION

SUPPLEMENTAL TESTIMONY

AS DIRECTED BY ALJ GALVIN AT THE FEBRUARY 28, 2008 PRE-HEARING CONFERENCE

SAN DIEGO GAS & ELECTRIC COMPANY
SOUTHERN CALIFORNIA GAS COMPANY
PACIFIC GAS AND ELECTRIC COMPANY
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TABLE OF CONTENTS

SAN DIEGO GAS & ELECTRIC COMPANY
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SUPPLEMENTAL TESTIMONY
STATE-MANDATED SOCIAL PROGRAM COST ALLOCATION

A. Introduction

The purpose of this supplemental testimony is to provide additional information as requested by Administrative Law Judge Galvin at the pre-hearing conference (PHC) held on February 28, 2008. At the PHC, ALJ Galvin directed San Diego Gas & Electric Company (SDG&E), Southern California Gas Company (SoCalGas), and Pacific Gas and Electric Company (PG&E) (collectively referred to as "the Utilities") to submit additional testimony on the following points:[1]

- Identify and state the purpose of each of the state-mandated social programs, the costs of which the Utilities propose to allocate using the Equal Percent of Base Revenue (EPBR) allocator.
- State the current allocation method for each of the programs identified.
- Describe when the allocation method was adopted, and the Commission's basis for adopting that method.
- Describe the most recent proposal to change the allocation method for each program, and the Commission's decision on the proposal and the basis for its decision.
- Describe why EPBR is preferable to the currently adopted allocation method for each program.
- Identify and describe future state-mandated programs which are anticipated to be implemented, and for which the Commission should adopt an EPBR methodology for allocating program costs.

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[1] Pre-hearing Conference Transcript, p.14, lines 6-25: "However, I do think some additional information needs to be put into the record if, in fact, the company plans to proceed with this. And some of the concerns I've got would be some additional testimony regarding, first of all, identifying the specific programs: What's the purpose of those programs? What is the current allocation method for each individual program? Why was that allocation method adopted? And I think you'll find those in the specific decisions. And what's wrong with the method for each of the individual programs? When was the last proposal to change the method, and what was the recommendation and outcome? And I think, finally, why is your proposed method better than the current method? So I think we definitely need some information on that."

This testimony augments the Prepared Direct Testimony submitted by the Utilities on December 11, 2007. In that testimony, the Utilities stated:

> The Utilities propose that all current and emerging state-mandated social program costs collected through gas rates should be allocated to the applicable customer classes based on the percentage of base revenue the Utilities collect from the customer class, or equal percent of base revenue (EPBR).[2] (emphasis added)

The Utilities identified the following existing and potential new state-mandated social programs:

1. California Alternate Rates for Energy (CARE);
2. Energy Efficiency;
3. Direct Assistance Program (DAP) (SoCalGas only) and Low Income Energy Efficiency (LIEE) (SDG&E and PG&E only);
4. Public Purpose Research, Development, and Demonstration (RD&D);[3]
5. Public Purpose Program CPUC and Board of Equalization (BOE) administrative costs;
6. Self Generation Incentive Program (SGIP);
7. California Institute for Climate Solutions (CICS) – if implemented;
8. Solar Water Heating program (SWH) – if implemented;
9. Similar future programs.

State-mandated social programs are programs where a substantial portion of the benefits accrue to society rather than to a particular customer class. The state-mandated social programs currently being funded through gas rates include all programs funded through the Public Purpose Program Surcharge (PPPS) established by the California state legislature in 2001 with Assembly Bill (AB) 1002, as well as the

[2] Direct Prepared Testimony, Chapter 1, p. 1-1, lines 19-23.

[3] AB 1002 requires that only public purpose RD&D funds be recovered in the PPPS. Each utility has additional RD&D funds for operational RD&D included in their authorized base margin. These operational RD&D funds are not part of the Utilities' reallocation proposal.

SGIP. In addition, costs associated with two new programs, CICS and SWH, which are likely to be implemented in the 2008–2009 timeframe, would also be allocated under EPBR under the Utilities' proposal. These potential new programs are discussed in more detail later in this supplemental testimony.

