

Application No: A.11-11-
Exhibit No.: _____
Witness: Herbert S. Emmrich

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

A.11-11-
(Filed November 1, 2011)

PREPARED DIRECT TESTIMONY
OF HERBERT S. EMMRICH
SAN DIEGO GAS & ELECTRIC COMPANY
AND
SOUTHERN CALIFORNIA GAS COMPANY

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

November 1, 2011

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1 testimony also presents the gas prices used to forecast demand by customer segment, the Core
2 Brokerage Fee, SDG&E's and SoCalGas' Unaccounted-For (UAF) gas percentages and their
3 allocation to the core and noncore customer classes.

4 **A. Core Storage**

5 In the Settlement, the core was assigned the following storage capacities indicated in
6 Section 5:

7 5. The combined core customers of SDG&E/SoCalGas shall
8 initially be allocated 79 Bcf of storage inventory capacity and 369
9 MMcfd of storage injection capacity, with proportionate annual
10 increases to match the growth in inventory capacity addressed
11 below up to a total of 388 MMcfd of storage injection capacity,
12 and 2225 MMcfd of storage withdrawal capacity.

13 In addition, the core and the unbundled storage program were to receive the following
14 additional capacities once they became available:

15 7. 1.0 Bcf of the 7.0 Bcf expansion capacity shall be added to the
16 combined core's inventory capacity in each of the four years 2010-
17 2013.

18 Consistent with the provisions of D.08-12-020, the core currently has 81 Bcf of
19 inventory, 379 MMcfd of injection and 2,225 MMcfd of firm withdrawal capacities. Based on
20 the 2009 BCAP Phase I Settlement, the core will have 83 Bcf of inventory, 388 MMcfd of
21 injection, and 2,225 of firm withdrawal capacities assigned to it by April 1, 2013. Since the
22 2009 BCAP Settlement extends only through 2014, as Ms. Musich states, SoCalGas and SDG&E
23 propose that the 2014 capacity amounts be continued through 2015 to encompass the entire
24 TCAP period. This extension is reasonable because the core demand forecast sponsored by Ms.
25 Payan shows that core gas demand is not expected to grow over the TCAP period. Table 1
26 shows the allocation of the storage assets for SoCalGas' core customers by customer class and
27 Table 2 shows the resulting storage asset allocation by customer class for SDG&E's core

1 customers. These allocations are based on the monthly core demand forecasts presented in Ms.
 2 Payan’s testimony. These core storage capacity allocations are used by Mr. Mock and Mr.
 3 Lenart in allocating storage costs to SoCalGas’ and SDG&E’s core customers respectively.

4 **Table 1**

SoCalGas Core Storage Allocations by Customer Class

| SoCalGas | Residential | Nonresidential Core | | | | Total SoCalGas Core |
|--------------------------|-------------|---------------------|------|------|-------|------------------------|
| | | G-10 | G-AC | G-GE | G-NGV | |
| Inventory Allocation BCF | 61.8 | 11.4 | 0.0 | 0.0 | 0.5 | 73.7 |
| Injection MMcfd | 289.1 | 53.1 | 0.0 | 0.0 | 2.1 | 344.3 |
| Withdrawal MMcfd | 1,287.7 | 680.0 | 0.0 | 0.0 | 22.3 | 1,990 |

5 **Table 2**

SDG&E Core Storage Allocations by Customer Class

| SDG&E | Residential | Nonresidential Core | | Total SDG&E Core | SoCalGas & SDG&E Core Totals |
|--------------------------|-------------|---------------------|-------|---------------------|---------------------------------|
| | | GN-3 | G-NGV | | |
| Inventory Allocation BCF | 7.6 | 1.8 | 0.0 | 9.3 | 83 |
| Injection MMcfd | 35.3 | 8.3 | 0.0 | 43.6 | 388 |
| Withdrawal MMcfd | 154.1 | 79.1 | 1.8 | 235.0 | 2,225 |

6 **B. Gas Price Forecast**

7 The natural gas price forecast used to develop the demand forecasts for SoCalGas and
 8 SDG&E in this proceeding was prepared using New York Mercantile Exchange (“NYMEX”)-
 9 based natural gas futures prices and other forecast sources. This forecast was prepared in
 10 February 2011. Consistent with the gas price forecast methodology used to develop demand
 11 forecasts used in the 2009 BCAP Settlement, SoCalGas and SDG&E used this methodology to
 12 forecast the cost of gas to be used for determining the cost of Company Use (CU) fuel and UAF.

