

1 **REBUTTAL TESTIMONY OF**

2 **DAVID M. BISI**

3 **A. PURPOSE**

4 The purpose of my rebuttal testimony is to respond to the Indicated Producers (IP)¹
5 regarding the treatment of the San Diego Gas & Electric Company's (SDG&E's) gas transmission
6 facilities in the calculation of the BTS revenue requirement proposed by Southern California Gas
7 Company (SoCalGas) and SDG&E.

8 **B. RECEIPT POINT UTILIZATION DOES NOT DETERMINE BACKBONE OR**
9 **LOCAL TRANSMISSION STATUS**

10 IP argues in its prepared direct testimony that SDG&E transmission pipelines should be
11 reclassified from backbone to local transmission, which would result in a shifting of \$31.5 million
12 from backbone to local transmission embedded costs.² As justification, IP presents its own
13 interpretation of the System Integration decision, D.06-04-033, where it finds a requirement of
14 "significant gas supplies through Otay Mesa"³ before SDG&E transmission pipelines can properly
15 be classified as backbone pipelines. IP presented this same argument during the recent Firm Access
16 Rights (FAR) Update proceeding, A.10-03-028. In its FAR update decision, D.11-04-032, the
17 Commission rejected the IP's proposal to reclassify SDG&E's transmission pipelines from
18 backbone to local.⁴ There is no reason or rationale for the Commission to overturn its recent
19 decision on this topic and reach a contrary conclusion in this current proceeding.

20 SoCalGas and SDG&E have 11 receipt points on their integrated gas transmission system
21 which customers may use to schedule supplies, plus dozens of interconnects with local California
22 producers. With a combined receipt capacity of 3,875 million cubic feet per day (MMcfd) and firm

¹ BP Energy Company, BP America Inc. (including Atlantic Richfield Company), Chevron USA Inc., ConocoPhillips Company, and Occidental Energy Marketing Inc.

² Prepared Direct Testimony of Donald W. Schoenbeck on behalf of the Indicated Producers, dated November 16, 2012.

³ IP Prepared Direct Testimony, p. 8.

⁴ D.11-04-032, mimeo., at 23.

1 storage withdrawal capacity of 3,195 MMcfd, the level of potential supply available to our
2 customers far exceeds the average daily sendout of 2,623 MMcfd,⁵ guaranteeing that some receipt
3 points will be more utilized than others.

4 In fact, receipt point utilization can and does vary dramatically based upon the
5 competitiveness of gas prices for supplies that can be delivered at particular receipt points.
6 SoCalGas and SDG&E witness Fung showed in A.10-03-028 that the utilization of SoCalGas'
7 receipt points has varied widely.⁶

8 SoCalGas and SDG&E (and the Commission) understand that the utilization of a receipt
9 point does not define a pipeline's function. As SoCalGas and SDG&E witness Fung testified in
10 A.10-03-028:

11 [T]he analogy I would give is, for some of us who commute to work, which I do,
12 by public transportation, I ride the bus, there are often times I'm the only
13 passenger on the bus, depending on when I leave. It is still a bus whether I'm the
14 only passenger or not. It doesn't become a sedan.⁷

15 Additionally, TURN witness Florio explained the problem with reclassifying transmission
16 lines based on receipt point utilization in the same proceeding:

17 Gas receipts into the [SDG&E/SoCalGas] system at various receipt points can
18 reasonably be expected to vary over time, depending upon market conditions. The
19 fact that receipts at Otay Mesa have recently been quite low on average should not
20 trigger a reclassification of the downstream transmission assets, because market
21 conditions can change quickly. Indeed, the largest receipts at Otay Mesa, over
22 300 MMcf/d, appear to have occurred in September of 2010. It does not make
23 sense to me to base the classification of a transmission line on the vagaries of the
24 gas commodity market. Such a policy could easily result in the classification of
25 the line changing from rate case to rate case, producing rate instability and a
26 readily avoidable lack of certainty for shippers. The fact is that Otay Mesa is now
27 a system receipt point, and the resulting change in the treatment of the SDG&E
28 transmission system from local to backbone should be maintained, regardless of
29 the flow of gas over that system in any given period.⁸

⁵ 2011 recorded throughput, 2012 California Gas Report, p. 103.

⁶ See A.10-03-028, Ex. SDG&E/SCG-4 (Fung) at 3-4; Tr. at 91-92 (SDG&E/SoCalGas/Fung).

⁷ A.10-03-028, Tr. at 91 (SDG&E/SoCalGas/Fung).

⁸ A.10-03-028, Ex. TURN-2 (Florio) at 1-2.

1 Finally, the Commission agreed with SoCalGas, SDG&E, and TURN on this issue in D.11-
2 04-032:

3 It is unreasonable to reclassify a pipeline based on the volume of gas received at a
4 receipt point because a pipeline would constantly change classification with the
5 daily ebbs and flows of gas through a receipt point, and such an ongoing
6 reclassification of pipelines would make it impossible to determine the cost of the
7 backbone transmission system.⁹

8 **C. IP HAS MISREAD D.06-04-033**

9 First, it should be noted that IP, SoCalGas, and SDG&E agree that, in D.06-04-033, the
10 Commission changed the classification of the SDG&E transmission system from “local
11 transmission” to “backbone transmission” with the establishment of the Otay Mesa receipt point
12 which allows regasified liquefied natural gas (LNG) supplies from Mexico to enter the SoCalGas
13 and SDG&E systems at this receipt point.¹⁰ The parties disagree, however, with respect to what the
14 Commission meant by this. SoCalGas and SDG&E interpret D.06-04-033 to mean the Commission
15 recognized that: (1) the Otay Mesa receipt point provided new access to a source of supply, like the
16 other receipt points on the SoCalGas system, and therefore the transmission lines interconnecting
17 with the Otay Mesa receipt point were reclassified to match the classification of backbone
18 transmission pipelines connecting to other such receipt points; and (2) the SDG&E system was
19 operated as an integrated unit with the SoCalGas backbone transmission system as the result of the
20 operational integration of the two utilities pursuant to the merger of their parent companies. By
21 contrast, the interpretation of IP is that the Commission intended to reclassify the SDG&E
22 transmission system from “local” to “backbone” if, and only if, significant volumes of gas actually
23 flow through the Otay Mesa receipt point.