The remainder of this testimony is organized as follows. Section B presents the purpose, current allocation method, and most recent proposals to change the allocation method for each of the current programs identified above. Section C discusses potential new programs (i.e., CICS and SWH). Section D presents the reasons why EPBR is a better allocation method for these programs than the currently adopted allocation methods.

B. Currently Funded Programs

1. CARE

Purpose

The CARE program provides rate discounts (including gas commodity costs) to qualifying low-income residential customers, in order to reduce their energy costs and help improve their standard of living. Participating customers currently receive a 20% discount on their gas bill. Customers whose household income is less than 200% of the federal poverty level are eligible to participate in CARE.

Current Allocation Method and Basis for Its Adoption

CARE costs are currently recovered under an Equal Cents Per Therm (ECPT) methodology based on transported gas volumes from all customers, except from CARE participants, electric generation, wholesale, and enhanced oil recovery customers. This allocation was adopted in Decision (D.) 89-09-044, when the original Low Income Rate Assistance (LIRA) program was adopted.[4] [5] The basis for the adoption of this allocation was discussed at length in Chapter 1 of the Utilities' Prepared Direct Testimony, and is therefore not repeated here.

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[4] The program was renamed CARE effective January 1, 2005 (See D.94-12-049, p. 6.).

[5] See Utilities' Prepared Direct Testimony, Chapter 1, pp. 1-12 to 1-13, for discussion of the basis for the adoption of ECPT for LIRA, now called CARE.

Most Recent Proposal to Change Allocation Method and Result

In the SoCalGas and SDG&E 1999 Biennial Cost Allocation Proceeding (BCAP), Ultramar, Inc., a noncore industrial customer of SoCalGas, proposed that the obligation to pay the CARE surcharge be capped at 15 million therms of annual usage, so that CARE would not apply for annual usage above 15 million therms. The Commission rejected this proposal and declined to change CARE allocation or applicability, stating, "Ultramar has not convinced us that the eight largest users on SoCalGas' system should pay proportionately less than everyone else to meet the costs of a social program. Its request is denied."[6]

In PG&E's 2005 BCAP, PG&E proposed to allocate CARE program costs, consisting of the CARE subsidy, balancing account and administration expense, based on an equal percentage of costs collected from each customer class in transportation rates. PG&E's proposed method would have allocated 7% rather than 36% of CARE costs to industrial customers. PG&E proposed to revise its CARE cost allocation method because:

- The level of CARE charges included in rates had grown significantly during the past few years;
- Under the current ECPT methodology, noncore industrial customers are paying for a disproportionate share of CARE costs;
- Noncore customers do not directly benefit from CARE discounts;
- PG&E's proposed method provided a fair and rational cost allocation alternative that allowed industrial customers to support PG&E CARE program without contributing excessive amounts relative to what they are being asked to contribute to recover of other transportation costs;
- PG&E's proposal had only a minor impact on residential and core small commercial customers while providing a significant benefit to industrial customers in California; and
- PG&E's proposal was intended to help retain, and possibly attract, new industrial customers resulting in a benefit to all customers as a larger number of industrial customers would share the fixed cost of providing utility service in PG&E's service territory.

[6] D.00-04-060, p. 102. Note that although the proposal, if adopted, may technically also have applied to SDG&E, SDG&E has no customers to whom CARE applies with usage greater than 15 million therms/year.

The proposal was rejected in D.05-06-029 with a finding that CARE benefits were not limited to residential customers, and that there was no evidence showing that CARE surcharges have caused businesses to fail. The Indicated Producers and the California Manufacturers and Technology Association filed a Petition to Modify D.05-06-029 with respect to the Commission's CARE cost allocation ruling. The petition was denied with a finding that no convincing evidence supported the contention that the CARE rate component has caused businesses to fail.[7]

2. Energy Efficiency

Purpose

The purpose of the Utilities' energy efficiency programs is to reduce energy consumption by making energy use more efficient. The programs help customers to conserve energy and reduce or eliminate energy waste, using monetary incentives and rebates to reduce the cost of installing energy efficient equipment, providing technical advice and support on energy saving strategies, and offering education and outreach.

