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**BEFORE THE
PUBLIC UTILITIES COMMISSION
OF THE
STATE OF CALIFORNIA**

6 In the Matter of the Application of Southern
7 California Gas Company (U904G) to
8 Establish a Biogas Conditioning &
Upgrading Services Tariff.

Application 12-04-024
(Filed April 25, 2012)

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**Direct Testimony of Catherine E. Yap
On Behalf of Southern California Generation Coalition**

February 22, 2013

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1 **Direct Testimony of Catherine E. Yap**
2 **On Behalf of Southern California Generation Coalition**

3
4 **1. Introduction and Background**

5 This testimony is presented by Catherine E. Yap on behalf of the Southern California
6 Generation Coalition (“SCGC”). SCGC members are electric generation (“EG”) customers of
7 Southern California Gas Company (“SoCalGas”). Ms. Yap’s qualifications are set forth in
8 Attachment A.

9 On April 25, 2012, SoCalGas filed an application requesting authorization to provide
10 biogas conditioning and upgrade services, which are new services that are distinct from
11 SoCalGas’ utility services. This testimony addresses issues set forth in the Assigned
12 Commissioner’s and Administrative Law Judge’s Scoping Memo and Ruling (“Scoping Memo”) issued on December 28, 2012, as well as topics discussed in direct and supplemental testimony
13 presented by SoCalGas.
14

15 **2. The Applicants’ Proposal**

16 SoCalGas defines biogas conditioning and upgrade services (“BCS”) as the process of
17 removing impurities and/or inert gases from gas produced through the anaerobic digestion of
18 organic waste material. Direct Testimony of Hal Snyder (“Snyder Direct”) at Footnotes 2 & 3.
19 Biogas may be conditioned and upgraded to the point of being pipeline ready or only to the point
20 required for a customer’s specific needs. *Id.* at Footnote 4. BCS are clearly distinct from
21 SoCalGas’ traditional utility services, which involve delivery and, in some cases, purchasing of
22 natural gas for end-use customers.

23 SoCalGas proposes to provide BCS to any customer who produces biogas, but expects
24 that the greatest interest will arise from landfill diversion operations, wastewater treatment plants,
25 concentrated animal feeding operations, and food/green waste processing. Direct Testimony of
26 Ron Goodman (“Goodman Direct”) at 6. SoCalGas projects a potential of more than 100
27 MMcf/d of biogas production.

1 SoCalGas proposes to charge each BCS customer a specific rate that is based on all direct
2 and indirect costs incurred in providing service to that customer. Synder Direct at 2. The
3 proposed G-BCUS tariff attached to the application makes the rate a negotiated “Services Fee
4 based on Utility’s expected cost of service over a period agreed upon by the parties.” A.12-04-
5 024, Appendix A at Sheet 5. SoCalGas expects BCS to involve customer outreach, contract
6 development, engineering and cost estimation, procurement and construction, engineering
7 oversight, and operation and maintenance, which SoCalGas plans on providing through a
8 combination of existing personnel and third-party providers. Direct Testimony of Krystal
9 Joscelyne (“Joscelyne Direct”) at 3.

10 SoCalGas proposes to compensate ratepayers for the use of existing utility resources in
11 providing BCS through a credit to the “appropriate balancing accounts” until the BCS investment
12 can be added to rate base in the next general rate case. *Id.* at 9. In that proceeding, SoCalGas
13 would also include the BCS operation and maintenance (“O&M”) costs in base rates and increase
14 miscellaneous revenues to reflect the BCS revenues from existing customer contracts. *Id.* Thus,
15 SoCalGas proposes to subsume the BCS activities into general rates in SoCalGas’ next general
16 rate case. *Id.*

17 **3. The Applicant’s Proposal Leaves Ratepayers Exposed to Significant Risk.**

18 SoCalGas claims that the miscellaneous revenues generated by the BCS projects will be
19 sufficient to offset all costs associated with providing requisite services. However, it is clear that
20 ratepayers are exposed to significant risk under this proposed ratemaking approach. For example,
21 the proposed tariff states that “Utility and Biogas Producer will negotiate a Services Fee based on
22 Utility’s *expected cost of service* over a period agreed upon by the parties.” (emphasis added)
23 Application 12-04-024, Appendix A at Sheet 5. The tariff does not state whether the BCS
24 customer will be responsible for escalation in O&M costs over time or whether ratepayers would
25 be required to absorb the difference between rising costs and a fixed BCS payment.

1 **3.1. Ratepayers Would Bear the Risk for Deviations Between Actual Cost of**
2 **Service and Projected Cost of Service for a Much Longer Time Than Would**
3 **Shareholders.**

4 SoCalGas admits that there could be deviations between actual cost of service and
5 projected cost of service. For a given project, BCS revenues could exceed or fall short of actual
6 costs. Under such circumstances, the shareholders would bear the risk in the initial period from
7 project initiation until the next general rate case. The ratepayers would bear the risk in the
8 following period from the time the project is added to ratebase until the end of its life:

9 In the case where SoCalGas collects more from tariff customers
10 than the cost of service, SoCalGas shareholders will receive the
11 benefits in between general rate case cycles. In the next general rate
12 case, the undepreciated capital investment will be rolled into
13 ratebase along with the miscellaneous revenues forecast, for
14 commission approval. A reduction to base margin was designed to
15 keep rates neutral to this transaction; however, in this case
16 ratepayers will now benefit from the excess tariff revenues. *The*
17 *opposite will be true in the case where SoCalGas collects less from*
18 *tariff customers than the cost of service.*

19 (emphasis added) Attachment B: SoCalGas Response to DRA Data Request No. DRA-MK3-1,
20 Q.21. Ratepayers would bear the risk for a much longer period than would shareholders.
21 Furthermore, the later years in the project life are much harder to project at the time the
22 agreements are signed. Thus, the latter portion of contract life is subject to considerably more
23 uncertainty than the earlier portion. Greater uncertainty translates into greater risk, which
24 SoCalGas is proposing that ratepayers absorb.

25 **3.2. SoCalGas' Flat O&M Fee Would Introduce Risk for Ratepayers that a**
26 **Contingency in the Cost Estimate Would Not Eliminate.**

27 SoCalGas apparently envisions keeping the O&M payment fixed for the BCS customer
28 over the life of the agreement. "The Biogas Conditioning/Upgrading Tariff provides a monthly
29 flat fee for customers such that they can predict and manage their annual O&M budgets. The
30 tariff will annualize fluctuating costs for parts (valves, compressors, etc) that will need to be
31 changed out at non-annual intervals over the life of the service agreement." Attachment C:
32 SoCalGas Response to DRA Data Request No. DRA-MK3-2, Q.1-2. Therefore, SoCalGas has

1 committed to developing a flat O&M fee based on projections at the time the deal is struck and
2 the agreements are signed.

3 SoCalGas has explained the approach it believes necessary to manage costs: “As a
4 general practice, SoCalGas will seek supplier bids prior to finalization of contract price in order
5 to ensure accurate cost estimation. As appropriate, a contingency will be added to cost estimates
6 in order to reach a high level of confidence that revenues will cover or exceed project costs.”

7 Attachment D: SoCalGas Response to SCGC Data Request No. 3, Q.3.5.9. Yet, SoCalGas will
8 be caught between imposing high contingencies or high escalation rates to minimize risk to
9 shareholders/ratepayers and the desire to motivate the BCS customers to sign up for the service.
10 Furthermore, contingencies are not a guarantee against cost overruns.

11 **3.3. SoCalGas’ Proposed Use of Third Party O&M Providers Does Not Eliminate**
12 **Ratepayer Risk.**

13 SoCalGas is planning on using third parties to provide O&M services and expects them to
14 absorb the risk of O&M cost escalation. “Operating costs will be a pass-through cost from a third
15 party vendor. As such, in the above hypothetical example [involving higher than expected
16 operating costs], the third party vendor will bear the costs of these higher operating expenses.”

17 Attachment C: SoCalGas Response to DRA Data Request No. DRA-MK3-2 Q.7. This approach
18 would likely work under many circumstances. However, it would not be a guarantee. If the
19 O&M contract becomes commercially infeasible, the O&M provider may fail to perform under it
20 or may even go bankrupt. Under these circumstances, SoCalGas would be responsible for
21 operating and maintaining the facility or finding another O&M provider to do so. Attachment D:
22 SoCalGas Response to SCGC Data Request No. 3, Q.3.5.11. There is no guarantee that the new
23 O&M provider would charge the same amount that the previous provider had charged. In fact,
24 under the scenario where the contract has become commercial infeasible, it is highly likely that
25 the new provider would demand more compensation for the same O&M services. For BCS
26 projects that have already been added to ratebase, the additional O&M expense would represent
27 an additional cost to ratepayers.

1 SoCalGas would be liable for damages that might be caused by the O&M provider's
2 failure to perform. If the O&M provider goes bankrupt, they will not be able to pay much (or
3 anything) in way of damages. SoCalGas is self-insured against the first \$4 million and
4 acknowledges that the cost of claims is part of O&M expenses that are submitted in its general
5 rate proceedings. Attachment C: SoCalGas Response to DRA Data Request No. DRA-MK3-2
6 Q.3. Thus, while losses for BCS projects might be absorbed by shareholders initially, they would
7 become part of costs in the base year and, thus, increase the test year insurance expenses for
8 ratepayers.

9 **3.4. SoCalGas' Proposed BCS Contract Language Does Not Eliminate All**
10 **Ratepayer Risk.**

11 SoCalGas claims that it has covered the eventuality of poor project performance.
12 "SoCalGas has the ability to unilaterally re-price the contract under three situations: 1) when
13 there is a change in the quality or quantity of untreated biogas from the agreed upon
14 specifications, 2) when the biogas producer fails to meet any of its responsibilities under the
15 agreement, or 3) a suspension or change in the services as a result of a change in law or some
16 latent site defect." Attachment D: SoCalGas Response to SCGC Data Request No. 3, Q.3.5.9.
17 However, if the cost of providing the O&M services escalates dramatically for other reasons that
18 are not covered under these provisions, ratepayers would bear the risk that the O&M provider
19 would not perform, which would produce an increase in O&M costs.

20 **3.5. Default of a BCS Customer Would Place Ratepayers at Risk.**

21 Furthermore, if a BCS customer were to go bankrupt or otherwise default on its
22 agreement, under SoCalGas' proposed approach, since the BCS project cost would be included in
23 ratebase, ratepayers would continue to pay for the cost of service without receiving any offsetting
24 BCS revenues for the project.

25 SoCalGas' witness Joscelyne admits that ratepayers are exposed to risk:

26 In the BCS Tariff application SoCalGas has proposed to first
27 exhaust all commercial and legal remedies to collect the remaining
28 balance due and the required costs to remove and redeploy the asset
29 from the customer premises; however, if the asset cannot be
30 redeployed, it will be retired. SoCalGas shareholders will bear the

1 economic loss until the next GRC. In the next GRC the remaining
2 undepreciated capital will be rolled into ratebase along with the
3 miscellaneous revenues forecasts associated with BCS Tariff for
4 Commission approval.

5 Supplemental Testimony of Krystal Joscelyne at 3.

6 **4. The Commission Should Subject the BCS Program to the Same Ratemaking That It**
7 **Imposed on SoCalGas' Compression Services Program.**

8 In the Compression Services case, the Commission already addressed many of the same
9 ratemaking issues that are being considered in this proceeding. Like BCS, Compression Services
10 are not traditional utility services. The SoCalGas proposal for ratemaking treatment of
11 Compression Services was nearly identical to the proposal it is making in the current proceeding
12 for ratemaking treatment of BCS. SoCalGas proposed to track the direct and indirect costs
13 associated with Compression Services and to credit ratepayers for use of utility personnel or
14 utility assets that are embedded in general rates. Ultimately, SoCalGas would include the cost of
15 the Compression Services in general rates with an offsetting credit in miscellaneous revenues.
16 Attachment E: A.11-11-011, Direct Testimony of Edward Reyes at 8-9, 11. (Note that the Direct
17 Testimony of Edward Reyes in A.11-11-011 is strikingly similar in its entirety to the Direct
18 Testimony of Krystal Joscelyne in this current proceeding.)

19 The Commission declined to adopt SoCalGas' proposed ratemaking for Compression
20 Services. The Commission adopted more restricted ratemaking for Compression Services than
21 SoCalGas proposed. Decision No. 12-12-037 orders SoCalGas to price Compression Services so
22 that SoCalGas collects the fully loaded costs of providing those services to each customer. The
23 Commission did not allow SoCalGas to add the investment in Compression Service facilities to
24 ratebase or to mix Compression Services O&M costs with other O&M costs in general rate
25 proceedings. Instead, the Commission ordered SoCalGas to establish balancing and tracking
26 accounts "to ensure that customers taking service through the Compression Service Tariff bear all
27 costs and risks associated with the provision of the Compression Services Tariff and to ensure
28 thereby that non-participating customers bear none of the costs and risks associated with the

1 Compression Services Tariff.” D.12-12-037, slip op. at Ordering Paragraph 3. SoCalGas
2 recently filed Advice Letter (“AL”) 4459 to comply with D.12-12-037.

3 The Commission should ensure that SoCalGas’ utility ratepayers bear none of the costs
4 and risks associated with SoCalGas’ providing BCS. I recommend that the Commission order
5 SoCalGas to establish balancing and tracking accounts to make sure that BCS customers pay all
6 costs associated with providing BCS service and that any under-recovery of BCS costs due to
7 unexpected cost escalation, contract default, or other eventualities remains strictly the
8 responsibility of SoCalGas and its shareholders.

9 **5. SoCalGas Should Be Required to Pay Its Utility Ratepayers a Fee for the Use of Its**
10 **Customer Lists in Marketing BCS.**

11 SoCalGas recognizes the importance of its relationships with existing utility customers for
12 marketing BCS. In fact, when questioned in its most recent general rate proceeding, A.10-12-
13 006, about why SoCalGas should not be required to provide BCS through an affiliated company,
14 SoCalGas elaborated on the importance of the customer relationships that would be foreclosed to
15 such an affiliate:

16 Thus, in light of state policies and the resulting customer interest in
17 biogas, the utilities are in a unique position to evolve their core
18 business practices to meet these new customer requests. Our
19 customers are coming to us, their utilities, to help them manage
20 their energy solutions and currently we are not allowed to offer
21 them the services they seek. An affiliate would not have the
22 relationships in place with the utilities’ customer base needed to
23 understand customers’ biogas interests and requirements and
24 deliver services in a timely and efficient manner, nor could the
25 utility refer the customer to an affiliate under the affiliate
26 transaction rules.

27 Attachment F: A.10-12-006, SoCalGas/SDG&E Response to SCGC Data Request No. 7.16.

28 SoCalGas’ access to its utility customers represents real value in business terms. An affiliated
29 company or any other competitive provider of BCS would have to go to great lengths to identify
30 customers who are capable of producing biogas and to establish business relationships with them.
31 As acknowledged in its response, SoCalGas already has established business relationships with
32 customers who are capable of producing biogas. Furthermore, SoCalGas’ BCS marketers will

1 have access to detailed information about these customers that is maintained by SoCalGas’
2 traditional utility business.