⁹ D.11-04-032, mimeo., at 23.

¹⁰ See D.06-04-033, mimeo., at 43 and 61.

1 The language of D.06-04-033 clearly establishes that the reclassification of the SDG&E
2 transmission system from “local transmission” to “backbone transmission” was not contingent on a
3 certain minimum flow of gas at Otay Mesa. Not only is there a complete absence of conditional
4 language that might support the interpretation of IP, D.06-04-033 is replete with statements making
5 clear that the SoCalGas and SDG&E transmission system had already been integrated operationally
6 and that the key difference in the SDG&E transmission system caused by the addition of the Otay
7 Mesa receipt point was access to a new supply source. As the Commission explained throughout
8 D.06-04-033:

9 With the **introduction** of regasified LNG flowing through Otay Mesa, the method
10 in which SDG&E and SoCalGas **can** obtain gas will fundamentally change. The
11 customers on both systems **will have access** to receipt points on both systems,
12 **regardless of the supply source** at a single integrated rate. The **function** of the
13 SDG&E transmission system and the Rainbow Corridor will change from a local
14 transmission **function** to backbone transmission lines transporting regasified LNG
15 from Otay Mesa into SoCalGas’ service territory.¹¹

16 The Commission again emphasized that the key difference arising from establishing the
17 Otay Mesa receipt point was availability of regasified LNG:

18 The availability of regasified LNG through Otay Mesa will change how SDG&E
19 customers receive their gas and will impact SoCalGas customers as well. Instead
20 of having to procure gas through a receipt point on the SoCalGas system, SDG&E
21 customers will be able to obtain gas directly at the Otay Mesa receipt point.¹²

22 It is evident that the Commission chose to reclassify the SDG&E gas transmission system
23 from local to backbone because the addition of the Otay Mesa receipt point would provide access or

¹¹ D.06-04-033, mimeo, at 43 (emphasis added). *See, also, Id.* at 41 (“Instead of SDG&E taking all of its gas from SoCalGas receipt points, SDG&E can access supplies at Otay Mesa”); *Id.* at 47 (“Although these benefits will not materialize until the regasified LNG begins to flow into southern California, it is our belief that the introduction of regasified LNG from Baja California into the southern California market will benefit the customers of both SDG&E and SoCalGas”); *Id.* at 48 (“By adopting the system integration proposal, customers of both SDG&E and SoCalGas will have access to another source of supply and to diverse supply sources at a single rate”); *Id.* at 42 (“The regasified LNG from this facility [ECA] can provide a new supply source for customers of SDG&E, and to the customers of SoCalGas through the use of the SDG&E system and the Rainbow Corridor as backbone transmission facilities. If a significant amount of this gas is delivered through Otay Mesa, this new supply will diversify the existing gas supply source and may result in increased supply reliability over time”).

¹² *Id.* at 49.

1 availability to regasified LNG, not contingent upon a certain volume of receipts at Otay Mesa. The
2 only discussion in D.06-04-033 of the volume of gas to be received at Otay Mesa came in the
3 context of evaluating the degree of benefits that system rate integration would provide to SoCalGas
4 customers, not in addressing whether the SDG&E transmission system should be reclassified from
5 local to backbone.¹³ Indeed, the language from D.06-04-033 cited by IP at page eight of its
6 prepared direct testimony does not condition classification of the SDG&E transmission system as
7 backbone except to state that “the method in which SDG&E and SoCalGas can obtain gas will
8 fundamentally change” and “the function of the SDG&E transmission system and the Rainbow
9 Corridor will change” from local to backbone “[w]ith the introduction of regasified LNG flowing
10 through Otay Mesa.”¹⁴ There is no dispute that regasified LNG has been introduced through the
11 Otay Mesa receipt point and has flowed at times. Thus, the language of D.06-04-033 shows the
12 clear intent of the Commission to classify the SDG&E transmission system as “backbone” once gas
13 supply became available at Otay Mesa and began to flow, with no support whatsoever for the
14 interpretation that the reclassification was contingent on a certain minimum gas flow at Otay Mesa.

15 There is nothing in IP’s testimony that the Commission hasn’t heard before. The
16 Commission has recently considered all of these arguments by IP, and decided against them. The
17 Commission has already found that SDG&E’s gas transmission pipelines perform the backbone
18 transmission function both through their integration with the SoCalGas transmission system, and
19 through the creation of the Otay Mesa receipt point. Receipt point utilization simply does not, and
20 should not, factor into a pipeline’s classification as backbone or local. The Commission should
21 once again reject IP’s recommendations.

22 This concludes my prepared rebuttal testimony.

¹³ See, e.g., *Id.* at 44 (“The amount of gas that flows through Otay Mesa is pertinent to the issue of whether SoCalGas customers will benefit as a result of the increase in their transmission rates.”).

¹⁴ D.06-04-033, mimeo., at 43.