

Company: Southern California Gas Company (U904G)  
Proceeding: 2016 General Rate Case  
Application: A.14-11-004  
Exhibit: SCG-230

**SOCALGAS**

**REBUTTAL TESTIMONY OF ROSE-MARIE PAYAN**

**(CUSTOMERS)**

June 2015

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





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1                   **SOCALGAS REBUTTAL TESTIMONY OF ROSE-MARIE PAYAN**  
2   **(CUSTOMERS (GAS))**

3           **I.       SUMMARY OF DIFFERENCES**

4 Specifically, my testimony rebuts the following points:

- 5       • The Office of Ratepayer Advocates (ORA) recommends a forecast that is too low relative  
6       to 2014 actual recorded data.
- 7       • ORA’s forecast of multi-family gas customers is based on a regression specification that  
8       omits a significant explanatory variable in ORA’s specification, causing the forecast to be  
9       too low.
- 10      • UCAN has indicated that they will file errata correcting their support for the forecast  
11      developed by TURN in this proceeding, which is not found in TURN’s testimony.

12           **II.     INTRODUCTION**

13       The following rebuttal testimony regarding Southern California Gas Company’s  
14 (“SoCalGas”) customer forecast for Test Year (“TY”) 2016 addresses the intervenor testimony  
15 of:

- 16       • ORA’s April 24, 2015 Report on Customers, Sales, and Cost Escalation, supported by  
17       Tom Renaghan.<sup>1</sup>

18           **III.    ORA**

19           **A.     Forecast-To-Actuals Comparison Shows SoCalGas Has A Superior Forecast**  
20           **Than ORA**

21       ORA and SoCalGas have each submitted forecasts for gas customers for 2014, 2015 and  
22 TY 2016. ORA’s and SoCalGas’ results are very close and similar in methodology. In fact,  
23 ORA’s and SoCalGas’ gas customer forecasts differ by less than one percent. However,  
24 SoCalGas’ forecast is coming in closer than ORA’s forecast to the actuals for 2014 and first  
25 quarter 2015.

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<sup>1</sup> Exhibit ORA-3, April 24, 2015 Report on the Results of Operations for San Diego Gas & Electric Company and Southern California Gas Company, Test Year 2016 General Rate Case, SoCalGas – Customers, Sales, Cost Escalation (ORA-3/Renaghan), at page 10-22.

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**TABLE 1<sup>2</sup>**

2014 Forecasts	<u>Single Family</u>	Single Family Variance From <u>Actual</u>	<u>Multi Family</u>	Multi Family Variance From <u>Actual</u>
SoCalGas	3,626,418	Approximately 6,000 below actual	1,752,150	Approximately 7,000 below actual
ORA	3,624,369	Approximately 8,000 below actual	1,748,672	Approximately 10,000 below actual
Actual	3,632,536	0	1,759,124	0

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SoCalGas maintains that its forecast of gas customers is a fair, reasonable, and conservative forecast. In comparing ORA’s 2014 forecast of gas customers with the 2014 actual recorded gas customers, it appears that ORA’s forecast is too low. For 2014, ORA forecasted *total* gas customers to be 5,620,518. SoCalGas’ forecast for 2014 is 5,626,305. The actual 2014 recorded total customers for SoCalGas is 5,638,631. ORA’s forecast is over 18,000 meters under forecast.

In examining the recorded data that has come in for the year 2014, *residential* new meters have been outpacing both ORA’s and SoCalGas’ forecast. Compared to 2014 actuals and the recorded data for the first quarter of 2015, both SoCalGas’ and ORA’s residential customer forecast are too low. For 2014, SoCalGas’ single family forecast is 6,000 meters lower than actual. For 2014, ORA’s single family forecast is 8,000 customers lower than actual.

The discrepancy grows larger when examining the activity in multi-family observed growth. For 2014, SoCalGas’ multi-family forecast is about 7,000 meters lower than actual; whereas, ORA’s 2014 multi-family forecast is 10,000 meters lower than actual. ORA’s multi-family forecast is lower and slower growing than SoCalGas’ forecast. It is lower by approximately 3,500 meters in 2014 and the gap widens to a 20,000 deficiency by test year 2016. Given the large and apparently growing amount by which multi-family actuals are outpacing ORA’s forecast, SoCalGas believes that ORA’s multi-family forecast is much too low.