3 These customer relationships would not exist absent SoCalGas’ traditional utility
4 business. Like its experienced personnel that SoCalGas proposes to use in conducting its BCS
5 activities, the customer relationships are essential to a successful BCS program. SoCalGas is
6 required to pay its utility ratepayers for use of existing SoCalGas personnel. Similarly, SoCalGas
7 should be required to pay for access to existing utility customers. The access to potential BCS
8 customers is similar to the access provided in the unregulated business world by brokers who
9 typically charge a fee for services. I recommend that the Commission require SoCalGas to pay a
10 one-time fee equal to five percent of the cost of each BCS project to compensate its utility
11 ratepayers for use of the customer-specific data bases that it plans to use in its marketing of BCS
12 services.

13 **6. Conclusions**

14 In conclusion, the Commission should recognize that the ratemaking proposal made by
15 SoCalGas to govern its proposed provision of BCS leaves its existing core utility customers
16 exposed to significant risk. The Commission should minimize this risk by placing the same
17 constraints on the BCS program that it placed on the Compression Services program. SoCalGas
18 should be required to establish balancing and tracking accounts to make sure that BCS customers
19 pay all costs associated with providing BCS service and that any under-recovery of BCS costs
20 due to unexpected cost escalation, contract default, or other eventualities remains strictly the
21 responsibility of SoCalGas and its shareholders. Finally, the Commission should require
22 SoCalGas to pay a one-time fee equal to five percent of the cost of each BCS project for access to
23 its utility customer databases that would be used in marketing its proposed BCS program.

Attachment A: Qualifications of Catherine E. Yap

1 **Attachment A**
2 **Qualifications of Catherine E. Yap**

3 **Q1.** Please state your name and business address.

4 **A1.** My name is Catherine E. Yap and my address is Barkovich & Yap, Inc., P.O. Box 11031,
5 Oakland, California 94611.

6 **Q2.** Please state your qualifications to offer this testimony.

7 **A2.** I am a principal in the firm of Barkovich & Yap, Inc., and have been consulting in the
8 utility regulatory area for over twenty-five years. During this time, I have directed and/or
9 performed major examinations of cost-of-service requirements, allocation, rate design, and
10 customer bill effects for electric, natural gas, water, and solid waste utilities. I have testified on
11 numerous occasions before the California Public Utilities Commission (“Commission”) and in
12 civil proceedings. I have consulted internationally on issues related to natural gas industry
13 structure and marginal cost allocation and rate design.

14 Prior to this, I was employed for nine years by the Commission. Most recently, I was
15 responsible for managing the Energy Rate Design and Economics Branch of the Public Staff
16 Division (“PSD”). This branch was responsible for developing cost of service, rate design, and
17 economic studies, such as sales forecasting and productivity assessment, for both electric and gas
18 utilities. Members of the branch were responsible for presenting expert testimony, developing
19 cost of service studies, and designing unbundled rates for the natural gas utilities during the
20 Commission's extensive hearings on gas industry structure and rate design implementation.
21 During this time, I participated extensively in the formulation of policy regarding the appropriate
22 structure for the natural gas industry in California.

23 Previously, I was the Supervisor of the Gas Supply and Requirements Section of the Fuels
24 Branch of the PSD. I was responsible for directing, and in some cases performing, advanced
25 technical studies that evaluated California gas utility operations and associated contracts,
26 investments, and expenses. I also acted as the highest level technical representative of the CPUC
27 on natural gas matters and was involved in numerous negotiated settlements involving natural gas
28 pipelines, distribution utilities, producers, and state and federal regulatory agencies.

1 Prior to that, I was a staff economist in the Policy Division acting as a consultant to the
2 Executive Director and to various Commissioners. I also testified on numerous occasions as an
3 expert witness regarding a variety of technical, economic, and financial matters related to electric
4 and natural gas utilities.

5 I have a B.A. in chemical physics from the University of California at Santa Cruz, and a
6 M.S. in Energy and Resources from the University of California at Berkeley. I have also taken
7 course work in finance, accounting, and organization theory from the University of California,
8 Extension, and Golden Gate University.

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**Attachment B: SoCalGas Response to DRA Data Request No. DRA-
MK3-1**

**SOUTHERN CALIFORNIA GAS COMPANY
BIOGAS CONDITIONING & UPGRADING TARIFF (A.12-04-024)
(DATA REQUEST DRA-A1204024-SCG-MK3-1)**

QUESTION 1:

Please explain in detail and quantify all benefits that would accrue to SCG ratepayers as a result of this application. Attach all spreadsheets with formulas if applicable.

RESPONSE 1:

Please see application testimony:

- Chapter I, Section IIA “SoCalGas’ Biogas Conditioning/Upgrading Services Tariff Provides Ratepayers with Environmental Benefits (Public Utilities Code § 740.8),” page 4
- Chapter II, Section VI “SoCalGas’ Proposed Service Provides Customer Benefits”, pages 16-17, and
- Supporting workpapers to the testimony, Workpapers 1, 3, 7, 8, and 9.

As outlined in the referenced testimony, the proposed service will provide qualitative and quantifiable environmental benefits to ratepayers.



Chapter I Policy_FinalFormatted04.2



Chapter II Services
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QUESTION 2:

Please explain in detail and quantify all costs that would accrue to SCG ratepayers as a result of this application. Attach all spreadsheets with formulas if applicable.

RESPONSE 2:

No incremental costs will accrue to ratepayers as a result of this application. As stated in application testimony, Chapter II, page3 (see Chapter II testimony located in response 1), “SoCalGas is not proposing to charge any of the costs of this service to its general ratepayers.”

**SOUTHERN CALIFORNIA GAS COMPANY
BIOGAS CONDITIONING & UPGRADING TARIFF (A.12-04-024)
(DATA REQUEST DRA-A1204024-SCG-MK3-1)**

QUESTION 3:

What funds will SCG use to pay for the construction of the facilities and all other upfront costs?

RESPONSE 3:

As stated in Krystal Joscelyne's Chapter III testimony page 9 lines 2-5, "SoCalGas' General Rate Case (GRC) filing currently before the Commission, contains no requests for additional funding for the BCS Tariff activities..." Funding for the incremental BCS Tariff charges from third parties come from SoCalGas' shareholders.

QUESTION 4:

If the costs of providing the conditioning and upgrading service are greater than the tariff revenues from the service, what source of money will SCG use to make up for the shortfall?

RESPONSE 4:

Please see response to question 21.

QUESTION 5:

Please provide a list of all companies in SCG's territory that currently provide biogas conditioning and upgrading service.

RESPONSE 5:

Biogas conditioning and upgrading services involves a multitude of gas conditioning processes ranging from the removal of specific gas constituents to upgrading to pipeline quality for injection into a common carrier pipeline. Individual technology, as considered by SoCalGas for the proposed service, is described in Ron Goodman's testimony (Chapter II Section V.B, pages 14-15, and Section IX, pages 22-24). Information on specific companies who provide this technology and are located within SoCalGas' service territory may be found through the public domain.

**SOUTHERN CALIFORNIA GAS COMPANY
BIOGAS CONDITIONING & UPGRADING TARIFF (A.12-04-024)
(DATA REQUEST DRA-A1204024-SCG-MK3-1)**

QUESTION 6:

How will SCG ensure that the gas leaving the facility will be safe for injection into the natural gas pipeline system? Please include in your answer all regulatory authorities that would be involved.

RESPONSE 6:

All California investor-owned utilities have Commission approved gas quality and interconnection standards/specifications (Rule 30 and 39 respectively in the case of SoCalGas). These standards and specifications are to ensure the safe injection and/or transportation of customer-owned gas. Also, as stated in application testimony, Chapter II, page 16, lines 1-7, "Because SoCalGas does not contemplate ownership of the raw biogas entering the biogas conditioning/upgrading facility nor the upgraded biogas leaving the biogas conditioning/upgrading facility, the biogas producer will be responsible for entering into the appropriate Utility Access Agreement (Rule 39) for delivery and metering of the conditioned gas into SoCalGas' system, and for complying with the gas quality and interconnection requirements as set forth in Rule No. 30 - Transportation of Customer-Owned Gas and SoCalGas' Biomethane Guidance Document."

QUESTION 7:

Please provide all market analyses that SCG or its consultants have performed for the biogas conditioning and upgrading service projects.

RESPONSE 7:

Workpapers 7, 8 and 9 break down the total potential for biogas production for the three primary market sectors. Also, SoCalGas contracted with an outside dairy consultant (Seahold Consulting) to provide some analysis of the dairy sector in the Central Valley. The two reports will be sent separately due to file size and both are considered **confidential** and is being submitted under the confidentiality provisions of **General Order 66-C and section 583 of the Public Utilities Code** and provided only to the DRA.

**SOUTHERN CALIFORNIA GAS COMPANY
BIOGAS CONDITIONING & UPGRADING TARIFF (A.12-04-024)
(DATA REQUEST DRA-A1204024-SCG-MK3-1)**

QUESTION 8:

Please provide the results of any surveys SCG has performed regarding the biogas conditioning and upgrading services projects.

RESPONSE 8:

SoCalGas has not performed any surveys for the proposed biogas conditioning/upgrading service tariff projects.

QUESTION 9:

Please provide a list of all other investor-owned utilities that provide biogas conditioning and upgrading service projects in the United States.

RESPONSE 9:

SoCalGas is not aware specifically of other IOUs offering conditioning service in the US consistent with our intended service offering. It is likely this information can be found through the public domain.

QUESTION 10:

Please explain in detail and quantify all of the risks that are associated with this application. For each risk explain whether the risk is assumed by SCG shareholders, SCG ratepayers, or customers of the biogas service. For example:

- a. Please explain in detail any liability risks associated with the construction of or operation of the biogas conditioning and upgrading services. Who takes on those risks (i.e., SCG shareholders, SCG ratepayers, customers of the biogas conditioning and upgrading service)?
- b. Are there any risks associated with stranded assets that would occur during construction of the biogas conditioning and upgrading service facilities or after the facilities are built? For example, the customer cancels service prior to the specified termination date, or the customer defaults on the contract, or the customer sells the site? Who takes on those risks (i.e., SCG shareholders, SCG ratepayers, customers of the biogas conditioning and upgrading service)?

SOUTHERN CALIFORNIA GAS COMPANY
BIOGAS CONDITIONING & UPGRADING TARIFF (A.12-04-024)
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RESPONSE 10:

Once initial contact is made between the potential tariff customer and SoCalGas, a dialogue will transpire regarding customer requirements at a high level, and will usually involve SoCalGas providing a budgetary quote. This enables the customer to evaluate their service options in the future.

As described in Ron Goodman's testimony (Chapter II, Section II, p. 3-4), if the customer seeks additional support from SoCalGas and requires a firm bid relative to meeting their detailed requirements, SoCalGas would then collect a Feasibility Services Fee from the customer and conduct a feasibility analysis (Included as Appendix B in the Application) to determine the technical and economic feasibility of the design, equipment procurement, construction, and the operation and maintenance of gas conditioning equipment as necessary to treat the customer owned biogas for use as pipeline quality gas or to other specifications as defined by the customer. The Feasibility Services Fee would cover all intended SoCalGas costs relative to providing the customer with a firm bid, including administering the bid process. If at any time after the fee is collected, prior to the customer signing a Services Agreement with SoCalGas, the customer decides to not accept the terms of the Agreement, the customer would forfeit this fee. At this point, the collected funds have been intended to cover any booked time spent on the project and will be reconciled through SoCalGas' miscellaneous revenues account for later distribution back to ratepayers.

If at any time after the Services Agreement is signed by the customer, and the customer decides not to move forward with the project, SoCalGas would seek additional 'out of pocket' expenses if applicable, from the customer in the form of a letter of credit. The level of protection afforded by the letter of credit would be evaluated prior to the execution of a Services Agreement between the customer and SoCalGas.

If the EPC fails to meet the project requirements after the Services Agreement is executed, SoCalGas would seek liquidated damages from the EPC in order to remedy the problem such that the project scope and timeline would not be compromised. This form of protection would insulate SoCalGas, its shareholders, and ratepayers from any cost exposure. The liquidated damages level of protection from the EPC would be evaluated prior to an executed agreement between SoCalGas and the EPC.

A typical project will take 12-18 months to complete, once the Services Agreement is executed. If a pipeline interconnection is not required, this time may be reduced. Following the construction period, SoCalGas would contract with an Operation and Maintenance service provider (O&M), who would contract as a 3rd party vendor to SoCalGas for the purposes of maintaining the BCS plant for the term set forth in the

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Services Agreement.

As with any other tariff service, the infrastructure assets used in providing that service are ratebase assets and any customer specific charges are treated as miscellaneous revenues. If SoCalGas constructs and places into operation a biogas conditioning/upgrading facility on behalf of a customer, that specific customer will be charged the full cost of service including capital, O&M and all applicable overheads for the specific project. Those assets will be incorporated into ratebase and the associated customer revenues will become part of miscellaneous revenues in the next GRC proceeding. If a customer files for bankruptcy, cancels service, or is ultimately unable to pay for any reason for the infrastructure installed on its behalf, SoCalGas will first exhaust all commercial and legal remedies to collect the remaining balance due and the required costs to remove and redeploy the asset from the customer premises. If the asset cannot be redeployed it will be retired. SoCalGas shareholders bear the economic loss between GRC's until the remaining undepreciated capital invested is rolled-in to ratebase along with miscellaneous revenues forecasts associated with Biogas Conditioning/Upgrading Services Tariff for approval in the subsequent GRC.

QUESTION 11:

On Testimony Chapter II, page 2, lines 11-13, SCG specifies that it developed the Biogas Conditioning/Upgrading Services Tariff in response to customer inquiries and requests.

- a. How many and on what dates did SCG receive customer inquiries or requests in regards to biogas conditioning/upgrading services?
- b. Please send electronic copies of all customer inquiries and requests that SCG received in regards to biogas conditioning/upgrading services.

RESPONSE 11:

SoCalGas did not maintain specific records on customer inquiries prior to development of a formal biogas conditioning and upgrading service proposal. The statement was based on inquires and requests made from time to time by customers about the possibility of SoCalGas constructing and operating a biogas conditioning and upgrading plant on customer property.

In general, customers have inquired about current SoCalGas services, and services that will potentially be offered in the future in order to meet their evolving business requirements, particularly for managing organic waste. In response, SoCalGas has attended industry conferences, vendor meetings, and public forums in order to best understand customer needs and develop solutions in order to provide the continued high level of service our customers have come to expect from SoCalGas.

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QUESTION 12:

In Chapter III, page 9, lines 2-5, the witness states that SCG's GRC filing, currently before the CPUC, contains no requests for additional funding for the Biogas Conditioning/Upgrading Services Tariff activities in the test year or any forecasted revenues from offering the service. Did SCG consider this proposal prior to the GRC (or any opportunity after allowing SCG to amend its GRC testimony)? If so, please indicate the rationale for not including the request in the GRC.

RESPONSE 12:

On November 22, 2010, SCG filed Advice Letter No. 4172 seeking Commission approval to offer biogas services as a non-tariff product and service (NTP&S). It was SoCalGas' opinion that establishing this service as a NTP&S was the proper regulatory mechanism to offer our customers such services and as such did not contemplate including a proposal to offer this service in the GRC. Rule VII.E of the Commission's Affiliate Transaction Rules calls for a utility seeking to offer a new NTP&S to do so via an Advice letter Filing.