Energy efficiency programs help customers save money on energy costs and reduce the usage of limited, carbon-creating fuel supplies, and help to demonstrate and commercialize energy saving technologies. After the energy crisis of 2000-2001, energy efficiency became the first choice of energy supply resources. When the Commission approved the current 3-year energy efficiency program cycle in 2005, the Commission described it as "[t]he most ambitious energy efficiency and conservation campaign in the history of the utility industry in the U.S. by authorizing energy efficiency plans and $2 billion in funding for 2006-2008 for the state's utilities, reaffirming that cost-effective energy efficiency is the state's first line of defense against power shortages."[8] In the 2008 Energy Action Plan update, the Commission described energy efficiency as "the most important tool for addressing greenhouse gas emissions in the energy sector,"[9] making clear that greenhouse gas reduction was a primary purpose of energy efficiency programs.

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[7] See D.06-05-019, p. 11.

[8] News Release for the 2005 Energy Efficiency policy decision.

[9] 2008 Energy Action Plan Update, p. 6.

Current Allocation Method and Basis for Its Adoption

The current allocation method used to allocate the costs of energy efficiency programs for the Utilities is the Direct Benefits method. Direct Benefits means that program costs are allocated to each class in proportion to the amount of program dollars dedicated to programs to serve that customer class at the time the allocator was adopted or was updated.

For SoCalGas, the Direct Benefits allocator was adopted in D.93-12-043, in SoCalGas' 1993 General Rate Case. At the time, energy efficiency programs were not offered to noncore customers, and the core programs were considered a marketing cost. The Commission changed the allocation of marketing costs, which for core customers consisted of Energy Efficiency/Demand Side Management (DSM), from Equal Percent of Marginal Costs (EPMC) to Direct Benefits. The Commission stated:

> The costs of SoCalGas' major markets programs, other than GasSelect, should be allocated to SoCalGas' noncore customers SoCalGas' next cost allocation proceeding. <u>To be consistent, we will also allocate to core customers the costs of core marketing (DSM) programs</u>.[10] (<u>emphasis added</u>)

For SDG&E, Direct Benefits was adopted in the Energy Efficiency program funding decision for the 2006-2008 programs (D.05-09-043). Previously, SDG&E's program costs had been allocated under the EPMC method. However, with the new goals and the requirement under AB 1002 that PPPS costs could not be allocated to electric generation customers, EPMC resulted in significant costs being allocated to electric generation customers, but which SDG&E was prohibited by law to collect from these customers. This recurring undercollection was then reallocated to these customers the following year. SDG&E proposed to make cost allocation for its programs consistent with that of SoCalGas and PG&E, and to make the allocation more consistent with the distribution of program dollars. In D.05-09-043, the Commission approved SDG&E's proposal, stating: "The level of program funding proposed by the utilities over the three-year program cycle, as well as their proposed

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[10] D.93-12-043, pp. 131-132.

cost allocation and associated ratemaking treatment is reasonable and supported by the record."[11]

For PG&E, Direct Benefits was adopted in its 1995 BCAP decision (D.95-12-053). The Direct Benefits allocation method was adopted so that energy efficiency (i.e., marketing and DSM) cost would be "directly assigned to the customer classes for whom the programs are designed,"[12] and to achieve consistency with the method established in recent SoCalGas BCAP and GRC decisions, D.94-12-052 and D. 93-12-043, respectively. Prior to D.95-12-053, PG&E included marketing and DSM program costs in its base revenue requirement which was allocated EPMC in accordance with the Long Run Marginal Cost (LRMC) implementation ordered in D.92-12-058.

<u>Most Recent Proposal to Change Allocation Method and Result</u>

For SoCalGas, SDG&E, and PG&E, there have been no proposals to change the Direct Benefits allocation method prior to this proceeding. SoCalGas updated its Direct Benefits allocation in its 2005 Energy Efficiency program funding filing (Application (A.) 05-06-011), because of the significant change in the allocation of program dollars, specifically, the addition of noncore commercial and industrial programs. The proposed update was adopted.[13]

3. Direct Assistance Program (DAP) / Low Income Energy Efficiency (LIEE)

<u>Purpose</u>

DAP at SoCalGas, and LIEE at SDG&E and PG&E, provide energy efficiency measures at low or no cost to low income residential customers. According to the Commission's recent strategic planning decision in the LIEE Order Instituting Rulemaking (OIR) (D.07-12-051): "The complementary objectives of LIEE programs will be to provide an energy resource for California while concurrently providing low-income customers with ways to reduce their bills and improve their quality of life."[14]

[11] D.05-09-043, p. 184, Conclusion of Law No. 6.
[12] D.95-12-053, p. 109, Finding of Fact No. 26.
[13] D.05-09-043, p. 184, Conclusion of Law No. 6.
[14] D.07-12-051, p. 3.