13 In preparing this forecast, SoCalGas and SDG&E used the methodology approved by the
 14 Commission in Resolution E-4214 for establishing the Market Price Referent by forecasting the
 15 near term natural gas prices at the Southern California Border based on NYMEX Henry Hub
 16 ClearPort Basis Swap futures prices. The natural gas price forecast at Henry Hub from 2013
 17 through 2015 is based on the then most recent 22-day trading average of NYMEX futures prices
 18 from March 1, 2011 to March 31, 2011. Basis swaps trading contract settlements from NYMEX

1 ClearPort¹ were then added to the Henry Hub futures prices to arrive at the natural gas price
 2 forecasts used to forecast gas demand for SoCalGas and SDG&E's customers, UAF and CU fuel.
 3 Consistent with the integration of the gas procurement function for both SoCalGas and SDG&E
 4 set forth in D.07-12-019, a combined core Weighted Average Cost of Gas (WACOG) for both
 5 utilities was estimated using 2010 purchase weights by production basin and interstate pipeline
 6 receipt points. The final WACOG for purchase also includes the integrated interstate pipeline
 7 and Backbone Transmission Service (BTS) charges. The futures-based forecasted gas price used
 8 to forecast TCAP gas demand is \$5.48/MMBtu.

9 **Table 3**
SoCalGas and SDG&E Combined SoCalGas Citygate WACOG
\$/MMBtu

| | |
|--------------------------------|-------------|
| 2013 | 4.94 |
| 2014 | 5.24 |
| <u>2015</u> | <u>6.25</u> |
| Three-Year Average (2013-2015) | 5.48 |

10 The actual cost of UAF gas purchases will be balanced through the appropriate regulatory
 11 accounts. To minimize the likelihood of undercollections or overcollections over the TCAP
 12 period, the underlying gas price will be updated through the annual October adjustment to
 13 transportation rates using a forecast of Southern California Citygate gas prices for the next year
 14 that is based on then current NYMEX ClearPort futures prices at the Southern California Border.

15 **C. Core Brokerage Fee**

16 The SoCalGas and SDG&E Core Brokerage Fee is currently 0.148 cents/therm. Based
 17 on the updated Core Brokerage Fee study, the proposed updated TCAP Core Brokerage Fee is
 18 0.166 cents/therm.

¹ New York Mercantile Exchange. NYMEX ClearPort Clearing and NYMEX ClearPort Trading Contract Settlements <https://www.services.nymex.com/otcsettlement/OTCSettle.jsp>.

1 **Table 4**

| Brokerage Fee Summary | | |
|--|--------------|-----------------|
| Current Brokerage Fee* | 0.148 | cents per therm |
| Proposed Brokerage Fee* (SoCalGas+SDG&E) | 0.166 | cents per therm |

*Before FF&U

2 This Brokerage Fee is based on a total cost of \$6,525,087 to provide core gas acquisition
3 services to SoCalGas and SDG&E's retail core class of customers. The costs of Gas
4 Acquisition, Demand Forecasting, Case Management, Tariffs, Human Resources, Commercial &
5 Industrial Sales, Information Technology Support and Legal Services are included in the total
6 cost to provide gas acquisition services. The breakdown of these costs is shown in Table 5
7 below. The complete study is shown in my workpapers.

8 **Table 5**

| Total Brokerage Fee Costs | | | | | | |
|----------------------------------|--------------------|------------------|--------------------|--------------------|------------------|--------------------|
| | Labor | NonLabor | Overheads | Direct Cost | Rent | Total |
| Gas Acquisition | \$2,657,744 | \$481,115 | \$1,702,851 | \$4,841,710 | \$495,004 | \$5,336,715 |
| Demand Forecasting | \$67,283 | \$8,989 | \$64,115 | \$140,387 | \$8,353 | \$148,740 |
| Case Management | \$14,426 | \$1,567 | \$26,041 | \$42,034 | \$1,856 | \$43,890 |
| Regulatory Tariff | \$8,246 | \$171 | \$17,082 | \$25,499 | \$1,547 | \$27,045 |
| Human Resources | \$25,056 | \$1,028 | \$33,195 | \$59,279 | \$6,188 | \$65,467 |
| C&I Sales | \$9,116 | \$1,216 | \$38,378 | \$48,710 | \$1,083 | \$49,793 |
| IT | \$509,017 | \$46,142 | \$226,851 | \$782,011 | \$46,407 | \$828,417 |
| Law | \$14,126 | \$1,319 | \$9,050 | \$24,495 | \$524 | \$25,019 |
| Total | \$3,305,013 | \$541,546 | \$2,117,565 | \$5,964,125 | \$560,962 | \$6,525,087 |