On August 9, 2011, Energy Division sent formal notification rejecting Advice Letter No. 4172. One of the recommendations in the formal notification includes the following:

As the objectives served by these proposals may help address barriers to increase Bioenergy production, I would urge you to consider filing a formal application quickly so that the issues presented may receive full consideration and the Commission may consider providing relief from existing policies as appropriate and supported by an evidentiary record.

Based on Energy Division's recommendation that SCG file an application seeking Commission authority to offer biogas services, SCG did not consider it appropriate to attempt to include the proposed services in the GRC which was nearing the start of hearings. During the remainder of 2011 SCG was determining whether to offer the biogas services and which regulatory structure was best. That determination was not final until hearings had in fact begun in the GRC. Accordingly, SCG filed A.12-04-024 seeking Commission approval to establish a new tariff to offer biogas conditioning/upgrading services.

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QUESTION 13:

In Chapter III, page 10, line 10, the witness states that the Biogas Conditioning/Upgrading Services Tariff charges consist of two components: (1) Ownership Charge; and (2) Operation & Maintenance (O & M) Charge. Will the tariff charges include the entire rate base revenue requirement necessary for the service life for all capital additions? Please show this analysis on a year by year basis for the service life of the capital additions. Attach all spreadsheets with formulas if applicable.

RESPONSE 13:

The tariff charges will include the entire ratebase revenue requirement necessary for the service life for all capital additions. As stated in application testimony located in Chapter III, section IV, page 10, line 10 through page 13 line 17, provides an example of how this will be accomplished. Additional detail is provided in the response to Question 18.

QUESTION 14:

In Chapter III, page 8, lines 12-13, and page 9, lines 1-2, the witness states that the accounting methods described above are designed to ensure that the service provided under the tariff for Biogas Conditioning/Upgrading Services customers are appropriately tracked on a fully loaded basis and that ratepayers are credited for any costs embedded in general rates, until such time as the miscellaneous revenues received for these services are incorporated into rates. For the example project described on Chapter III, page 10 please show, on a year by year basis, how the SCG ratepayers are credited for any costs embedded in general rates. Provide this analysis in an excel spreadsheet with all formulas intact.

RESPONSE 14:

As described in Chapter III, page 9, line 2-5 "SoCalGas" General Rate Case ("GRC") filing, currently before the Commission, contains no requests for additional funding for the BCS Tariff activities in the test year or any forecasted revenue from offering the service." The example project described on Chapter III, pages 9-13, is for illustrative purpose for the calculation of the biogas conditioning/upgrading services charges. To the extent that SoCalGas uses its existing resources to provide biogas conditioning/upgrading services, SoCalGas shall reimburse ratepayers by adjusting its fixed cost balancing accounts as described in the application testimony located in Chapter III, pages 12, lines 9-16, and page 13, lines 13-17. The balance in these fixed cost balancing accounts will be amortized in rates in connection with SoCalGas' annual regulatory account balance update filing for rates effective January 1 of the following year.

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QUESTION 15:

In Chapter III, page 3, lines 6-8, the witness specifies that direct costs can be separated into six types of activities: Customer Outreach, Contract Development, Engineering and Cost Estimation, Procurement and Construction, Engineering Oversight, and Operation and Maintenance. Please specify what SCG estimates the staff of Full Time Equivalent (FTE) employees necessary to staff each of these six activities for the biogas conditioning and upgrading program.

RESPONSE 15:

Response 15 is considered **confidential** and is being submitted under the confidentiality provisions of **General Order 66-C and section 583 of the Public Utilities Code** and provided only to the DRA.

QUESTION 16:

In Chapter III, page 2, the witness specifies that all costs incurred in providing service under the Biogas Conditioning/Upgrading Services Tariff are properly tracked and ratepayers are credited for any embedded costs already included in general rates. On the following pages the witness specifies that many of the direct cost activities will be performed by utility staff and utility Account Managers. How much excess staff capacity is available from the embedded resources approved in the GRC to implement the Biogas Conditioning/Upgrading Services Tariff?

RESPONSE 16:

The utility groups that would be needed to implement Biogas Conditioning/Upgrading Services do not have any excess resources. However, to the extent that SoCalGas uses its existing resources to provide these services, SoCalGas shall reimburse ratepayers by adjusting its fixed cost balancing accounts as described in application testimony located in Chapter III, page 9, lines 11-18.

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QUESTION 17:

In Chapter III, page 2, line 22 and page 3, line 1, the witness specifies that the majority of costs associated with the provision of service under the Biogas Conditioning and Upgrading Services Tariff will be incremental charges from third-party service providers. Does the funding for the incremental charges from third parties initially come from SCG's ratepayers or SCG's shareholders?

RESPONSE 17:

Funding for the incremental charges from third parties come from SoCalGas' shareholders.

QUESTION 18:

SGC claims to be able to accurately pre-calculate costs over the life of service of biogas facilities, and to use these calculations in setting tariff rates. Please provide an overview of the methodology used for this pre-calculation. In addition, please provide a year over year breakdown of costs and obligations for a sample biogas services project over the full life of the facility. Include a cost breakdown for all phases of the project including customer outreach, contract development, engineering and cost estimation, engineering oversight, procurement and construction, operations and servicing and/or all other appropriate project phases. Please estimate a timeframe for each phase. For each phase of the project, indicate costs and revenues, and indicate whether these costs and revenues accrue to ratepayers, tariff customers, or shareholders. Please specify the specific point in time at which ratepayers are made whole (i.e., tariff revenues credited \geq ratepayer funded revenues in rates for the facility). Also include the estimated total service life of the project and typical contract duration for the tariff customers.

A sample table is included below, which breaks down the project into phases and clearly delineates responsibilities.

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Year	Project Phase	Ratepayers	Tariff Customer	Shareholders
0	Customer Outreach			Incur Proj Costs of \$XXX
	Contract Development		<ul style="list-style-type: none"> Incur Proj. Feasibility <i>Pe</i> Of \$X Incur site evaluation and design fees of \$Y 	Incur Proj Costs of \$YYY
	Engineering/ Cost Estimation	<ul style="list-style-type: none"> Pay Revenue Require of \$XXX 		Receive Return on Investment of \$XXX
	Engineering Oversight			Receive Return on Investment of \$XXX
	Procurement and Construction	<ul style="list-style-type: none"> Pay Revenue Require of \$XXX Credited Tariff Revenues of \$YYY 		Receive Return on Investment of \$XXX
1	Operations and Servicing	<ul style="list-style-type: none"> Pay Revenue Require of \$XXX Credited Tariff Revenues of \$YYY 	Incur AnntJal Service Fee of \$XXX	Receive Return on Investment of \$XXX
2			Incur Annual Service Fee of \$XXX	Receive Return on Investment of \$XXX
....			Incur Annual Service Fee of \$XXX	
Yr X	Tariff Contract ends			Receive Return on Investment of \$XXX
....	Ratepayers made whole	Total Revenues paid = Tariff Revenues credited		Receive Return on Investment of \$XXX
Yr45	Facility End of Life			Receive Return on Investment of \$XXX
	Facility Removed			Receive Return on Investment of \$XXX

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RESPONSE 18:

Pre-calculation of capital costs involves definition of the project scope, specifications and layout followed by estimation of costs for engineering, equipment and site construction. These estimates are generally provided by outside engineering consultants or internal engineering staff. Operations and maintenance costs are estimated using historical cost information and analysis provided by qualified consulting engineers and/or internal resources. For both capital and O&M, SoCalGas will, as a general practice, seek supplier bids prior to finalization of contract price in order to ensure accurate cost estimation. As appropriate, a contingency will be added to cost estimates in order to reach a high level of confidence that revenues will cover or exceed project costs. Once the base capital and O&M costs have been developed, standard utility overheads are added according to the procedures described in detail in the testimony of Ms. Joscelyne.

Conclusions
Years 1-3: Embedded costs returned to ratepayer from revenue collected from customer via balancing account Years 4-20: Net cost to ratepayer is \$0 Years 1-20: Shareholder net revenue is equal to authorized ROE of 10.82%
General Assumptions
Contract Term of 15 years Book Life of 15 years Salvage Value Included Cost Escalation Included Overhead Loading Included Federal Tax rate of 35.00% State Tax rate of 8.84% Year 4 is beginning of next GRC cycle 3rd Party Maintenance provided over the entire contract length 3rd Party Maintenance escalated yearly over the contract length

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Cost Assumptions			
	Total	O&M	Capital
Total Fully Loaded Cost (Labor)			
Customer Outreach	546	-	546
Contract Development	58,192	-	58,192
Engineering and Cost Estimation	59,771	-	59,771
Engineering Oversight	166,197	-	166,197
Procurement and Construction	80,912	-	80,912
Operations and Servicing	928,125	928,125	-
<i>Total Labor</i>	<i>\$1,293,742</i>	<i>\$928,125</i>	<i>\$365,617</i>
Total Fully Loaded Cost (Non-Labor)			
Customer Outreach Contract	-	-	-
Development Engineering and	-	-	-
Cost Estimation Engineering	10,508	-	10,508
Oversight Procurement and	7,597,284	-	7,597,284
Construction Operations and	-	-	-
Servicing	5,591,760	5,591,760	-
<i>Total Non-Labor</i>	<i>\$13,199,552</i>	<i>\$5,591,760</i>	<i>\$7,607,792</i>

Please see attached workbook for year-by-year calculations.



Adobe Acrobat
PDFXML Document

DRA-01-18 BCS Table

Biogas Conditioning/Upgrading Services Tariff

1st Data Request from DRA

Question #18b (assumptions for sample project)

Conclusions

Years 1-3: Embedded costs returned to ratepayer from revenue collected from customer via balancing account
 Years 4-20: Net cost to ratepayer is \$0
 Years 1-20: Shareholder net revenue is equal to authorized ROE of 10.82%

General Assumptions

Contract Term of 15 years
 Book Life of 15 years
 Salvage Value Included
 Cost Escalation Included
 Overhead Loading Included
 Federal Tax rate of 35.00%
 State Tax rate of 8.84%
 Year 4 is beginning of next GRC cycle
 3rd Party Maintenance provided over the entire contract length
 3rd Party Maintenance escalated yearly over the contract length

Cost Assumptions

	Total	O&M	Capital
Total Fully Loaded Cost (Labor)			
Customer Outreach	546	-	546
Contract Development	58,192	-	58,192
Engineering and Cost Estimation	59,771	-	59,771
Engineering Oversight	166,197	-	166,197
Procurement and Construction	80,912	-	80,912
Operations and Servicing	928,125	928,125	-
<i>Total Labor</i>	<u>\$1,293,742</u>	<u>\$928,125</u>	<u>\$365,617</u>
Total Fully Loaded Cost (Non-Labor)			
Customer Outreach	-	-	-
Contract Development	-	-	-
Engineering and Cost Estimation	10,508	-	10,508
Engineering Oversight	7,597,284	-	7,597,284
Procurement and Construction	-	-	-
Operations and Servicing	5,591,760	5,591,760	-
<i>Total Non-Labor</i>	<u>\$13,199,552</u>	<u>\$5,591,760</u>	<u>\$7,607,792</u>

Biogas Conditioning/Upgrading Services Application
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Question #18b (year-by-year analysis for sample project)

Year	Ratepayers			Tariff Customers		Shareholders				
	Activity Type	Cost	Revenue	Activity Type	Fee	Activity Type	Cost	Revenue		
1	Construction Period	Yr 0	Customer Outreach ¹	\$546						
2		Contract Development ¹	\$58,192							
3		Engineering and Cost Estimation ¹	\$59,771				Engineering and Cost Estimation of \$10,508 ¹			
4		Procurement and Construction ¹	\$166,197				Procurement and Construction of \$7,597,284 ¹			
5		Engineering Oversight ¹	\$80,912							
6		Balancing Account ⁴		\$365,617			Balancing Account ⁴	\$365,617		
7	Construction Period	Yr 1	Operations and Servicing	\$61,875		Annual Service Fee	\$2,313,447	Service Fee Payment (FF&U)	\$39,248	\$39,248
8								Service Fee Payment (O&M)	\$392,095	\$453,970
9								Service Fee Payment (Return Of Capital)	\$630,972	\$630,972
10								Service Fee Payment (Return On Debt/Preferred)	\$299,100	\$299,100
11								Service Fee Payment (Return On Equity)		\$445,984
12								Service Fee Payment (Taxes)	\$444,173	\$444,173
13			Balancing Account ⁴		\$61,875			Balancing Account ⁴	\$61,875	
14		Yr 2	Operations and Servicing	\$61,875		Annual Service Fee	\$2,039,824	Service Fee Payment (FF&U)	\$34,606	\$34,606
15								Service Fee Payment (O&M)	\$403,400	\$465,275
16								Service Fee Payment (Return Of Capital)	\$630,972	\$630,972
17								Service Fee Payment (Return On Debt/Preferred)	\$263,934	\$263,934
18								Service Fee Payment (Return On Equity)		\$393,548
19								Service Fee Payment (Taxes)	\$251,489	\$251,489
20		Balancing Account ⁴		\$61,875			Balancing Account ⁴	\$61,875		
21	Yr 3	Operations and Servicing	\$61,875		Annual Service Fee	\$2,008,931	Service Fee Payment (FF&U)	\$34,082	\$34,082	
22							Service Fee Payment (O&M)	\$416,764	\$478,639	
23							Service Fee Payment (Return Of Capital)	\$630,972	\$630,972	
24							Service Fee Payment (Return On Debt/Preferred)	\$227,057	\$227,057	
25							Service Fee Payment (Return On Equity)		\$338,563	
26							Service Fee Payment (Taxes)	\$299,618	\$299,618	
27		Balancing Account ⁴		\$61,875			Balancing Account ⁴	\$61,875		
28	Yr 4	Amount rolled into ratebase of \$6,043,045						Amount rolled into ratebase of \$6,043,045		
29		Service Fee Payment (FF&U)	\$32,590	\$32,590	Annual Service Fee	\$1,921,018				
30		Service Fee Payment (O&M) ²	\$491,073	\$491,073						
31		Service Fee Payment (Return Of Capital)	\$630,972	\$630,972						
32		Service Fee Payment (Return On Debt/Preferred)	\$196,578	\$196,578			Service Fee Payment (Return On Equity)		\$293,115	
33		Service Fee Payment (Taxes)	\$276,691	\$276,691						

Biogas Conditioning/Upgrading Services Application

1st Data Request from DRA

Question #18b (year-by-year analysis for sample project)