Current Allocation Method and Basis for Its Adoption

For SoCalGas, DAP costs are currently allocated using Direct Benefits. Only low income residential customers are eligible to participate in DAP, so all DAP costs are allocated to the residential class.[15] The Direct Benefits method was adopted in SoCalGas' 1993 General Rate Case decision (D.93-12-043). Direct Benefits was reaffirmed and implemented in the 1993 BCAP decision (D.94-12-052). The Utility Reform Network (TURN) argued that DAP costs should be allocated ECPT like CARE costs. However, the Commission held:

> DAP costs were clearly included as a DSM conservation and energy efficiency program in D.93-12-043 at Table 2, which shows authorized 1994 DSM program funding levels (D.93-12-043, mimeo. p.129). No attempt was made by the Commission to exclude characterization of DAP as a DSM program. SoCalGas correctly complied with D.93-12-043 in allocating the cost of DSM programs in this proceeding.[16]

For SDG&E, LIEE costs for gas customers are currently allocated under the EPMC method. This method was adopted in the 1993 BCAP decision (D.94-12-052), pursuant to a joint recommendation by Division of Ratepayer Advocates (DRA) and SDG&E.[17]

For PG&E, LIEE costs are currently allocated based on the Direct Benefits method, as adopted in PG&E's 1995 BCAP (D95-12-053).

Most Recent Proposal to Change Allocation Method and Result

In SoCalGas' and SDG&E's 1999 BCAP, TURN proposed to change the allocation of SoCalGas' DAP costs from Direct Benefits to ECPT on the basis that DAP serves the same population and purpose as the CARE program. Ultimately, several parties, including TURN, arrived at a joint recommendation agreeing not to change the allocation method. Similarly, a joint recommendation not to change the EPMC allocation method for SDG&E's LIEE program costs was reached among

[15] DAP costs are allocated to all residential customers, including those not eligible to participate on the basis of income.

[16] D.94-12-052, p. 62.

[17] See Id. at 78, Finding of Fact 92. DAP/LIEE is included in DSM.

several parties, including Office of Ratepayer Advocates (ORA) and Utility Consumers' Action Network (UCAN). The Commission approved the joint recommendations for both SoCalGas and SDG&E without modification on this point.[18]

With respect to PG&E, no proposal has been made to modify the adopted Direct Benefits method for its LIEE program since it was adopted pursuant to PG&E's 1995 BCAP decision (D.95-12-053). Prior to D.95-12-053, PG&E included these types of DSM program costs in its base revenue requirement which was allocated using EPMC, in accordance the LRMC implementation ordered in D.92-12-058.

4. Public Purpose Research, Development, and Demonstration (RD&D)

Purpose[19]

In D.04-08-010, its decision implementing the gas PPP surcharge (PPPS decision), the Commission defined Public Purpose RD&D as follows:

> Public Interest R&D activities are directed towards developing science or technology, 1) the benefits of which [sic] accrue to California citizens and 2) are not adequately addressed by competitive or regulated entities.[20]

Only public purpose, gas-related RD&D costs are funded through the PPPS. In the PPPS decision, it was clear that an RD&D project must demonstrate a societal benefit rather than a benefit to any particular customer group to qualify as public purpose RD&D project. The Commission identified several areas of social benefit in particular that it wants to see in public purpose RD&D: a focus on energy efficiency, renewables, etc.; public benefits; and joint opportunities with other entities.[21]

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[18] See D.00-04-060, pp. 12 & 124.