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<sup>2</sup> Forecast data from ORA-3/Renaghan, p. 6, Table 3-2.

1 The recorded data for the first quarter of 2015 also support SoCalGas' belief that ORA's  
2 forecast is too low. For the first quarter of 2015, the actual single family active meters were over  
3 7,000 higher than ORA's forecast for the same period. Additionally, for the first quarter of 2015,  
4 actual multi-family active meters came in over 12,000 higher than ORA's forecast. SoCalGas'  
5 forecast was also below actuals, but not by as much. For the first quarter of 2015, SoCalGas'  
6 single family active meter forecast was 4,270 meters below actual. For the same period,  
7 SoCalGas' multi-family active meter forecast was 5,063 below the first quarter of 2015 actuals.

8 **B. ORA Omitted A Very Significant Regressor In Their Multi-Family Model**

9 ORA's multi-family residential gas customer model regresses the historic first-difference  
10 of connected residential gas meters on multi-family residential housing starts in SoCalGas'  
11 service area lagged four quarters and a dummy variable for the third quarter of 1996.<sup>3</sup>  
12 SoCalGas' approach was similar with one exception: SoCalGas regressed the first difference of  
13 residential multi-family customers on multi-family housing starts lagged four *and* eight quarters.  
14 Because of the length of construction time required to build a multi-family structure, SoCalGas  
15 believes it is important to include an eight quarter multi-family housing start lag. The estimation  
16 results reveal that the eight-quarter lag is highly significant and statistically relevant.

17 The omission of a very significant explanatory variable in ORA's multi-family  
18 specification is problematic because it leads to bias in the estimates. In such a case, the omission  
19 can cause the forecast to be too low and the estimates of the included variables will be biased and  
20 unreliable.

21 **C. ORA Is Recommending A New Meter Set Forecast That Is Significantly**  
22 **Below Recorded Levels**

Meter Sets	2014	Variance to 2014 Actual
SoCalGas Forecast	36,912	4,454
ORA Forecast	27,014	(5,444)
2014 Actual	32,458	0

23 ORA's 2014 new meter set forecast is 20% below actual meter sets recorded for 2014.  
24 SoCalGas' forecast is shown to be more accurate, fair, and reasonable, and should be adopted.

<sup>3</sup> ORA-3 (Renaghan), p. 20, lines 3-7.

1           **IV. CONCLUSION**

2           ORA and SoCalGas forecast gas customers for 2014, 2015 and Test Year 2016. For the  
3 most part, ORA's and SoCalGas' results are close. SoCalGas has some areas of concern  
4 regarding the key differences in the forecasts.

5           First, although both SoCalGas' and ORA's forecast are under-forecasted relative to the  
6 2014 actuals, ORA's forecast is further away from the observed recorded gas meter totals for  
7 2014. Also, the biggest difference in the forecast numbers stems from the regression  
8 methodology that supports the multi-family, residential forecasts.

9           SoCalGas has reason to believe that ORA used a mis-specified regression equation and  
10 omitted a highly significant and highly relevant economic driver. A longer lag for housing starts  
11 is an important driver of multi-family customers because it takes longer to build a multi family  
12 structure than the time required to build a single family home. ORA's forecast of multi-family  
13 structures is much lower and slower growing than what SoCalGas forecast. Following the  
14 collapse of the housing market and the subsequent recovery, the trend in housing has been one  
15 where more and more individuals have given up life in single family homes and have opted to  
16 live in more affordable multi-family dwellings. The boom in multi-family housing is apparent in  
17 the new construction that has emerged since the last GRC, and the data trend, including that for  
18 the first quarter of 2015, support this. SoCalGas also under-forecasted the huge growth in the  
19 activity in this residential segment.

20           Finally, ORA's forecast of new meter sets appears to be low in comparison to the 2014  
21 actuals. SoCalGas maintains that its forecast of gas customers is a fair, reasonable and  
22 conservative forecast. For this reason and the others stated above, SoCalGas' gas customer  
23 forecasts should be adopted.

24           This concludes my prepared rebuttal testimony.