	Year	Ratepayers			Tariff Customers		Shareholders		
		Activity Type	Cost	Revenue	Activity Type	Fee	Activity Type	Cost	Revenue
34	Yr 5	Service Fee Payment (FF&U)	\$31,366	\$31,366	Annual Service Fee	\$1,848,847			
35		Service Fee Payment (O&M) ²	\$503,069	\$503,069					
36		Service Fee Payment (Return Of Capital)	\$630,972	\$630,972					
37		Service Fee Payment (Return On Debt/Preferred)	\$170,667	\$170,667			Service Fee Payment (Return On Equity)		\$254,480
38		Service Fee Payment (Taxes)	\$258,294	\$258,294					
39	Yr 6	Service Fee Payment (FF&U)	\$30,194	\$30,194	Annual Service Fee	\$1,779,771			
40		Service Fee Payment (O&M) ²	\$515,234	\$515,234					
41		Service Fee Payment (Return Of Capital)	\$630,972	\$630,972					
42		Service Fee Payment (Return On Debt/Preferred)	\$146,660	\$146,660			Service Fee Payment (Return On Equity)		\$218,683
43		Service Fee Payment (Taxes)	\$238,028	\$238,028					
44	Yr 7	Service Fee Payment (FF&U)	\$28,816	\$28,816	Annual Service Fee	\$1,698,536			
45		Service Fee Payment (O&M) ²	\$527,389	\$527,389					
46		Service Fee Payment (Return Of Capital)	\$630,972	\$630,972					
47		Service Fee Payment (Return On Debt/Preferred)	\$122,653	\$122,653			Service Fee Payment (Return On Equity)		\$182,887
48		Service Fee Payment (Taxes)	\$205,818	\$205,818					
49	Yr 8	Service Fee Payment (FF&U)	\$27,493	\$27,493	Annual Service Fee	\$1,620,533			
50		Service Fee Payment (O&M) ²	\$539,549	\$539,549					
51		Service Fee Payment (Return Of Capital)	\$630,972	\$630,972					
52		Service Fee Payment (Return On Debt/Preferred)	\$101,026	\$101,026			Service Fee Payment (Return On Equity)		\$150,639
53		Service Fee Payment (Taxes)	\$170,855	\$170,855					
54	Yr 9	Service Fee Payment (FF&U)	\$26,551	\$26,551	Annual Service Fee	\$1,565,019			
55		Service Fee Payment (O&M) ²	\$552,196	\$552,196					
56		Service Fee Payment (Return Of Capital)	\$630,972	\$630,972					
57		Service Fee Payment (Return On Debt/Preferred)	\$84,158	\$84,158			Service Fee Payment (Return On Equity)		\$125,487
58		Service Fee Payment (Taxes)	\$145,654	\$145,654					
59	Yr 10	Service Fee Payment (FF&U)	\$25,751	\$25,751	Annual Service Fee	\$1,517,856			
60		Service Fee Payment (O&M) ²	\$565,143	\$565,143					
61		Service Fee Payment (Return Of Capital)	\$630,972	\$630,972					
62		Service Fee Payment (Return On Debt/Preferred)	\$69,670	\$69,670			Service Fee Payment (Return On Equity)		\$103,884
63		Service Fee Payment (Taxes)	\$122,436	\$122,436					

Biogas Conditioning/Upgrading Services Application

1st Data Request from DRA

Question #18b (year-by-year analysis for sample project)

	Year	Ratepayers			Tariff Customers		Shareholders		
		Activity Type	Cost	Revenue	Activity Type	Fee	Activity Type	Cost	Revenue
64	Yr 11	Service Fee Payment (FF&U)	\$25,729	\$25,729	Annual Service Fee	\$1,516,584			
65		Service Fee Payment (O&M) ²	\$578,392	\$578,392					
66		Service Fee Payment (Return Of Capital)	\$630,972	\$630,972					
67		Service Fee Payment (Return On Debt/Preferred)	\$55,182	\$55,182			Service Fee Payment (Return On Equity)		\$82,281
68		Service Fee Payment (Taxes)	\$144,027	\$144,027					
69	Yr 12	Service Fee Payment (FF&U)	\$25,398	\$25,398	Annual Service Fee	\$1,497,050			
70		Service Fee Payment (O&M) ²	\$591,953	\$591,953					
71		Service Fee Payment (Return Of Capital)	\$630,972	\$630,972					
72		Service Fee Payment (Return On Debt/Preferred)	\$40,694	\$40,694			Service Fee Payment (Return On Equity)		\$60,678
73		Service Fee Payment (Taxes)	\$147,356	\$147,356					
74	Yr 13	Service Fee Payment (FF&U)	\$24,310	\$24,310	Annual Service Fee	\$1,432,959			
75		Service Fee Payment (O&M) ²	\$605,831	\$605,831					
76		Service Fee Payment (Return Of Capital)	\$630,972	\$630,972					
77		Service Fee Payment (Return On Debt/Preferred)	\$26,206	\$26,206			Service Fee Payment (Return On Equity)		\$39,075
78		Service Fee Payment (Taxes)	\$106,565	\$106,565					
79	Yr 14	Service Fee Payment (FF&U)	\$23,543	\$23,543	Annual Service Fee	\$1,387,738			
80		Service Fee Payment (O&M) ²	\$620,035	\$620,035					
81		Service Fee Payment (Return Of Capital)	\$630,972	\$630,972					
82		Service Fee Payment (Return On Debt/Preferred)	\$11,718	\$11,718			Service Fee Payment (Return On Equity)		\$17,472
83		Service Fee Payment (Taxes)	\$83,998	\$83,998					
84	Yr 15	Service Fee Payment (FF&U)	\$22,765	\$22,765	Annual Service Fee	\$1,341,835			
85		Service Fee Payment (O&M) ²	\$634,571	\$634,571					
86		Service Fee Payment (Return Of Capital)	\$630,972	\$630,972					
87		Service Fee Payment (Return On Debt/Preferred)	-\$2,770	-\$2,770			Service Fee Payment (Return On Equity)		-\$4,131
88		Service Fee Payment (Taxes)	\$60,428	\$60,428					
89		Tariff Contract Ends			Tariff Contract Ends		Tariff Contract Ends		
90		Facility Removed ³			Facility Removed		Facility Removed ³		
91		Facility End of Life					Facility End of Life		

Footnotes

¹ Include amounts to be capitalized

² Amount includes both Operations and Servicing and 3rd Party Maintenance

³ Removal cost is collected in the Service Fee over the life of the contract term

⁴ Will be balanced consistent to our existing process (i.e., O&M will be immediately, Capital will be over time)

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QUESTION 19:

What was SCG's reasoning behind the choice of a 12 year term for biogas conditioning/upgrading contracts?

RESPONSE 19:

SoCalGas is unsure as to why DRA believes SoCalGas selected a 12 year agreement term. As stated in Chapter II, page 3, line 9, "SoCalGas will provide the biogas conditioning/upgrading service tariff under a long term (**10 to 15 year**) service agreement". The biogas conditioning/upgrading equipment can generally last 15 years without any significant rebuild costs. Contract term length is negotiated with the customer; however, despite the contract term length, the full capital cost will be recovered from the BCS customer.

QUESTION 20:

What is the service life in rates for facilities built under this tariff?

RESPONSE 20:

The book life of the biogas conditioning/upgrading equipment is currently 15 years.

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QUESTION 21:

How will SCG respond if cost of service differs from pre-calculated estimates? If SCG collects more from tariff customers than the cost of service, who receives the excess funds? If SCG collects less from tariff customers than cost of service who makes up for the shortfall? Is there any instance in which ratepayers would be responsible for such a shortfall? Is there a mechanism in place to raise or lower tariff obligations to ensure that tariff collections match cost of service over the life of the contract? If so, please describe.

RESPONSE 21:

In the case where SoCalGas collects more from tariff customers than the cost of service, SoCalGas shareholders will receive the benefits in between general rate case cycles. In the next general rate case, the undepreciated capital investment will be rolled into ratebase along with the miscellaneous revenues forecast, for commission approval. A reduction to base margin was designed to keep rates neutral to this transaction; however, in this case ratepayers will now benefit from the excess tariff revenues. The opposite will be true in the case where SoCalGas collects less from tariff customers than the cost of service.

This cash flow structure creates a strong incentive for SoCalGas to be conservative in cost estimation and contingency calculations—uneconomic projects will jeopardize shareholder earnings. Therefore, while no formal mechanism exists to readjust tariff obligations when cost of service differs from pre-calculated estimates, it seems more likely that projects will be priced in a conservative manner and the net result will be ratepayer and shareholder benefits as tariff revenues are higher than pre-calculated estimates.

SoCalGas has the ability to unilaterally re-price the contract under three situations: 1) when there is a change in the quality or quantity of untreated biogas from the agreed upon specifications, 2) when the biogas producer fails to meet any of its responsibilities under the agreement, or 3) a suspension or change in the services as a result of a change in law or some latent site defect. The biogas producer can request a change in pricing, but only subject to SoCalGas' approval.

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QUESTION 22:

In Testimony Chapter II, page 3, lines 1-5, the witness discusses a preliminary assessment of feasibility and cost.

- a. Please elaborate on the details of all of the elements and tasks that are included in this assessment of feasibility.
- b. Please provide a ballpark estimate of how much an assessment of feasibility will cost?
- c. How and when will the assessment of feasibility be recovered by the potential tariff customer?
- d. Please identify in the proposed Tariff or contract documents where the assessment of feasibility is located.
- e. If a potential Tariff customer decides not to take on the biogas conditioning and upgrading tariff service after an assessment of feasibility is completed, from who (i.e., ratepayers, potential tariff customer, shareholders) and when are those abandoned costs recovered?
- f. Please send all details, including costs and invoices for any biogas conditioning and upgrading service assessments of feasibility that SoCalGas has completed or is in process.

RESPONSE 22:

- a. In order to provide the customer with a Feasibility Analysis, SoCalGas will provide the customer with a biogas questionnaire (see attachment). Once completed by the customer, SoCalGas will create bid packages which satisfy the customer requirements and gas quality specifications gathered from the questionnaire.



SCG BIOGAS
QUESTIONNAIRE.pdf

- b. The cost associated with performing the Feasibility Analysis is anticipated to be approximately \$50,000. This includes all tasks associated with gathering customer

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requirements, formulating the bid packages to be sent to prospective vendors and assessing the information prior to providing a firm bid to the customer.

- c. Once the customer decides they are interested in having a Feasibility Analysis performed, they complete the biogas questionnaire, pay the Feasibility Services Fee to SoCalGas and wait 3-6 months for a response.
- d. The Feasibility Analysis is not included in the tariff documents as each study is project specific and based on customer specific requirements. SoCalGas will conduct the Feasibility Analysis with the intent of determining the technical and economic feasibility of the design, equipment procurement, construction, operation and maintenance of gas conditioning/upgrading equipment as necessary to process the biogas and upgrade/condition it to the gas quality level(s) specified by the customer. The scope of work may include, but is not limited to, the following: comprehensive scope definition, define the project execution processes for technical execution, construction, operations & maintenance, and other business related aspects of the project, and preparation of the scope of work and pricing for the Services Agreement.
- e. If the customer decides to not accept the terms of the tariff service after the Feasibility Services Fee has been collected then the customer would forfeit the Feasibility Services Fee to SoCalGas. The Feasibility Services Fee is intended to cover any booked time and expenditures associated with the project up until the contract has been signed. The Feasibility Services Fee and incurred expenses will be reconciled through SoCalGas' miscellaneous revenues account for distribution back to ratepayers for any embedded costs incurred.
- f. To date, no funds have been collected, nor has any feasibility study been completed or provided to customers.

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QUESTION 23:

Are any site evaluation and design activities performed prior to the execution of a tariff agreement?

- a. Please elaborate on the details of all of the elements and tasks that are included in this site evaluation and design activities. Also explain the differences between an "assessment of feasibility" and "site evaluation and design activities."
- b. Please provide a ballpark estimate of how much a site evaluation and design activities will cost?
- c. How and when will the site evaluation and design activities be recovered by the potential tariff customer?
- d. Please identify in the proposed Tariff or contract documents where the site evaluation and design activities is located. If there is an additional contract document that discusses this Tariff customer requirement, please send that document.
- e. If a potential Tariff customer decides not to take on the biogas conditioning and upgrading tariff service after a site evaluation and design activities is completed, from who (i.e., ratepayers, potential tariff customer, shareholders) and when are those costs recovered?
- f. If the potential Tariff customer is responsible for the site evaluation and design activities costs and refuses to pay, from who (i.e., ratepayers, potential tariff customer, shareholders) and when are those abandoned costs recovered?
- g. Please send all relevant details, including costs and invoices for any biogas conditioning and upgrading service site evaluation and design activities that SoCalGas has completed or is in process.

RESPONSE 23:

Site evaluations and associated costs are considered in the Feasibility Analysis. In order to provide a more comprehensive scope of work, which includes plant design and construction, as well as a scope of work and cost structure during the maintenance period, SoCalGas would need to perform a site evaluation both during and after the Feasibility Analysis.

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The site evaluation serves as two main functions; 1) Determines the logical site specifics used in formulating detailed requirements, that include but are not limited to the conditioning/upgrading plant location, design constraints, and permitting requirements, 2) Determines site readiness prior to the plant construction period commencing.

QUESTION 24:

Does the biogas tariff include a contingency similar to that included in the related gas compression tariff application?

- a. Please elaborate on the details of the contingency (e.g., list all factors that the contingency is planned to cover).
- b. Please elaborate on the methodology for calculating the contingency.
- c. Please provide a ballpark estimate of how much the contingency might be for a typical biogas conditioning and upgrading service facility.
- d. Please send all relevant details, including costs for any biogas conditioning and upgrading service contingency calculation that SoCalGas has completed or is in process.

RESPONSE 24:

- a. Service providers bidding on project work typically add a contingency to their bids, commensurate with scope of services offered, to ensure full recovery of their costs and to compensate for unexpected design changes which are not customer driven, equipment and/or material prices changes and other unforeseen circumstances and/or events which could impact cost. In the event that SoCalGas contracts to a 3rd party providers for individual services (such as design, equipment, construction, and O&M) rather than turnkey, SoCalGas will add a contingency to the price estimate for similar reasons above in order to ensure full recovery of costs. Furthermore, SoCalGas may also choose to add a separate contingency on top of turnkey bids in order to ensure full recovery of costs related to project scope changes, unanticipated field change orders, compliance and regulatory issues, and/or other unexpected events or circumstances. A contingency may also be added to O&M estimates, to the extent that O&M service subjects SoCalGas to any cost risk.

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- b. To derive applicable contingencies, SoCalGas will perform a comprehensive risk assessment for each project that will take into account the unique requirements of each project. When feasible, risk mitigation tools (e.g. a credit risk mitigation tools is a letter of credit) will be employed leaving only residual risk exposures. SoCalGas will assess the potential impacts and probabilities from varying sources of residual risk such as scope, complexity, and price exposure. Estimates for these probabilities and impacts will come from a team of internal experts using both historical observations and forward-looking indicators. Correlations between risks that may amplify or mitigate risks will also be considered in deriving the contingency. SoCalGas plans to be conservative in the estimation of such contingencies (e.g., err on the high side) in order to ensure full recovery of all costs.
- c. As discussed above, contingency amounts will depend on the scope, complexity and overall risk profile of the project. It is reasonable to assume that contingency adders would potentially be around 5% to 15%.
- d. Response 24(d) is considered **confidential** and is being submitted under the confidentiality provisions of **General Order 66-C and section 583 of the Public Utilities Code** and provided only to the DRA.

QUESTION 25:

Should the State legislature not act to begin certifying biogas facilities for RPS credits by the end of the legislative session, does SCG intend to move forward with service under this tariff application? What effect would this have on tariff pricing and/or cost recovery?