[19] In the course of preparing this supplemental testimony, it was discovered that the discussion of the RD&D program found in the Utilities' Prepared Direct Testimony, Chapter 1, p. 1-3, lines 10-20, does not accurately describe the purpose of the RD&D program. Therefore, the supplemental testimony provides the correct description of the purpose of this particular program.

[20] D.04-08-010, p. 25.

[21] See Id. at 28.

Current Allocation Method and Basis for Its Adoption

The PPPS decision did not formally address allocation, stating:

> The utilities should maintain existing authorized R&D cost allocation procedures. Proposed allocation of R&D costs to customers using equal-percent-of-marginal-cost is an issue for BCAP or other ratemaking proceedings.[22]

For SoCalGas and SDG&E, the current allocation method for public purpose RD&D is EPMC, which was the existing allocation for all RD&D costs. PG&E's public purpose RD&D costs are allocated using ECPT. PG&E had proposed to apply EPMC to its public purpose RD&D costs; however, the Commission declined to consider that proposal in the PPPS decision, indicating that utilities that did not currently have RD&D costs, and thus did not have an allocator for R&D costs, should allocate RD&D costs to customer classes using ECPT.

Most Recent Proposal to Change Allocation Method and Result

There have been no proposals to change the Utilities' respective allocation methods prior to this proceeding.[23]

5. Public Purpose Program CPUC and Bureau of Equalization (BOE) Administration Expenses (BOE Administration)

Purpose

The purpose of CPUC and BOE Administration expenses (BOE Administration) is to recover the costs of administering the PPPS. This is an overhead cost for administering the surcharge to collect funds for the state-mandated social programs funded through the PPPS.[24]

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22 Id. at 41.

23 PG&E did not address public purpose RD&D cost allocation in its 2005 BCAP, and instead focused on CARE costs, which are the largest component of its state-mandated social program costs.

24 See Public Utilities (PU) Code Sections 895(b) and (c): "Notwithstanding Section 13340 of the Government Code, moneys in the Gas Consumption Surcharge Fund are continuously appropriated, without regard to fiscal years, as follows: …

(b) To pay the commission for its costs in carrying out its duties and responsibilities under this article.
(c) To pay the State Board of Equalization for its costs in administering this article."

Current Allocation Method and Basis for Adoption

In the PPPS Decision, the Commission stated that administrative costs were to be allocated to customer classes on an ECPT basis.[25] However, there was no discussion of alternate allocation proposals or of the basis for adopting ECPT in the PPPS decision. This is an example of where the Commission has adopted ECPT on a default basis.

Most Recent Proposal to Change Allocation and Result

There have been no proposals to change the ECPT method prior to this proceeding.

6. Self Generation Incentive Program (SGIP)

Purpose

The Self Generation Incentive Program (SGIP) was established with the passage of AB 970 in 2000. AB 970 stated that the policy with regard to cogeneration and self-generation is "[t]o encourage the continued development, installation, and interconnection of clean and efficient self-generation and cogeneration resources, to improve system reliability for consumers by retaining existing generation and encouraging new generation to connect to the electric grid, and to increase self-sufficiency of consumers of electricity through the deployment of self-generation and cogeneration. . . ."[26] The legislature directed the Commission to adopt energy conservation demand-side management and other initiatives in order to reduce demand for electricity and reduce load during peak demand periods. Specifically, the Commission was directed to establish incentives for load control and distributed generation to be paid for enhancing reliability, and differential incentives for renewable or super clean distributed generation resources.[27] In response, the Commission established the SGIP in D.01-03-073 (SGIP decision). The Commission defined self generation as: "distributed generation technologies (microturbines, small gas turbines, wind turbines, photovoltaics, fuel cells and internal combustion engines) installed on the customer's side of the utility meter that provide electricity for a portion

[25] See D.04-08-010, p. 21. The entire discussion of allocation to customer classes contained in this decision is: "Administrative costs shall be allocated to customer classes on an equal-cents-per-therm basis."

[26] P.U. Code Section 372(f).