9 **D. UAF Gas**

10 The calculation of the volumes related to UAF gas is comprised of the following major
11 elements: accounting corrections and prior period adjustments; measurement adjustments;
12 leakage; theft; and other unexplained unaccounted-for volumes of gas. The recorded UAF gas,

as percentages of total gas receipts for the years' April through March production cycle in 2008-2009, 2009-2010 and 2010-2011 for SoCalGas and SDG&E are as shown in Table 6 below.

Table 6
Southern California Gas Company
UAF WACOG Comparison
April 2008 - March 2011

| <u>Dates</u> | <u>Total</u> | <u>Total</u> | <u>UAF</u> | <u>UAF %</u> | <u>Percent</u> | <u>Percent</u> |
|---------------------------|----------------------|----------------------|-------------------|--------------------|----------------|-----------------|
| <u>Apr 2008- Mar 2011</u> | <u>Receipts</u> | <u>Deliveries</u> | <u>(MMBtu)</u> | <u>of Receipts</u> | <u>Core</u> | <u>Non-Core</u> |
| 36 Months' Total | 2,992,550,150 | 2,970,046,866 | 22,503,284 | 0.752% | 71% | 29% |

** Core - noncore percentages per the 2009 BCAP Settlement*

SoCalGas and SDG&E currently have a system-wide UAF gas factor of 0.892 % and 0.880 % respectively in rates for each utility. Of these UAF percentages, currently SoCalGas has a UAF gas allocation factor of 71% to the core and 29% to noncore usage, while SDG&E has a UAF gas allocation factor of 59% to the core and 41% to the noncore. SoCalGas and SDG&E propose that the UAF percentages for each utility be updated and based on the April 2008 to March 2011 three-year average of 0.752% for SoCalGas and 1.178% for SDG&E as shown in Table 7 and that the same percentage allocations between core and noncore, as were approved in D.08-12-020, be used for the TCAP period. The monthly total of deliveries, receipts, and UAF are shown in detail in my workpapers.

The resulting core UAF factor for SoCalGas is 0.534% ($.752 \times .71 = .534\%$) and 0.218% for the noncore ($.752 \times .29 = .218\%$). For SDG&E, the resulting factors are 0.665% ($1.178 \times .59 = .695\%$) for the core and 0.483% ($1.178 \times .41 = .483\%$) for the noncore. These percentage allocations to the core and noncore were approved in D.08-12-020 and since SoCalGas and SDG&E propose that the Settlement be extended for the duration of the TCAP period, SoCalGas

1 and SDG&E propose that these percentage allocations be continued to be used to allocate UAF
 2 to the core and noncore classes of customers.

3 **Table 7**

**San Diego Gas and Electric
 UAF WACOG Comparison
 April 2008 - March 2011**

| <u>Dates</u> | <u>Total</u> | <u>Total</u> | <u>UAF</u> | <u>UAF %</u> | <u>Percent</u> | <u>Percent</u> |
|-------------------------|--------------------|--------------------|------------------|-----------------|----------------|----------------|
| <u>Apr 2008- Mar</u> | <u>Receipts</u> | <u>Deliveries</u> | <u>(MMBtu)</u> | <u>of</u> | <u>Core*</u> | <u>Non-</u> |
| <u>2011</u> | | | | <u>Receipts</u> | <u>59%</u> | <u>Core*</u> |
| 36 Months' Total | 351,969,919 | 347,760,700 | 4,147,836 | 1.178% | 0.695% | 0.483% |

* Core - Noncore percentages per the 2009 BCAP Settlement

4 SoCalGas will use the SoCalGas Citygate price in determining the SoCalGas and
 5 SDG&E UAF fuel costs. Since UAF fuel costs include BTS charges, it makes more sense for
 6 the UAF fuel costs to be based upon the SoCalGas Citygate price instead of the Border price.

7 This concludes my prepared direct testimony.