RESPONSE 25:

Customers have a variety of options for using their conditioned/upgraded biogas. As stated in application testimony, Chapter II, page 2, lines 13-16 (see Chapter II testimony located in Response 1), “The proposed service is designed to meet the current and future needs of biogas producers seeking to upgrade their biogas for beneficial uses such as pipeline injection, onsite power generation, or compressed natural gas vehicle refueling stations”. Renewable natural gas that is injected into the utility pipeline network and nominated to an RPS certified generation facility and applied towards a power generator’s RPS goals is only one of many potential options. As such, SoCalGas fully intends to move forward with service under this tariff application and there will be no effect on tariff pricing and/or cost recovery should the State legislature not act by the end of the legislative session.

**Attachment C: SoCalGas Response to DRA Data Request No.
DRA-MK3-2**

**SOUTHERN CALIFORNIA GAS COMPANY
BIOGAS CONDITIONING & UPGRADING TARIFF (A.12-04-024)
(DATA REQUEST DRA-A1204024-SCG-MK3-2)**

QUESTION 1:

In Opening Testimony, Chapter 2 page 18 lines 7-9, witness Goodman states “SoCalGas developed the Biogas Conditioning/Upgrading Tariff in response to the challenges faced by SoCalGas Customers, such as... ongoing O&M expenses”. Please explain how the proposed tariff mitigates ongoing O&M expenses.

RESPONSE 1:

Ongoing O&M expenses described above can refer to two customer O&M scenarios:

1. The existing O&M expenses associated with the customer’s current management of biogas. An example of this is a wastewater treatment plant generating their own electricity via a combined heat and power (CHP) plant which has regular maintenance costs associated with the equipment as well as permitting fees for the emissions being produced. SoCalGas’ Biogas Conditioning/Upgrading Tariff provides the customer with options to potentially reduce the costs described above, providing more value from the organic waste stream (i.e. pipeline injection or natural gas vehicle fueling).
2. The Biogas Conditioning/Upgrading Tariff provides a monthly flat fee for customers such that they can predict and manage their annual O&M budgets. The tariff will annualize fluctuating costs for parts (valves, compressors, etc) that will need to be changed out at non-annual intervals over the life of the service agreement.

QUESTION 2:

In DRA Data Request 1, question 1, SoCalGas, asked to quantify all benefits to ratepayers from the proposed tariff offering, states that the benefits are “qualitative and quantifiable environmental benefits to ratepayers”. Are any of these benefits unique to SoCalGas’ tariff offering? Would these same benefits occur if an unregulated affiliate were to provide this service? A market participant?

RESPONSE 2:

These benefits are not solely unique to SoCalGas’ tariff offering. Any customer or third party service provider who is interested in conditioning/upgrading biogas may realize the same environmental benefits including greenhouse gas reduction and an increase in alternative fuel sources.

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QUESTION 3:

In response to DRA Data Request 1, question 2, SoCalGas states that “no incremental costs will accrue to ratepayers as a result of this application.”

- a. Please explain how staff time and any other costs incurred in drafting this tariff were funded, and if that staff time did in fact cause no incremental costs to accrue to ratepayers.
- b. Is there any possibility that as a result of the default of a contract holder under this tariff, a cost will accrue to ratepayers?
- c. Is there any possibility that SoCalGas’ insurance liability for projects constructed under this tariff would result in a cost to ratepayers?
- d. Please explain how, at the point at which an asset constructed under this potential tariff is rolled into ratebase, the resulting increase in rates amounts to no incremental cost to ratepayers.

RESPONSE 3:

- a. Developing a tariff application is part of the utility’s normal course of business; so as a result, all funding necessary to support the composition of the tariff has been justified through previous general rate case filings.
- b. In the event of a default, SoCalGas will first exhaust all commercial and legal remedies to collect the remaining balance due and the required costs to remove and redeploy the asset. If the asset cannot be redeployed, it will be retired. SoCalGas shareholders bear the economic loss between General Rate Cases until the remaining undepreciated capital invested is rolled-in to ratebase along with miscellaneous revenues forecasts associated with Biogas Conditioning/Upgrading Services (“BCS”) Tariff for approval in the subsequent General Rate Case.
- c. SoCalGas does not foresee insurance liability for projects constructed under this tariff resulting in additional costs to ratepayers, but such increases are theoretically possible. SoCalGas is currently self-insured for \$4 million. The cost of claims within our self-insured retention and the cost of insurance are both presented in our general rate cases (GRCs) and recovered on a forecast basis. To the extent that biogas-related claims increase our self-insured retention costs or insurance costs, there could be a related change to the cost forecasts we present to the CPUC in future GRCs.

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- d. Rates paid by ratepayers are calculated based on the base margin amount authorized in the GRC. In the case of the BCS tariff, the customer payments are recorded into the miscellaneous revenue account while the asset is included in ratebase. As these two costs offset, there is no increase to base margin.

QUESTION 4:

Will all staff hours or any other charges incurred in marketing the tariff be charged back to tariff customers? In the hypothetical case of a SoCalGas employee speaking with a prospective tariff customer about multiple services available from SoCalGas, including the tariff, how will the determination be made in deciding which portion of the conversation will be billed to which account? If the customer then decides not to pursue the tariff, how will those funds be recovered?

RESPONSE 4:

All hours incurred resulting from customer inquiries are incurred as part of the normal course of business. Those hours booked to customer education and market development activities are identified and justified through previously filed general rate cases. In the event the customer decides to proceed with a biogas feasibility analysis, the customer will pay a fee in order to fund the staff hours necessary to receive a firm bid for the proposed tariff service offering. If the customer decides to proceed with the tariff service offering, all additional incurred company charges will be recovered through the tariff service fee. If the customer decides to not pursue the tariff service offering after paying for the feasibility assessment, they would forfeit the fee previously paid.

QUESTION 5:

In response to DRA Data Request 1, question 6, SoCalGas stated that “the biogas producer will be responsible... for complying with the gas quality and interconnection requirements as set forth in Rule No. 30.” If SoCalGas enters into a contract under the terms of this tariff with a biogas producer, and one of the conditions of the contract is that SoCalGas upgrade the gas to pipeline injection standards, isn’t SoCalGas then responsible for complying with relevant regulations and standards?

RESPONSE 5:

For those tariff service customers requesting/requiring SoCalGas to condition/upgrade their biogas to pipeline quality for pipeline injection, SoCalGas will design the biogas conditioning/upgrading facility to meet, at the minimum, the gas delivery specifications as required in SoCalGas’ Rule No. 30. This contractual relationship will be established by way of the “Biogas Conditioning and Upgrading Services Agreement” (A.12-04-24,

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Appendix C). The same tariff service customer (or another party they designate) is solely responsible for owning the Untreated Biogas and Treated Biogas entering and leaving the biogas conditioning/upgrading facility. As such, they will be required to enter into the appropriate Utility Access Agreement (Rule No. 39) with SoCalGas for delivery and metering of the conditioned gas into the Utility system and for complying with the gas quality and interconnection requirements as set forth in Rule No. 30 - Transportation of Customer Owned Gas and Rule No. 39 – Access to the SoCalGas Pipeline System.

QUESTION 6:

SoCalGas stated in response to DRA Data Request 1 question 15 that “the pending General Rate Case requests no incremental revenue to cover services proposed under the Biogas Conditioning/Upgrading Service Tariff.” SoCalGas further states, in response to question 16 that “the utility groups needed to implement the Biogas Conditioning/Upgrading Services do not have any extra resources.” SoCalGas states in response to question 15 that if “existing resources are not adequate to meet the number of requests for service under the proposed tariff, work will be contracted out or utility staff will be added.”

If this tariff were approved and adopted by producers at the conservative rate of 2 projects per year, according to the numbers given in DRA Data Request 1 question 15, in year 3, 4.14 FTE employees would be working on the biogas tariff.

- a. As these groups have no excess resources, and as they are tasked nonetheless with extra work for 4.14 FTE employees, will the proposed tariff result in some portion of the work approved and funded in the pending GRC not being completed?
- b. How will SoCalGas make the determination when deciding between using existing staff for the excess work and with adding new staff or contracting out?
- c. In the event utility staff are added due to a lack of existing resources, who will accrue the costs incurred in recruiting, hiring, training, and in benefits and salaries for the new staff? Would this be considered an incremental cost to ratepayers?

RESPONSE 6:

- a. If approved, the proposed tariff will not compromise work planned for completion as described in the pending GRC. As previously stated in SoCalGas’ response to DRA-A1204024-SCG-MK3-1, Question 15, the workload and staff availability in

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the relevant departments will depend upon other forms of the project activity and new service requests. In the event that existing resources are not adequate to meet the number of requests for service under the proposed tariff, work will be contracted out or utility staff will be added.

- b. See response to Question 6a.
- c. Costs associated with recruiting and hiring, customarily performed by the Human Resources department, has been captured in the Administrative and General overhead – this “overhead represents cost of administrative and general support provided by functional areas such as, Accounting and Finance, Human Resources, Information Technology and Tax” (Chapter III, page 7). Training would be handled within the Biofuels team and no additional personnel will be required or hired to train a new employee; there are no incremental costs associated with this activity. Salaries would be an incremental cost and would be direct charged to the project; factored into the pricing of the contract and paid for by the specific customer. Additionally the benefits of the new employees would be an incremental overhead cost and, similar to Administrative and General overhead above, and will be captured in the total project cost. Chapter III, Section B details the incremental overheads applicable to the project costs. Incremental labor costs and overheads that are considered incremental will be captured and charged to the customer.

QUESTION 7:

Please consider the following hypothetical: a tariff customer elects to sign a 12 year biogas upgrading/conditioning contract. The equipment is purchased and begins operation 6 months before a GRC, and is subsequently rolled into ratebase. After a year of operations, unexpectedly high costs of operation result in project revenues falling short of costs incurred, but gas production remains consistent with the contract:

- a. In answer to Question 21 of DRA Data Request 1, SoCalGas states that “no formal mechanism exists to adjust the tariff obligations”. As such, who covers the excess cost of the above hypothetical project?
- b. Do shareholders continue to receive rate of return on the project for the full 15 year book life of the asset?

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RESPONSE 7:

- a. Operating costs will be a pass-through cost from a third party vendor. As such, in the above hypothetical example, the third party vendor will bear the costs of these higher operating expenses.
- b. Shareholders will receive their authorized capital rate of return on the remaining undepreciated capital for the remainder of the asset life.

QUESTION 8:

Has SoCalGas identified any sources of outside funding for a potential biogas conditioning/upgrading project, such as grant funding or low interest loans for renewable generation? In the case of such funding, would SoCalGas shareholders receive their full rate of return on the portion of the capital investment that comes with this subsidized and thus lower cost of capital?

RESPONSE 8:

SoCalGas has not identified any sources of outside funding for a potential biogas conditioning/upgrading project.

Attachment D: SoCalGas Response to SCGC Data Request No. 3

**SOUTHERN CALIFORNIA GAS COMPANY
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(3rd DATA REQUEST FROM SCGC)**

QUESTION 3.1:

- 3.1. Regarding the discussion of accounting for Bio conditioning project at pages 1-2 of the Direct Testimony of Krystal L. Joscelyne:
- 3.1.1. Is it SoCalGas' proposal that the capital costs associated with the individual bio conditioning projects be added to rate base?
 - 3.1.2. If these capital costs are not added to rate base, in which FERC account would SoCalGas propose to record these capital costs?
 - 3.1.3. In which FERC account would SoCalGas propose to record the O&M costs associated with the bio conditioning projects?
 - 3.1.4. Would SoCalGas provide a record of the individual bio conditioning projects are their associated costs in the context of its general rate case proceedings?
 - 3.1.5. Would individual employees involved in direct cost activities be required to keep account of their time everyday by activity or project?
 - 3.1.6. If the answer to the previous question is "no," please explain how the direct costs would be developed in the absence of a timesheet?
 - 3.1.7. Would individual employees involved in indirect cost activities be required to keep account of their time everyday by activity or project?
 - 3.1.8. If the answer to the previous question is "no," please explain how the indirect costs would be developed in the absence of a timesheet?

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(3rd DATA REQUEST FROM SCGC)

RESPONSE 3.1:

Response 3.1.1

As with any other tariff service, the infrastructure assets used in providing that service are ratebase assets and any customer specific charges are treated as miscellaneous revenues. If SoCalGas constructs and places into operation a biogas facility on behalf of a customer, that specific customer will be charged the full cost of service including capital, O&M and all applicable overheads. Those assets will be incorporated into ratebase and the associated customer revenues will become part of miscellaneous revenues in the next GRC proceeding.

Response 3.1.2

N/A

Response 3.1.3

O&M costs will be recorded to FERC account 867.

Response 3.1.4

If approved as requested in this proceeding, SoCalGas will include the BCS program costs in its next General Rate Case, with an expected test year of 2016. Costs would include project level direct capital cost forecasts as well as estimated associated costs, and miscellaneous revenues.

Response 3.1.5

SoCalGas will use direct charging as the primary method for capturing direct costs related to the BCS Tariff (Chapter III page 2 lines 11-12). Managers of groups providing labor or non-labor will be trained to ensure that any time or material associated with the BCS Tariff is properly recorded to BCS Tariff internal orders (Chapter III page 3 lines 2-4).

Response 3.1.6

N/A

Response 3.1.7

No, indirect costs cannot be economically direct-charged to a project.

Response 3.1.8

Indirect cost (overhead) for the BCS Tariff costs, and application of such rates, will be consistent with the rates and application that SoCalGas uses on a company-wide basis. (Chapter III page 5 lines 11-12). Please see Response 3.3

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QUESTION 3.2:

3.2. Regarding the discussion of direct cost activities at pages 3-4 of the Direct Testimony of Krystal L. Joscelyne:

- 3.2.1. With respect to customer outreach costs, since the account executives would be responsible for providing routine customer information and education activities as well as outreach activities for bio conditioning projects what steps would be taken to ensure that the account executives adequately separated the timekeeping for each activity?
- 3.2.2. Does SoCalGas expect that direct costs would include the cost of obtaining permits for the project?
- 3.2.3. If the answer to previous question is “yes,” in which category does SoCalGas expect to include permitting costs?

RESPONSE 3.2:

Response 3.2.1

See Response 3.1.5

Response 3.2.2

Yes.

Response 3.2.3

Engineering and Cost Estimation.

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(3rd DATA REQUEST FROM SCGC)

QUESTION 3.3:

- 3.3. Regarding the discussion of overhead costs at pages 5-8 of the Direct Testimony of Krystal L. Joscelyne:
- 3.3.1. Are the overhead factors shown in Table II on page 8 the same factors that are used in SoCalGas' general rate proceeding ("GRC")?
 - 3.3.2. If the answer to previous question is "no," please explain the relationship between the factors in Table II and the factors used in SoCalGas' GRC.
 - 3.3.3. How frequently would the factors shown in Table II be determined?
 - 3.3.4. Please explain in specific terms how each factor is calculated providing copies of each study that has been performed in developing a particular factor below.

RESPONSE 3.3:

SoCalGas would like to note that the overhead rates used in Table II are specific to the month of January 2012 (as noted in Table II heading) and are included to be indicative of the types of overheads that would be applied to a biogas project. Overhead rates may vary from month to month as described below.

Response 3.3.1

In the SoCalGas GRC, there are no authorized factors. The GRC is filed on a direct cost basis (i.e. dollar values, not factors/percentages, are submitted to the CPUC), with witnesses supporting the dollar values.