[27] See AB 970, Section 7.

or all of that customer's electric load."[28] The SGIP decision also determined that because of the societal benefits of the SGIP, utility gas customers should pay a share of the cost of the program, and further determined that the electric/gas allocation should be based on the relative cost of electric and gas energy efficiency programs.[29]

Current Allocation Method and Basis for Adoption

In the SGIP decision, the Commission recognized the legislature's direction to include the cost of the SGIP in distribution revenue requirements, but declined to address the allocation of these costs. With regard to the portion of program costs to be recovered in gas rates the Commission stated:

> On the gas side, PG&E, SDG&E and Southern California Gas Company (SoCal) should include the costs of these programs in their next gas rate recovery proceeding, e.g., the Biennial Cost Adjustment Proceeding. In the interim, all program costs should be tracked in memorandum accounts, and the utilities should establish such accounts for this purpose.[30]

No allocation method was adopted in the decision. In accordance with D.01-03-073, D.01-09-012, and D.02-02-026, SoCalGas filed Advice Letter 3061-A, and SDG&E filed Advice Letter 1363 E-B/1274 G-B, to establish SGIP memorandum accounts to track SGIP program costs. Those amounts to be recorded in memorandum accounts would be amortized in utilities' rates annually. SoCalGas adopted ECPT and SDG&E adopted EPMC as the interim allocation method to allocate annual costs among customer classes.[31] For PG&E, SGIP costs were tracked in a memorandum account until the current ECPT method was approved in PG&E's 2005 BCAP.

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28 D. 01-03-073, p. 4.

29 See Id. at 13.

30 Id. at 3.

31 With AL 1274 G-B, the Commission adopted SDG&E's proposal to recover the SGIP balance through the Rewards and Penalties Balancing Account (RPBA). EPMC was the adopted allocation method for RPBA.

Most Recent Proposal to Change Allocation and Result

SoCalGas and SDG&E have not had a BCAP proceeding since the adoption of SGIP; and, no other allocation proposals have been made for SoCalGas or SDG&E since the current respective allocation methods were adopted.

PG&E proposed in its 2005 BCAP to allocate SGIP costs based on ECPT to all customer classes excluding wholesale. TURN and ORA supported the proposed ECPT allocation methodology, noting that the Commission had consistently allocated the costs of environmental programs, such as the SGIP, on an ECPT basis. Large customer representatives recommended that electric generators be exempted from paying the gas portion of the SGIP costs, and that the costs be allocated using the same allocators as used for energy efficiency programs. In D.05-06-029, the Commission adopted the proposed ECPT allocation to all customers, including electric generators and wholesale customers, stating that it was deemed reasonable and consistent with the Commission's policy to spread the costs of environmental programs to all customers.

The City of Palo Alto, a PG&E wholesale customer, filed a Petition for Rehearing of D.05-06-029 as it related to the adopted allocation of SGIP costs to wholesale customers. The City of Palo Alto claimed that the BCAP decision contravened the SGIP decision by requiring Palo Alto to pay a portion of SGIP costs when the SGIP decision prohibits wholesales customers from participating in or benefiting from the program. As a result of the petition, D.06-05-019 modified PG&E's adopted ECPT method to exclude wholesale customers from the SGIP cost allocation.

C. Potential New State-Mandated Social Programs

The Utilities identified two potential new state-mandated social programs that will be funded by gas and electric utility rates. The first, California Institute for Climate Solutions (CICS), is a program that may be implemented pursuant to a final decision in Rulemaking (R.) 07-09-008.[32] The proposed decision in that rulemaking states that CICS program costs will be allocated on an Equal Cents Per kWh/therm basis, with an exemption for gas used for electricity generation supplied to IOU customers.[33]

[32] See Proposed Decision in R.07-09-008, p. 63.
[33] Id. at 20.

The Utilities are proposing that the costs of any upcoming CICS programs be recovered in the same manner as PPPS costs under a state-wide, uniform method (i.e., EPBR), and urge that the Commission not adopt an allocation methodology in its final decision for CICS until it decides the outcome of this proceeding.

