Exhibit No.: ____________________

Application No.: 12-04-017

Witness: Scott R. Wilder

Date: December 14, 2012

PREPARED REBUTTAL TESTIMONY OF
SCOTT R. WILDER
ON BEHALF OF SOUTHERN CALIFORNIA GAS COMPANY
(PHASE 2)

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

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(PHASE 2)

I. INTRODUCTION

The purpose of my testimony is to respond to the Division of Ratepayer Advocates' (DRA's) Phase 2 testimony of witness, Mr. Jerry Oh.[1] Southern California Gas Company (SCG or SoCalGas) recognizes DRA's agreement with SCG's proposal to replace its existing Market-Indexed Capital Adjustment Mechanism (MICAM) to a cost of capital mechanism (CCM) benchmarked to shift it to Moody's A-rated utility bond rates.[2] SCG's proposed CCM would thereby become more appropriately benchmarked and more consistent with the CCMs proposed by the other California investor-owned utilities (IOUs). Further, SCG's proposed CCM, if adopted, would dispense with the forecasted portion of bond rates as a factor in determining a trigger event.

My rebuttal testimony focuses on two of DRA's recommendations to modify SCG's proposal, which I believe do not render an adopted CCM that is more reasonable or practical than SCG's current proposal:

- DRA's proposal to expand SCG's CCM "deadband" from its proposed 100 basis points to 125 basis points is not empirically supported because DRA bases its proposal on only one year of data, and because it contradicts the Commission's adoption of 100 basis points as a reasonable band in previous cost of capital cases for

[1] DRA Report of the Cost of Capital for Test Year 2013, Phase 2: Adjustment Mechanism (witness, Jerry Oh)
[2] DRA/Oh, p. 9.

the other IOUs. In contrast, SCG's proposed 100 basis-point deadband is both reasonable and in line with the existing Commission-approved deadbands of the IOUs in this proceeding.

- SCG's "off-ramp" proposal is reasonable and appropriate to promote stability during unique economic events, and not redundant as DRA claims. As set forth in SCG's CCM direct testimony of Mr. Herbert S. Emmrich[3] and in my rebuttal to DRA below, SCG's CCM proposal should be approved.

II. SCG'S PROPOSED CCM DEADBAND SHOULD BE SET APPROPRIATELY AT 100 BASIS POINTS.

The size of the deadband helps determine how frequently the CCM's adjustment mechanism will be triggered. The three other IOUs have successfully operated with 100 basis-point deadbands for at least several years (SDG&E since 1998). DRA recommends that the deadband be increased from the proposed 100 basis points to 125 basis points based solely on the increased difference of Moody's utility bond rates in 2012 compared to 2011.[4] DRA's own Table 1[5] shows that 2012 stands out as an anomaly difference larger than nearly any of the other historical years shown. Using the full 12 years of data in DRA's Table 1, from 2000 to 2012, there is no apparent pattern of year-to-year differences in utility bond rates. For instance, while the average Moody's A-rated bond rate ending in 2012 does show a large decline of 100 basis points from the 2011 average, that 2011 average differs by only a small 28 basis points from the 2010 average.

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[3] Prepared Direct Testimony of Herbert S. Emmrich on Behalf of Southern California Gas Company (April 2012).
[4] DRA/Oh at 6 (lines 21-23).
[5] DRA/Oh at 7.

Rather than showing large annual changes as DRA implies from its single-year focus, most of the year-by-year differences in Table 1 are actually less than 50 basis points, with no discernible trend of growth or shrinkage in the differences over time—and thus with no evidence indicating a need for a larger 125 basis-point deadband. DRA continues its argument with borrowed logic from the Commission's prior cost of capital decision (D.) 08-05-035, stating that "[i]ncreasing the deadband to 125 basis points will strike a reasonable balance between triggering too often and not triggering often enough."[6] However, in its appropriate context, the Commission's decision does not provide any support for a 125 basis-point deadband, but instead supports the 100 basis-point deadband being proposed by SCG:

> A deadband needs to strike a reasonable balance between triggering too often and not triggering often enough. … However, a 100-basis point deadband…mitigates volatility of interest rates. Therefore, a 100-basis point deadband is adopted…[7]

Therefore, as shown above, DRA's proposal lacks empirical support and gains no validation from the Commission's prior cost of capital decision.