Response 3.3.2

As explained in Response 3.3.1, there are no authorized factors in the GRC. Costs used in determining the overhead rates (as shown in Table II) have been approved in the GRC. Overhead rates are developed using the methodology provided in Response 3.3.4.

Response 3.3.3

The factors in Table II are reviewed monthly; however, they do not necessarily change monthly.

Response 3.3.4

Please see attached overhead methodology table.



Response_3.3.4.pdf

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(3.3.4 Data Response)

Overhead Pool	Numerator / Funding	Denominator / Base	January 2012 Planning Rate	Comments
Payroll Tax	The Payroll Tax Overhead is used to allocate the employer portion of payroll taxes associated with employee labor, such as payments to the State and Federal Governments for State Unemployment Insurance, Federal Unemployment Insurance and Federal Retirement and Medicare Insurance.	Company Labor	7.68%	ABC conducts monthly meetings to review overhead (OH) activity/budgets and sets rates that are deemed appropriate given the particular OH's loading base (denominator) and pool/funding (numerator) activity. In addition, OH pools may have a prior month's balance which will be allocated by including an adjustment to the OH rate. Also, some OH pools which have a labor component will need to be grossed up with labor overheads. The final OH planning rate will be the greater of the grossed up OH rate or the twelve month average of grossed up OH rates.
Incentive Compensation Plan	The Incentive Compensation Plan (ICP) Overhead allocates the performance-based, non-guaranteed, incentive compensation plan costs paid to utility employees based on company and individual employee performance as compared to pre-established financial and operational goals.	Company Labor (non-union) Straight Time & Straight Time portion of Overtime	26.79%	Same as Above
Worker's Compensation	The Workers' Compensation Overhead is used to allocate costs related to workers' compensation payouts, excess liability insurance premiums and administrative costs.	Company Labor Straight Time & Straight Time portion of Overtime	5.03%	Same as Above
Public Liability and Property Damage	The Public Liability/Property Damage (PLPD) Overhead is used to allocate payments to 3rd parties for liability and property damage claims submitted to the utility, plus the cost of excess insurance premiums and the related administrative costs.	Company Labor Straight Time & Straight Time portion of Overtime	2.51%	Same as Above
Pension & Benefits	The Pension & Benefit (P&B) Overhead is used to allocate costs paid by the utility to provide employee benefits, such as medical, dental and pension payments.	Company Labor Straight Time & Straight Time portion of Overtime	53.30%	Same as Above
Vacation & Sick	The Vacation & Sick (V&S) Overhead is used to allocate costs paid by the utility for non-productive time such as vacations, holidays, sick days, and jury duty.	Company Labor Straight Time & Straight Time portion of Overtime	18.75%	Same as Above
Purchasing	The Purchasing Overhead loads the costs related to the utility's procurement activity in obtaining goods and services for the utility's organizations.	Purchased Materials, Services, Storeroom Materials, and Contract Costs	1.14%	Same as Above
Administrative & General - 3rd Party	The 3rd party A&G overhead represents the cost of A&G support provided to all 3rd party billings by A&G functional areas, such as Accounting, Human Resources, Finance, Regulatory, External Affairs, etc.	Total Direct Costs	47.67%	Same as Above
Administrative & General - Capital	The Capital A&G overhead represents the cost of A&G support provided to all capital jobs by A&G functional areas, such as Accounting, Human Resources, Finance, Regulatory, External Affairs, etc.	Total Direct Costs	3.94%	Same as Above
Fixed Cost Loader	This overhead rate is used to pass along indirect costs to 3rd party customers. The indirect cost can include costs for buildings, furniture, customer equipment, software and miscellaneous equipment which were used in providing the service to the 3rd party. A 3rd party customer is a customer with special needs for services outside the normal scope of utility services.	Total Direct Costs	13.27%	The Fixed Cost Loader (FCL) is determined by preparing an annual study to calculate the total SCG Fixed Costs (numerator) and Direct Costs (denominator).

**SOUTHERN CALIFORNIA GAS COMPANY
BIOGAS CONDITIONING & UPGRADING TARIFF (A.12-04-024)
(3rd DATA REQUEST FROM SCGC)**

QUESTION 3.4:

3.4. Regarding the discussion of regulatory treatment at pages 8-10 of the Direct Testimony of Krystal L. Joscelyne:

- 3.4.1. How does SoCalGas propose to “separately track” all bio conditioning costs without creating a tracking account or balancing account to do so?
- 3.4.2. Where does SoCalGas propose to record the costs associated with the individual projects?
- 3.4.3. Does SoCalGas propose to produce regular (quarterly or annual) reports stating the amount of direct and indirect costs associated with each bio conditioning project?
- 3.4.4. If the answer to previous question is “no,” please explain how SoCalGas proposes to inform the Commission and interested parties of the costs associated with the bio conditioning program?
- 3.4.5. Is SoCalGas proposing to prepare a report that shows how the costs associated with each of the bio conditioning projects compares with the revenues obtained from customers?
- 3.4.6. How frequently does SoCalGas propose to credit the CFCA and NFCA for those “existing resources that are currently in authorized base margin”?

RESPONSE 3.4:

Response 3.4.1

To ensure that all costs associated with the BCS Tariff are properly identified and segregated, specific internal orders will be created within the SAP financial system to track such costs. (Chapter III, page 2 lines 14-16)

Response 3.4.2

See Response 3.4.1

Response 3.4.3

SoCalGas has not proposed to produce regular reports stating direct and indirect costs by project.

SOUTHERN CALIFORNIA GAS COMPANY
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(3rd DATA REQUEST FROM SCGC)

Response 3.4.4

See Response 3.1.4

Response 3.4.5

SoCalGas has not proposed to produce a report comparing costs and revenues.

Response 3.4.6

If the Capital-Related Charge or the O&M-Related Charge includes recovery of costs for using embedded resources, SoCalGas will credit the CFCA and NFCA accounts as revenues are received until such a time these assets/costs are incorporated in base rates, in connection with SoCalGas' next GRC proceeding.

QUESTION 3.5:

3.5. Regarding the calculation of the BCS Tariff Ownership Charge as shown on pages 10-12 of the Direct Testimony of Krystal L. Joscelyne:

- 3.5.1. Is SoCalGas proposing to develop the annual revenue requirement associated with the capital portion of the project costs using its standard, proprietary revenue requirement model?
- 3.5.2. If the answer to the previous question is "yes," please provide a copy of the output of the model based on the example provided in Table IV stating each of the assumptions used, e.g., depreciation life, rate of return, etc.
- 3.5.3. If the answer to the question prior to the previous question is "no," please provide a copy of the workpapers detailing how the present value of the revenue requirements is determined.
- 3.5.4. Is SoCalGas proposing to use its allowed rate of return as periodically adjusted in the Commission cost of capital proceeding?
- 3.5.5. How is SoCalGas determining the O&M related costs over the life of the project?
- 3.5.6. Is SoCalGas proposing to project those costs and not adjust the costs during the contract period or are the O&M costs assumed to escalate at some rate?
- 3.5.7. If the answer to the previous question is "yes at some rate," please provide the basis for SoCalGas' belief that O&M would escalate at this rate over a contract period.

**SOUTHERN CALIFORNIA GAS COMPANY
BIOGAS CONDITIONING & UPGRADING TARIFF (A.12-04-024)
(3rd DATA REQUEST FROM SCGC)**

- 3.5.8. In calculating an annual tariff “ownership charge” is SoCalGas proposing to discount the projected revenue requirement costs over the project lifetime and then translate those projected revenue requirements costs into a constant monthly payment over the contract term?
- 3.5.9. Hypothetically if the costs associated with operating and/or maintaining a particular facility were to increase dramatically during the operating life of the facility, would SoCalGas increase the annual O&M fee charged to the customer?
- 3.5.10. If the answer to the previous question is “no,” how would SoCalGas propose to recover the actual O&M costs associated with project?
- 3.5.11. How would SoCalGas handle the loss of its third party O&M provider to bankruptcy?

RESPONSE 3.5:

As stated in question 3.5 the following responses relate directly the calculation of the BCS Tariff Ownership Charge as shown on pages 10-12 of the Direct Testimony of Krystal L. Joscelyne

Response 3.5.1

In the illustrative example, SoCalGas has used traditional utility ratemaking treatment and therefore used its standard proprietary revenue requirement model to develop the capital ownership charges.

Response 3.5.2

Please see DRA-A1204024-SCG-MK3-1 Response 18

Response 3.5.3

N/A

Response 3.5.4

Consistent with traditional utility ratemaking treatment, SoCalGas will use the effective Commission-authorized rate of return.

Response 3.5.5

In the illustrative example the O&M costs were based on the hypothetical costs related to customer outreach, contract development and maintenance of the facilities. (Chapter III, page 12 lines 9-11). Once the O&M costs have been developed, standard utility

SOUTHERN CALIFORNIA GAS COMPANY
BIOGAS CONDITIONING & UPGRADING TARIFF (A.12-04-024)
(3rd DATA REQUEST FROM SCGC)

overheads are added according to the procedure described in detail in Chapter III Direct Testimony.

Response 3.5.6

In the illustrative example, O&M costs would not adjust in the hypothetical contract term.

Response 3.5.7

In the illustrative example, cost escalation factors used were provided by Global Insight and are consistent with the methodology presented in the 2012 GRC.

Response 3.5.8

In the illustrative example, SoCalGas discounted the revenue requirement of the book life of the asset and translated revenue requirement into a constant payment over the contract terms.

Response 3.5.9

As a general practice, SoCalGas will seek supplier bids prior to finalization of contract price in order to ensure accurate cost estimation. As appropriate, a contingency will be added to cost estimates in order to reach a high level of confidence that revenues will cover or exceed project costs. Once the O&M costs have been developed, standard utility overheads are added according to the procedures described in detail in Chapter III Direct Testimony.

Additionally, SoCalGas has the ability to unilaterally re-price the contract under three situations: 1) when there is a change in the quality or quantity of untreated biogas from the agreed upon specifications, 2) when the biogas producer fails to meet any of its responsibilities under the agreement, or 3) a suspension or change in the services as a result of a change in law or some latent site defect. The biogas producer can request a change in pricing, but only subject to SoCalGas' approval (DRA-A1204024-SCG-MK3-1 Response 21). Hypothetically, if operating and/or maintaining a facility were to dramatically increase as a result of one of the above reasons, SoCalGas would have the ability to re-price the contract.

Response 3.5.10

N/A

Response 3.5.11

SoCalGas will pay the O&M provider on a monthly basis assuming they perform per the Agreement. Should the O&M provider go into bankruptcy, SoCalGas will seek another O&M provider to provide the necessary services.

**SOUTHERN CALIFORNIA GAS COMPANY
BIOGAS CONDITIONING & UPGRADING TARIFF (A.12-04-024)
(3rd DATA REQUEST FROM SCGC)**

QUESTION 3.6:

- 3.6. Regarding the Supplemental Direct Testimony of Krystal L. Joscelyne:
- 3.6.1. Please provide a copy of the Preliminary Statement description of the Compression Services Tracking Account.
 - 3.6.2. Please provide a copy of the Preliminary Statement description of the Compression Services Balancing Account.
 - 3.6.3. Would SoCalGas pursue its bio conditioning services proposal if it were required to do so under the CST type ratemaking?

RESPONSE 3.6:

Response 3.6.1

Please see attached Compression Services Tracking Account.



CSTA.pdf

Response 3.6.2

Please see attached Compression Services Balancing Account.



CSBA.pdf

Response 3.6.3

Objection: Data request responses are not the proper forum for settlement discussions.

PRELIMINARY STATEMENT - PART VII - TRACKING ACCOUNTS
COMPRESSION SERVICES TRACKING ACCOUNT (CSTA)

N
N

1. Purpose

N

The CSTA is a tracking account that is not reflected on SoCalGas' financial statements. The purpose of the CSTA is to track the difference between the revenues collected from compression services customers and the actual O&M and capital revenue requirements associated with providing compression services under Schedule GO-CMPR. The CSTA will be mainly used by SoCalGas to monitor SoCalGas' effectiveness in providing compression services to customers. Since recovery of compression services costs will be recovered directly from compression services customers through miscellaneous revenues under Schedule GO-CMPR, these costs and miscellaneous revenues will be excluded for cost recovery in SoCalGas' general rate case proceedings. This will ensure that ratepayers are not impacted by any under or overcollection of revenue associated with providing compression services, as directed in Commission Decision 12-12-037.

2. Applicability

See Purpose Section.

3. Rates

Not Applicable.

4. Accounting Procedures

SoCalGas shall maintain the CSTA by recording entries at the end of each month as follows:

- a) A debit entry equal to the actual revenue requirements (i.e., O&M and capital-related costs such as depreciation, income taxes and return) associated with providing compression services;
- b) A debit entry for uncollectible costs associated with compression services; and
- c) A credit entry for compression services revenues billed to compression services customers.

5. Disposition

See Purpose Section.

N

(TO BE INSERTED BY UTILITY)
ADVICE LETTER NO. 4459
DECISION NO. 12-12-037

ISSUED BY
Lee Schavrien
Senior Vice President

(TO BE INSERTED BY CAL. PUC)
DATE FILED Feb 4, 2013
EFFECTIVE _____
RESOLUTION NO. _____

PRELIMINARY STATEMENT - PART V - BALANCING ACCOUNTS
COMPRESSION SERVICES BALANCING ACCOUNT (CSBA)

N
N

1. Purpose

N

The CSBA is an interest bearing balancing account recorded on SoCalGas' financial statements. The purpose of this account is to record the ratepayer's allocation of the general rate case embedded costs used in providing compression services under Schedule GO-CMPR as authorized in Decision 12-12-037.

2. Applicability

The CSBA shall apply to all gas customers.

3. Rates

The projected year-end CSBA balance will be applied to gas transportation rates.

4. Accounting Procedures

SoCalGas shall maintain the CSBA by recording entries at the end of each month, net of FF&U, as follows:

- a. A credit entry equal to the embedded costs used in providing compression services;
- b. A debit entry equal to amortization as approved by the Commission; and
- c. An entry equal to interest on the average balance in the account during the month, calculated in the manner described in Preliminary Statement, Part I, J.

5. Disposition

In each annual October regulatory account balance update filing, SoCalGas will amortize the projected year-end CSBA balance effective January 1 of the following year. The projected year-end balance will be allocated to core and noncore customers based on the relative percentage of revenues from core and noncore compression service customers.

N

(TO BE INSERTED BY UTILITY)
ADVICE LETTER NO. 4459
DECISION NO. 12-12-037

ISSUED BY
Lee Schavrien
Senior Vice President

(TO BE INSERTED BY CAL. PUC)
DATE FILED Feb 4, 2013
EFFECTIVE _____
RESOLUTION NO. _____

Attachment E.: A.11-11-011, Direct Testimony of Edward Reyes

Application No: A-11-11-_____
Exhibit No: _____
Witness: Edward J. Reyes

In the Matter of Application of Southern
California Gas Company (U904G) to
establish a Compression Services Tariff

Application 11-11-_____
(Filed November 3, 2011)

CHAPTER III
PREPARED DIRECT TESTIMONY OF
EDWARD J. REYES

**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA**

November 3, 2011

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1 **CHAPTER III**

2 **PREPARED DIRECT TESTIMONY OF**

3 **EDWARD J. REYES**

4 **I. PURPOSE**

5 The purpose of this testimony is to describe the accounting procedures and methods that
6 will be used to ensure that all costs associated with the proposed Compression Services Tariff are
7 properly identified, recorded and tracked at fully-loaded costs¹, as needed. The testimony will
8 explain which costs are to be traced directly and by what method. It will describe the types of
9 overheads applied to this service, and will explain the methodology behind the overhead
10 calculation and application. This testimony will also provide an example to show how the
11 Compression Services Tariff charges will be developed and the regulatory accounting treatment
12 of these charges in providing compression services.