The second program, Solar Water Heating (SWH), is a program that may be implemented pursuant to the passage in 2007 of the Solar Water Heating and Efficiency Act of 2007 (AB 1470), which was approved to be funded through gas utility rates. The SWH program is to be implemented if "after a public hearing, the commission determines that a solar water heating program is cost effective for ratepayers and in the public interest. . . ."[34] The legislature's purpose for enacting AB 1470 includes: i) reduced demand for natural gas, ii) reduced pollution including greenhouse gases, iii) creation of jobs in California, and iv) creation of a mainstream market for solar water heating technology.[35] The highlighted benefits of the program are social in nature, as reflected in the following subsections of AB 1470:

> (g) In addition to financial and energy savings, solar water heating systems can help protect against future gas and electricity shortages and reduce our dependence on foreign sources of energy.
>
> (h) Solar water heating systems can also help preserve the environment and protect public health by reducing air pollution, including carbon dioxide, a leading global warming gas, and nitrogen oxide, a precursor to smog.
>
> (i) Growing demand for these technologies will create jobs in California as well as promote greater energy independence, protect consumers from rising energy costs and result in cleaner air.
>
> (j) It is in the interest of the State of California to promote solar water heating systems and other technologies that directly reduce demand for natural gas in homes and businesses.
>
> (k) It is the intent of the Legislature to build a mainstream market for solar water heating systems that directly reduces demand for natural gas in homes, businesses, and government buildings. Toward that end, it is the goal of this article to install at least 200,000 solar water heating systems on homes, businesses, and government buildings throughout the state by 2017, thereby

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[34] AB 1470, p. 5.

[35] See Id. at 4.

lowering prices and creating a self-sufficient market that will sustain itself beyond the life of this program.

(l) It is the intent of the Legislature that the solar water heating system incentives created by the act should be a cost-effective investment by gas customers. Gas customers will recoup the cost of their investment through lower prices as a result of avoiding purchases of natural gas, and benefit from additional system stability and pollution reduction benefits.[36]

The evaluation of cost-effectiveness of a SWH program will be addressed in R.08-03-008, issued in March 13, 2008, to address distributed generation issues.[37] The OIR does not state whether it would address cost recovery for a program should the Commission determine that a SWH program is cost-effective and in the public interest. As with CICS, the Utilities are proposing that if a SWH program is adopted, the costs should be allocated using EPBR. AB 1470 states: “The commission shall fund the program through the use of a surcharge applied to gas customers based upon the amount of natural gas consumed. The surcharge shall be in addition to any other charges for natural gas sold or transported for consumption in this state.”[38] The Utilities believe that under the language of the legislation, the Commission has the authority to set the surcharge and to adopt an EPBR allocation method, as long as gas usage is a component of the allocation method (which is the case for EPBR).

D. EPBR Should Be Adopted as the Standard Allocation Method for All State-Mandated Social Program Costs

As discussed in Section B, current social program costs employ three different allocation methods--ECPT, EPMC, and Direct Benefits--with a lack of uniformity among utilities and among the programs. In some cases, the costs for the same social program are allocated differently by the Utilities (e.g., LIEE and public purpose RD&D). In other cases, it appears that an allocation method was adopted by default, without much analysis on whether the allocation method was most appropriate for the particular program's costs (e.g., public purpose RD&D for PG&E and BOE Administration).

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[36] PU Code Section 2862.

[37] R.08-03-008, p. 9.

[38] PU Code Section 2863(b)(1).

In addition to the technical and policy reasons set forth by the Utilities in their Prepared Direct Testimony, the Utilities believe that a state-wide, standard allocation method (EPBR) to be applied uniformly to all state-mandated gas social program costs is preferable to the inconsistent application of three different methods among the various social programs and among the utilities in California. Further, on a going-forward basis, the Utilities are proposing that EPBR be considered the default allocation method with respect to any future social program costs funded through gas utility rates.

A consistently applied state-wide allocation method for all state-mandated social program costs will make rates more predictable and equitable for customers. The EPBR methodology has been developed jointly by the Utilities, and allows California's gas utilities to use a consistent method despite some underlying differences in their cost allocation structures. In addition, applying EPBR ensures that the customers' share of state-mandated social program costs remains proportional to their utility transportation rate obligation, and adjusts as their transportation rates adjust.