III. SCG'S PROPOSED OFF-RAMP IS BENEFICIAL AND SHOULD BE APPROVED.

DRA objects to SCG's off-ramp proposal as redundant, stating that "…D.08-05-035 already includes a provision for utilities to file a cost of capital application outside of the CCM process upon an extraordinary or catastrophic event that materially impacts their

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[6] DRA/Oh at 7.
[7] D.08-05-035 (*mimeo*) at 12.

respective cost of capital and/or capital structure and impacts them differently than the overall financial markets."[8] DRA's rationale is problematic for several reasons. First, SCG was not a party to D.08-05-035, and is thus not covered by that provision. Second, contrary to DRA's claims, SoCalGas' off-ramp proposal is not redundant but rather expands the conditions under which an off-ramp could occur. The approach DRA seems to endorse would allow SCG to file a cost of capital application outside of the CCM process only in an event that impact utilities "differently than the overall financial markets." This is overly-restrictive, especially given today's environment, which has been shaped by global economic instability and turmoil, and measures such as those undertaken by the Federal Reserve to artificially drive down interest rates to historically low levels. In this environment, SCG's proposal is prudent and appropriate because its off-ramp provision would include events that could impact SCG (and the other IOUs) in ways which are also *similar* to their impacts on the overall financial markets, and not exclusive of those impacts.

As described in Mr. Emmrich's direct testimony, the off-ramp proposal is also intended for such events that would cause extreme impacts to the utility bond index (and in association also SoCalGas' ROE) due to unique economic conditions, such as hyperinflation [and associated rapid rises in interest rates], significant impacts to the domestic or global financial markets.[9] Such events could impact SCG and overall financial markets in similar ways. Therefore, changes in the financial markets should be included in the off-ramp option to protect ratepayers and shareholders against extreme changes in interest rates.

Although the Commission, in D.08-05-035, did not adopt the off-ramp provision proposed by SDG&E, there was no finding or conclusion that deemed an off-ramp provision

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[8] DRA/Oh at 9-10.
[9] SCG/Emmrich at 10 (lines 18-21).

unreasonable or without merit. In fact, SCG's proposed off-ramp is similar to off-ramp provisions that were adopted for SDG&E's MICAM in D.03-09-008 and D.96-06-055.[10]

IV. SUMMARY AND CONCLUSION

SCG requests that the Commission adopt its proposed CCM as described in Mr. Emmrich's direct testimony[11] and as stated herein, including the modification to use a benchmark index of historical-only Moody's A-rated utility bond rates with a 100 basis-point deadband, and an expanded off-ramp provision.

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[10] SCG/Emmrich at 10.
[11] SCG/Emmrich at 12.

V. STATEMENT OF QUALIFICATIONS

My name is Scott R. Wilder. I am employed by SoCalGas as a Business/Economics Advisor in the Gas Regulatory Affairs Department for SoCalGas and San Diego Gas & Electric Company. My business address is 555 West Fifth Street, Los Angeles, California 90013-1011. I assumed witness responsibilities for Phase 2 of this proceeding, replacing the previous witness, Mr. Herbert S. Emmrich.

I have held my current position since February 2004. Since 1993 I have been employed at SoCalGas in various economic forecasting and analysis positions of increasing responsibility. From 1986 to 1993, I was employed by Pacific Gas and Electric Company in San Francisco in various positions involving electric demand foecasting, and economic forecasting, planning and analysis. From 1982 to 1984, I worked as a Development Project Manager with the Southern Baptist International Mission Board, working with farmers and engineers to build irrigation aqueducts in the Andes Mountains of Peru.

I received a Bachelor of Science degree in Agricultural & Managerial Economics from the University of California at Davis in 1982 and a Master of Science degree in Agricultural Economics from U.C. Davis in 1986. I have previously testified before the California Public Utilities Commission.