13 **II. TRACKING OF COMPRESSION SERVICES COSTS**

14 The cost of completing an activity or project consists of both direct costs, as charged to
15 that activity, and a share of indirect or overhead costs. The sum of these direct costs and
16 overhead costs make up fully-loaded costs. Direct costs are those activities and services that
17 benefit a specific project such as salaries of staff employees (labor costs) and materials required
18 for a specific project (non-labor costs). These costs are charged directly to the project since they
19 are identifiable and can be directly traced. Overhead costs are those activities and services that
20 are associated with direct costs such as payroll taxes and pension and benefits or are costs which
21 benefit a project but which cannot be economically direct charged such as administrative and
22 general overheads.

¹ “Fully-loaded cost” means the direct cost of good or service plus all applicable indirect charges and overheads.

1 **A. Direct Costs**

2 **1. Accounting Methods**

3 Direct costs are defined as the specific labor and/or non-labor costs of each specific work
4 activity performed in the delivery of the proposed tariff services. There are two accounting
5 methods available for capturing the direct costs associated with providing the Compression
6 Services Tariff: (1) direct charging, where the actual labor and non-labor spent in providing or
7 supporting the subject tariff services are recorded; and (2) allocation, where the costs associated
8 with provision of labor and non-labor activities are determined by formula, such as percentage of
9 some portion of direct costs. Southern California Gas Company (“SoCalGas”) will use direct
10 charging to capture all direct costs related to the Compression Services Tariff as the primary
11 method for capturing costs. Since many activities associated with the Compression Services
12 Tariff are identifiable and can be easily tracked, direct charging is the preferable method to
13 account for the costs.

14 To ensure that all costs associated with the Compression Services Tariff are properly
15 identified and segregated, specific internal orders will be created within the SAP financial system
16 to track such costs. For example, a specific internal order will be created to track the costs
17 associated with an individual Compression Services Tariff customer. This process provides the
18 ability to ensure that all costs incurred in providing service under the Compression Services
19 Tariff are properly tracked and ratepayers are credited for any embedded costs already included
20 in general rates, until such time as the miscellaneous revenues received for these services are
21 incorporated into rates. The majority of costs associated with the provision of service under the
22 Compression Services Tariff will be incremental charges from third-party service providers
23 which will be recorded directly to the appropriate internal order including any applicable

1 overheads. Managers of groups providing labor or non-labor will be trained to ensure that any
2 time or material associated with the Compression Services Tariff is properly recorded to
3 Compression Services Tariff internal orders.

4 **2. Direct Cost Activities**

5 Direct costs can be separated into six types of activities: Customer Outreach, Contract
6 Development, Engineering and Cost Estimation, Procurement and Construction, Engineering
7 Oversight, and Operation and Maintenance. As described above, these activities will be directly
8 charged to specific internal orders.

9 **a) Customer Outreach**

10 Customer Outreach costs will relate to efforts by SoCalGas to identify and educate
11 potential customers expressing an interest in the Compression Services Tariff. These costs will
12 include identifying potential customers for the Compression Services Tariff, investigating leads
13 (completing a lead sheet; qualifying the lead, and discussing preliminary results of promising
14 leads with a customer), and the development and production of materials to be used specifically
15 in promoting the Compression Services Tariff similar to those developed to promote other utility
16 tariffs. Customer Outreach costs do not include routine customer information and education
17 activities performed by account executives such as providing customers with general information
18 and education on utility services, programs, rules, and tariffs. The majority of activities related
19 to Customer Outreach will be performed by account managers.

20 **b) Contract Development**

21 Contract Development costs will include costs related to developing the customer-
22 specific elements of the standard form agreement, as well as costs related to customer credit risk
23 analysis. Contract Development costs will also include costs related to contracts with third-party

1 service providers. Staff supporting these activities including legal, procurement, engineering,
2 finance and natural gas vehicle (“NGV”) program staff will direct charge all hours devoted to
3 these activities.

4 **c) Engineering and Cost Estimation**

5 Engineering and Cost Estimation activities will include performing feasibility studies,
6 developing construction drawings, and obtaining permits for final construction drawings.

7 Engineering and Cost Estimation activities will be performed by third-party service providers, or
8 by utility staff, under the supervision of NGV program staff or internal engineering.

9 **d) Procurement and Construction**

10 Procurement and contracting for Engineering, Procurement, and Construction (“EPC”)
11 services will be provided by utility staff. It is expected that construction of the facilities will
12 generally be contracted on a turnkey basis.

13 **e) Engineering Oversight**

14 Engineering Oversight activities will include reviewing preliminary construction
15 drawings, monitoring the design work of the engineering contractor, approving final construction
16 drawings, and monitoring the construction of the facilities. Engineering Oversight activities will
17 be performed by internal engineering staff.

18 **f) Operation and Maintenance**

19 Ongoing operation and maintenance of the facilities will be performed by third-party
20 service providers, or by utility staff.

1 Table I, below, summarizes the types of direct cost activities, the providers of those
2 activities, and the accounting method that will be used in order to segregate these types of costs.

Table I
Types of Direct Cost Activities

Activity	Provider	Accounting Method
Customer Outreach	SoCalGas	Direct
Contract Development	SoCalGas	Direct
Engineering and Cost Estimation	Third-party service provider / SoCalGas	Direct
Procurement and Construction	Third-party service provider / SoCalGas	Direct
Engineering Oversight	SoCalGas	Direct
Operation and Maintenance	Third-party service provider / SoCalGas	Direct

3
4 **B. Overheads**

5 Overhead costs are those activities and services that are associated with direct costs such
6 as payroll taxes and pension and benefits or are costs which benefit a project but which cannot be
7 economically direct charged such as administrative and general overheads. They are expenses
8 that indirectly support activities of the utilities. Overheads will be applied to the direct costs
9 discussed in Section II.A., above, to ensure that those costs are tracked on a fully-loaded basis.
10 Overhead rates for the Compression Services Tariff costs, and application of such rates, will be
11 consistent with the rates and application that SoCalGas uses on a company-wide basis. These
12 rates are adjusted periodically, as needed. The following are the types of overheads that will be
13 applied: labor overheads, non-labor overheads, administrative and general overheads, and a
14 fixed cost loader.

15 **1. Labor Overheads**

16 Labor overheads represent additional indirect costs associated with salaries paid to
17 employees and are loaded on internal labor and labor billed to other parties. The standard labor

1 overheads include Payroll Tax, Incentive Compensation Plan, Workers' Compensation, Public
2 Liability and Property Damage, Pension and Benefits, and Vacation and Sick.

3 **a) Payroll Tax**

4 The Payroll Tax overhead represents the company's portion of required contributions to
5 the state and federal governments for State Unemployment Insurance, Federal Unemployment
6 Insurance, and Federal Retirement and Medicare Insurance. The Payroll Tax overhead will be
7 applied to total direct labor costs and is currently 7.68%.

8 **b) Incentive Compensation Plan ("ICP")**

9 The ICP overhead represents the incentive compensation plan costs paid to employees
10 based on individual employee and company performance as compared to pre-established goals.
11 The ICP overhead will be applied to total direct labor costs and is currently 29.34%.

12 **c) Workers' Compensation ("Workers' Comp")**

13 The Workers' Comp overhead represents the cost of expected payments to employees for
14 work-related injuries, plus the cost of workers' compensation insurance premiums to cover
15 claims over a certain dollar amount. The Workers' Comp overhead will be applied to total direct
16 labor costs and is currently 5.65%.

17 **d) Public Liability and Property Damage ("PLPD")**

18 The PLPD overhead represents the cost of expected payments to third parties for liability
19 and property damage claims submitted to the company plus the cost of insurance premiums to
20 cover claims over a certain dollar limit. The PLPD overhead will be applied to total direct labor
21 costs and is currently 3.25%.

1 **e) Pension and Benefits (“P&B”)**

2 The P&B overhead represents costs paid by the company to provide employee benefits,
3 such as flex health benefit plans, employee pension contributions and expense, the company
4 match portion of contributions to the qualified retirement savings plan 401(k), and retiree health
5 benefits. The P&B overhead will be applied to total direct labor costs and is currently 50.09%.

6 **f) Vacation and Sick (“V&S”)**

7 The V&S overhead represents costs paid by SoCalGas for employees’ non-productive
8 time, such as vacation and sick days, holidays, and jury duty. The V&S overhead will be applied
9 to total direct labor costs and is currently 19.79%.

10 **2. Non-Labor Overheads**

11 The standard non-labor overheads consist solely of the Purchasing overhead rate.

12 **a) Purchasing**

13 The Purchasing overhead rate represents costs related to the procurement activity in
14 obtaining goods and services for the organizations. The Purchasing overhead will be applied to
15 total direct non-labor costs (which generally represent purchased materials and services) and is
16 currently 1.86%.

17 **3. Administrative & General (“A&G”) Overhead**

18 The A&G overhead represents the cost of administrative and general support provided by
19 functional areas such as, Accounting and Finance, Human Resources, Information Technology,
20 and Tax. The A&G overhead will be applied to all total direct costs, both labor and non-labor,
21 and is currently 31.21% and 6.88% for O&M and Capital, respectively.

1 **4. Fixed Cost Loader (“FCL”)**

2 The FCL represents costs for buildings, furniture, computer equipment, software, and
 3 miscellaneous equipment which may be used in providing the service to a third party. FCL will
 4 be applied to all total direct O&M costs, both labor and non-labor, and is currently 12.76%.

5 Table II, below, summarizes the types of overheads.

Table II
Types of Overheads

Overhead	Loading Base	O&M %	Capital %
Labor Overheads:			
1) Payroll Tax	SoCalGas Labor	7.68%	7.68%
2) Incentive Compensation Plan	SoCalGas Labor	29.34%	29.34%
3) Workers' Compensation	SoCalGas Labor	5.65%	5.65%
4) Public Liability and Property	SoCalGas Labor	3.25%	3.25%
5) Pension & Benefits	SoCalGas Labor	50.09%	50.09%
6) Vacation & Sick	SoCalGas Labor	19.79%	19.79%
Total Labor Overheads		115.80%	115.80%
Non-Labor Overheads:			
7) Purchasing	Total Non-labor	1.86%	1.86%
8) Administrative & General	Total Direct Costs	31.21%	6.88%
9) Fixed Cost Loader	Total Direct Costs	12.76%	-
Total Labor Overheads Applied	1, 2, 3, 4, 5, 6, 8, 9	159.77%	122.68%
Total Non-Labor Overheads	7, 8, 9	45.83%	8.74%

6
7 **III. TREATMENT OF COMPRESSION SERVICES COSTS**

8 The accounting methods described above are designed to ensure that the service provided
 9 under the tariff for Compression Services Tariff customers are appropriately tracked on a fully-
 10 loaded basis and that ratepayers are credited for any costs embedded in general rates, until such
 11 time as the miscellaneous revenues received for these services are incorporated into rates. As a

1 result, a portion of the Compression Services Tariff revenues will be subject to balancing
2 account treatment on an interim basis as described in Section IV., b and c.

3 SoCalGas' general rate case ("GRC") filing, currently before the California Public
4 Utilities Commission ("CPUC"), contains no requests for additional funding for the Compression
5 Services Tariff activities in the test year or any forecasted revenues from offering the service.
6 SoCalGas did not undertake any such activities or incur such costs in the historical period upon
7 which the GRC test year forecast was based. Thus, neither authorized base margin nor general
8 base rates in the current GRC will be impacted by the Compression Services Tariff costs. By
9 separately tracking all Compression Services Tariff costs, SoCalGas will ensure that appropriate
10 pricing is developed that is sufficient to recover the costs associated with compression services.

11 **IV. COMPRESSION SERVICES CHARGES AND REGULATORY ACCOUNTING**
12 **TREATMENT**

13 Customers under the Compression Services Tariff will be charged for recovery of the
14 costs and ongoing maintenance of the facilities used in providing service under the proposed
15 tariff. The Compression Services Tariff charges consist of two components: (1) Ownership
16 Charge; and (2) O&M Charge. The table below provides the components of cost to serve a
17 Compression Services Tariff customer with a direct capital cost of \$1 million. Total O&M costs
18 estimated over the life of the agreement are presented in nominal dollars.

Table III
 Estimated Costs
 (in 2011 dollars)

Capital Costs	Total
Labor	\$50,000
Non-Labor	\$950,000
Overheads	\$144,370
Total Capital Costs	\$1,144,370
O&M Costs	
Labor	\$10,000
Non-Labor	\$250,000
Overheads	\$130,552
Total O&M Costs	\$390,552

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A. Ownership Charge

The Ownership Charge will recover capital-related costs on a monthly basis over the term of the contract and in this example is \$15,057/month for the 10-year term of the contract. The Ownership Charge, as well as the O&M Charge, will vary by customer depending on the terms of the contract. In the example below, provided for illustrative purposes only, the Ownership Charge was derived by determining the constant monthly payment required to achieve the same present value that would occur from ratebasing the facilities on the distribution system (FERC account G-387).

1 **B. Calculation of Ownership Charge**

Table IV
Calculation of Ownership Charge (in 2011 dollars)

	Capital-Related	O&M	Total
Present Value of Revenue Requirements	\$1,181,064	\$322,232	\$1,503,297
Contract Term in Years	10	10	10
Annual Discount Rate	8.68%	8.68%	8.68%
Monthly Discount Rate	0.72%	0.72%	0.72%
Term in Months	120	120	120
Annual Payment	\$180,684	\$48,312	\$228,996
Monthly Payment	\$15,057	\$4,026	\$19,083
<u>Notes:</u>			
Estimated Capital Cost (in 2011 dollars)	\$1,144,370		
Annual O&M Expenses	\$48,312		
Discount Rate = Authorized Rate of Return			
Capital costs are estimates only and include indirect costs.			

2

3

4 The estimated annual Ownership Charge is \$15,057/month * 12 months = \$180,684/year.

5 These capital-related costs are not included in the current authorized base margin, and SoCalGas

6 is not asking for additional capital expenditures approved in the GRC Test Year 2012. Revenues

7 from the monthly charge will be recorded as miscellaneous revenues to recover SoCalGas' costs

8 in providing the Compression Services Tariff. However, to the extent the Ownership Charge

9 includes any recovery of the costs for using SoCalGas' existing resources that are currently in

10 authorized base margin, revenues to offset those embedded costs will be credited to the

11 appropriate balancing accounts. SoCalGas plans to allocate such revenues to its Core Fixed Cost

12 Account ("CFCA") and Noncore Fixed Cost Account ("NFCA") based on the relative percentage

13 of revenues from core and noncore Compression Services Tariff customers until these assets are

14 rolled-in authorized ratebase in connection with SoCalGas' next GRC proceeding, at which time

15 miscellaneous revenues forecasts associated with the Compression Services Tariff will be

1 incorporated as a reduction of base rates. This will ensure that revenues from the specific
2 Compression Services Tariff customers in both the interim period and the next GRC cycle cover
3 the cost of providing the service, including a return on investment to the shareholders.