Moreover, EPBR produces a result more similar to the allocation that would result if programs were funded directly through the state's General Fund, rather than through gas utility rates.[39] In recent proceedings the similarity of social program costs to taxes has been noted by various parties. For instance, in the CICS proceeding, the proposed decision stated:

> TURN, IEP, Greenlining, and Community Environmental Council all argued the scope of the CICS is broad enough that it should be funded "through legislative action and that public funding should be provided through taxes, rather than enacted by the CPUC and funded by ratepayers." Ratepayers, they argue, are already overburdened by public programs and should not bear this cost alone.[40]

The Utilities have provided a detailed argument on why EPBR is superior to ECPT in their Prepared Direct Testimony, Chapter 1, and therefore do not repeat the

[39] See Chapter 2 of the Utilities' Prepared Direct Testimony.

[40] Proposed Decision in R.07-09-008, p. 14. Fn. 13 refers to TURN Opening Comments, pp. 2-3.

same discussion here. This supplemental testimony provides arguments on why EPBR is superior to the other allocation methods, namely Direct Benefits and EPMC.

EPBR is Preferable to Direct Benefits

Unlike EPBR, Direct Benefits is not readily adaptable to changing circumstances. With regard to energy efficiency and DAP/LIEE in particular, Direct Benefits allocation assigns program costs according to the distribution of program funds by customer class. At the time the Direct Benefits allocation was adopted, energy efficiency programs were more focused on creating the opportunity for saving energy costs, and for SoCalGas and SDG&E, were targeted primarily or only at core customers and were considered marketing costs. Since 2005, the purpose and the definition of benefits of energy efficiency have shifted from a focus on customers' opportunity to save on their energy bills to procuring energy efficiency as the preferred energy supply resource in the State. The size and scope of the programs have increased dramatically, and it has become much more important to focus program funding on the most cost-effective savings opportunities. The current, ambitious energy efficiency goals require a more targeted and fluid allocation of program dollars among customer classes than in the past. This could easily result in frequent and unpredictable changes in allocation factors based on relative Direct Benefits when the goals and focus of energy efficiency programs change over time.

Assuming the goal of adopting a standard allocation method is a valid one, the Direct Benefits method would certainly not work. This is particularly evident for programs that provide benefits for one class of customer, but that must be paid for by all classes, such as the CARE program. Further, for societal benefits that go beyond customer classes to the public at large (such as for programs aimed at reducing greenhouse gas or other pollutant emissions), allocating costs under a Direct Benefits method would become infeasible.

EPBR is Preferable to EPMC

The Utilities have recommended EPBR rather than EPMC primarily because the Utilities do not have a consistent definition of EPMC. For SoCalGas, EPMC includes a storage component, which is weighted towards residential customers. For PG&E, which uses embedded costs to allocate some of its base revenue, the marginal cost (i.e., LRMC) calculation is heavily weighted to core customers because it only includes customer and distribution costs.[41] As such, although for SoCalGas and SDG&E, EPMC produces a similar result to EPBR, the same is not true for PG&E. On the other hand, the EPBR formula is designed to be more equitable and straightforward. Further, having a consistent state-wide allocator among the Utilities that can be easily updated is preferable to having an allocator like EPMC that is not consistent in design and outcome among the Utilities.

E. Conclusion

The purpose, size, scope, and number of programs have changed and dramatically increased since the time many of these social programs were originally implemented. The histories behind the adoption of cost allocation methods for each of these programs among each of the Utilities are not straightforward. This proceeding is a timely opportunity to establish clear precedent as to whether a uniform, consistently applied allocation method should replace what's in place today. The programs themselves are not at issue in this proceeding. The Utilities recognize and support the societal benefits these programs provide. The Utilities seek to ensure only that the cost burden is distributed equitably and consistently.

EPBR is attractive on many levels as compared to any of the currently adopted allocation methods. Mainly, EPBR can be applied consistently across all state-mandated programs and among all the gas utilities of this state. EPBR does not disproportionately burden large customers, like ECPT does. EPBR can be readily and sensibly applied to any social program, unlike Direct Benefits. And, EPBR will function in a consistent manner for all gas utilities, unlike EPMC.

For the reasons stated above, the Commission should adopt the EPBR methodology for all current and future state-mandated gas social program costs.

This concludes the supplemental testimony.

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[41] SoCalGas has proposed to allocate all of its costs using embedded costs in its pending BCAP application (A.08-02-001).