4 **C. O&M Charge**

5 In addition to the Ownership Charge, SoCalGas proposes an O&M-related charge for the
6 Compression Services Tariff. The O&M Charge is based on costs related to Customer Outreach,
7 Contract Development, and the maintenance of the facilities. The maintenance will be
8 performed throughout the term of the contract and will be performed by a third party service
9 provider or by utility staff. The cost associated with the maintenance will be appropriately
10 charged to the customer. The estimated annual O&M charge is $\$4,026/\text{month} * 12 \text{ months} =$
11 $\$48,312/\text{year}$.

12 The Ownership Charge and the O&M Charge comprise the Compression Services Tariff
13 charges. Similar to the Ownership Charge associated with the capital investment described
14 above, SoCalGas is not requesting an increase to its base rates in GRC Test Year 2012 to recover
15 these additional O&M costs. Consistent with the treatment of the Ownership Charge, revenues
16 from the monthly O&M Charge will be used to recover SoCalGas' O&M costs in providing the
17 Compression Services Tariff. However, if the O&M Charge includes any recovery of the costs
18 for using SoCalGas' existing resources that are currently in authorized base margin, revenues to
19 offset those embedded costs will be credited to the appropriate balancing accounts until such
20 time these costs are incorporated in base rates, in connection with SoCalGas' next GRC
21 proceeding, at which time miscellaneous revenues forecasts associated with the Compression
22 Services Tariff will be incorporated as a reduction of base rates. This will ensure that revenues

1 from the specific Compression Services Tariff customers in both the interim period and the next
2 GRC cycle cover the cost of providing the service.

3 **V. WITNESS QUALIFICATIONS**

4 My name is Edward J. Reyes. My business address is 555 West Fifth Street, Los
5 Angeles, California 90013. My current position is Financial Analysis & Strategic Manager for
6 Southern California Gas Company (“SCG”).

7 I received a Bachelor of Science from California State University, Dominguez Hills in
8 May 1994. I was initially employed by SCG in November 1994 and have held various positions
9 of increasing responsibility in the Accounting and Finance areas of the company, including Cost
10 Accounting, Financial Accounting, Accounts Payable, New Business Accounting, Financial
11 Systems and Affiliate Billing & Costing. My responsibilities have included participation and/or
12 supervision of SAP CO month-end closing, affiliate billing, overhead rate studies, plant
13 accounting, system design and implementation, and SAP/Business Warehouse client support.

14 I have been in my current position since January 2011. In my current position my
15 responsibilities include overseeing the financial analysis in support of new investment
16 opportunities, development of revenue requirements and development of financial planning for
17 incremental projects.

18

**Attachment F: A.10-12-006, SoCalGas/SDG&E Response to SCGC
Data Request No. 7**

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7.1. With respect to SoCalGas' response to SCGC Data Request Question No. 4.10.4:

7.1.1 Regarding the biogas conditioning (“conditioning”) and bioenergy production facilities (“production”) services column of the matrix, if the project involved “a feedstock owner who wants to build a complete bioenergy facility,” would SoCalGas be responsible for installing the equipment necessary to provide the production of raw gas?

SoCalGas Response:

Yes.

7.1.2 If the answer to the previous question is “yes,” would SoCalGas expect to contract with a third party for the installation of such facilities or would SoCalGas plan to utilize its existing construction staff or to develop a construction staff specific for these types of installations?

SoCalGas Response:

Current plans call for SoCalGas to contract with a third party for the design, installation and maintenance of such facilities.

7.1.3 With respect to the provision of conditioning services, would SoCalGas be responsible for installing the equipment necessary to provide those services?

SoCalGas Response:

Yes.

7.1.4 If the answer to the previous question is “yes,” would SoCalGas expect to contract with a third party for the installation of such facilities or would SoCalGas plan to utilize its existing construction staff or to develop a construction staff specific for these types of installations?

SoCalGas Response:

Current plans call for SoCalGas to contract with a third party for the design, installation and maintenance of such facilities.

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7.1.5 With respect to providing biogas production services, does SoCalGas expect to utilize its own staff or does SoCalGas expect to contract with a third party for such services?

SoCalGas Response:

Current plans call for SoCalGas to contract with a third party for the design, installation and maintenance of the biogas production facility. There are also plans to utilize, to a small extent, company staff resources during the project's lifecycle period to assist in early stage project development, the marketing and promotion of these bio-gas production services and to provide support services and management oversight of the service.

- 7.1.6 If the answer to the previous question indicates the use of SoCalGas staff:
- 7.1.6.1. Please describe the type of positions that SoCalGas would expect to utilize.
 - 7.1.6.2. Indicate whether providing these services would require hiring new employees.
 - 7.1.6.3. State whether such employees would also be used for the projects encompassed by the Sustainable SoCal Program.

SoCalGas Response:

- 7.1.6.1: Accounts Payable Analyst, Finance Analyst, Construction Service Technician, and Process Engineer; Regulatory and Legal and Public Affairs support.
- 7.1.6.2: No
- 7.1.6.3: Yes

7.1.7 With respect to providing biogas conditioning services, does SoCalGas expect to utilize its own staff or does SoCalGas expect to contract with a third party for such services?

SoCalGas Response:

Current plans call for SoCalGas to contract with a third party for the design, installation and maintenance of the biogas conditioning facility.

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7.1.8 If the answer to the previous question indicates the use of SoCalGas staff, please describe the type of positions that SoCalGas would expect to utilize and indicate whether providing these services would require hiring new employees?

SoCalGas Response:

SoCalGas would expect to utilize the following types of positions; Accounts Payable Analyst, Finance Analyst, Construction Service Technician, and Process Engineer; Project Development Manager, Marketing and Customer Communication support staff, Regulatory and Legal and Public Affairs support,

SoCalGas does not expect to have to hire new employees to provide the type of support positions described above.

7.1.9 How many potential customers exist in SoCalGas' service territory that would produce the 1,000 scfm or greater raw biogas volumes?

SoCalGas Response:

Currently, SoCalGas has only identified 4 existing customers in the SoCal service territory generating in excess of 1000 scfm. There are several projects in the process of being developed that have a potential to generate over 1000 scfm, although these projects are in the feasibility stage of the project lifecycle.

7.1.10 Would SoCalGas expect to potentially offer conditioning/production services to customers located outside of its service territory? Please explain this answer.

SoCalGas Response:

The Advice Letter Requesting these services does not limit the provision of this non-tariffed product and service only to projects within the SoCalGas service territory, however, at this time there are no plans to offer these services beyond our service territory

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7.1.11 How many biogas developers currently provide biogas production services in SoCalGas' service territory?

SoCalGas Response:

There are only a couple of projects in the territory, whereas biogas developers are producing raw biogas from organic waste. At present, all digester gas is being used for on-site applications, such as generating electricity on-site.

7.1.12 How many biogas developers currently provide biogas conditioning services in SoCalGas' service territory?

SoCalGas Response:

SoCalGas is not aware of any developers in its service territory that are conditioning biogas to pipeline quality biomethane for injection.

7.1.13 Would SoCalGas' shareholder recovery of the investment in the equipment required to provide either production or conditioning services be assured by any revenue source other than the revenues associated with either the production or conditioning services provided to an individual client? Please explain.

SoCalGas Response:

SoCalGas' recovery of the shareholders costs to provide the production and conditioning services would be recovered only from revenues associated with the production and conditioning services. SoCalGas intends to set the contract price so as to recover the costs of providing the service, from the customer that receives the service. However, if revenues fall short from the customer receiving the service, SoCalGas would recover those costs from only the customers receiving either production or conditioning service. If revenues associated with the provision of these services do not cover the costs, SoCalGas does not intend to seek recovery of costs from the general body of ratepayers.

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7.1.14 Would the revenues from NTP&S projects, including the biogas production/conditioning services proposed in Advice Letter 4172, be covered by SoCalGas' proposed revenue sharing mechanism described in

SoCalGas Response:

SoCalGas interprets this question to reference the prepared direct testimony of Robert Lane (Exhibit SCG-33) and responds as follows:

Yes.

7.1.15 If SoCalGas provided production/conditioning services through more than one project and one project proved to be unprofitable, would the production or condition service revenues from the remaining, profitable projects be available to help recover the investment in the unprofitable project? Please explain.

SoCalGas Response:

Yes. While the contract with each individual customer would be designed to recover the full costs of that service from the individual customer, should revenues fall short from one customer, SoCalGas would, where possible, recover those costs from revenues received from other profitable projects where customers are receiving either production or conditioning service. In any event, if revenues associated with the provision of these services to such customers do not cover the costs, SoCalGas does not intend to seek recovery of costs from the general body of ratepayers.

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7.1.16 Why does SoCalGas believe it to be more appropriate for Sempra to invest in biogas production/conditioning services through SoCalGas NTP&S ratemaking than Sempra making the investment through an affiliated company? Please explain.

SoCalGas Response:

SoCalGas and SDG&E submit that there are four primary reasons the utility should be allowed to offer biogas production and biogas conditioning services. First, the California Public Utilities Commission (CPUC) and the California Energy Commission (CEC) have encouraged utilities to take affirmative steps to help the state meet its energy policy objectives by increasing the production and use of renewable energy and reducing carbon emissions. Second, the letters of support (submitted with our Advice Letter filings) from customers demonstrate that customers are looking to the utilities as industry leaders to provide them energy solutions that help them manage their energy resources and needs, reduce carbon emissions, lower bills, and facilitate the development of renewable energy resources. Third, providing these services through an affiliate, such as a subsidiary, rather than through the utilities as non-tariffed products and services (NTP&S) would limit the customers from being able to fully utilize existing utility capabilities and expertise, including the utilities' knowledge about natural gas processing, which is one of the utilities' core competencies. Fourth, the proposed services offer the potential for job creation and the utilities have a strong commitment to contracting with diverse business enterprises (DBE). Each of the above stated reasons is discussed in further detail below.

With respect to the first reason, the utilities' role in helping to achieve energy policy goals, the state has clearly articulated its commitment to facilitating the development of bioenergy resources. Executive Order S-06-06, AB32, SB107 and the 2011 Bioenergy Action Plan all identify biogas as an important component in the state's renewable energy portfolio. Executive Order S-06-06 sets aggressive targets¹ to encourage the instate production and use of biogas. AB32 recognizes the important role of biogas in reducing greenhouse gas emissions.² Senate Bills 1078 and 107 establish the renewable portfolio standard (RPS) program, which promotes renewable electric energy as a means of meeting the environmental goals of the State and encourages the development of a fully competitive and self-sustaining supply of electricity generated from renewable sources, including biogas.

¹ Executive Order S-06-06 sets the following targets to increase the instate production and use of bioenergy: a. Produce a minimum of 20 percent of biofuels within California by 2010, 40 percent by 2020, and 75 percent by 2050; b. Regarding the use of biomass for electricity, meet a 20 percent target within the established state goals for renewable generation for 2010 and 2020.

² The Low Carbon Fuel Standard recognizes compressed renewable natural gas as a transportation fuel with one of the lowest carbon intensity factors.

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Response to 7.1.16 (Continued)

However, in spite of the strong support for biogas articulated in state law and policy, the CEC's 2011 Bioenergy Action Plan, which is part of the Integrated Energy Resource Plan (IERPR),³ acknowledges that progress in developing the biogas market has been slow to date due to various barriers to entry. "There are a large number of challenges facing bioenergy development in the state. For example, existing facilities face economic challenges related to the cost of feedstock collection and transportation versus the price received for energy production, and new project developers must economically meet state and local permitting requirements in a capital-constrained financial market."⁴

As described in SoCalGas and SDG&E advice letters AL 4172 and AL 1991-G, respectively, the utilities are in a position to help meet the state's bioenergy goals and overcome the challenges facing bioenergy development in California by utilizing existing expertise and resources. The utilities are knowledgeable about state and local permitting requirements, natural gas pipeline quality specifications and requirements, and have designed the services with a levelized fee structure to facilitate projects in instances where the biogas owners may have capital constraints.

The second reason utilities should be allowed to offer the biogas production and biogas conditioning services is that biogas resource owners have been coming to the utilities and asking for utility assistance in turning their feedstock into biogas for use on site or for injection into the utilities' pipeline system. These customers' interest in biogas is due in part to the state's environmental targets, which continue to be a catalyst when it comes to emerging customer requirements and expectations of utility service. Thus, in light of state policies and the resulting customer interest in biogas, the utilities are in a unique position to evolve their core business practices to meet these new customer requests. Our customers are coming to us, their utilities, to help them manage their energy solutions and currently we are not allowed to offer them the services they seek. An affiliate would not have the relationships in place with the utilities' customer base needed to understand customers' biogas interests and requirements and deliver services in a timely and efficient manner, nor could the utility refer the customer to an affiliate under the affiliate transaction rules.

The third reason the utilities should provide this service is that the utility has in depth knowledge about natural gas, including processing and conditioning, as well as legal regulatory, and finance expertise that has been developed over the years as part of the utilities' core role that can be put to further productive use, to the potential benefit of ratepayers, potential bio-gas customers and shareholders by offering bio-gas services. As such, it makes sense in terms of public policy goal attainment and utility customer satisfaction to allow the utilities to utilize existing assets, capabilities and expertise gained from years of experience, to offer services that help meet energy policy goals and customer needs, while offering potential benefits to ratepayers.

³ The objective of the IEPR is to evaluate market trends and develop energy policies that will "conserve resources, protect the environment, ensure energy reliability, enhance the state's economy, and protect public health and safety." (Public Resources Code § 25301[a])

⁴ California Energy Commission 2011 Bioenergy Action Plan; CEC-300-2011-001-CTF, page 6

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Response to 7.1.16 (Continued)

This approach is consistent with the Affiliate Transaction Rules because only a small percentage of utility employee time will be utilized to offer the services, thus maximizing the use of ratepayer assets for the benefit of customers of the services, ratepayers at large and shareholders, without affecting the cost, quality, or reliability of tariffed products and services.

The fourth reason for the utilities to offer the services is the potential for job creation and the utilities' commitment to contracting with diverse business enterprises (DBE). SoCalGas' and SDG&E's proposal calls for contracting out the installation of the conditioning/production equipment and day to day management of facilities. As such, the utilities' DBE policies will apply. The 2011 Bioenergy Action Plan states "The production and use of biomass for energy production can improve California's economy, especially in rural communities, by creating green jobs and reducing the disposal costs for biomass residuals. Achieving the state's bioenergy goals has the potential of adding over 15,000 jobs in California's rural communities over the next 10 years."⁵ SoCalGas' and SDG&E's proposed services can help make this estimate a reality by increasing the total number of biogas projects initiated throughout the state in the next several years. SoCalGas and SDG&E have a strong commitment and proven track record in working with Diverse Business Enterprises. Utility bio-gas services, such as those in proposed in SDG&E's advice letters, will create new opportunities for Diverse Business in the bio-energy and renewable energy sector. SoCalGas and SDG&E are poised to enter this market and ready to create the new green-jobs that this state needs.

⁵ California Energy Commission 2011 Bioenergy Action Plan; CEC-300-2011-001-CTF