Company:	Southern California Gas Company (U904G)
Proceeding:	2016 General Rate Case
Application:	A.14-11-004
Exhibit:	SCG-232

SOCALGAS

REBUTTAL TESTIMONY OF MICHELLE A. SOMERVILLE

MISCELLANEOUS REVENUES

June 2015

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

SoCalGas

A Sempra Energy utility

Doc#297715

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SOCALGAS REBUTTAL TESTIMONY OF MICHELLE A. SOMERVILLE
MISCELLANEOUS REVENUES

I. SUMMARY OF DIFFERENCES

TOTAL MISCELLANEOUS REVENUES - Constant 2013 ($000)			
	Base Year 2013	**Test Year 2016**	**Change**
SOCALGAS	**107,419**	**100,513**	**(6,906)**
ORA	**107,419**	**102,118**	**(5,301)**

II. INTRODUCTION

The Office of Ratepayer Advocates (ORA) issued its report on Miscellaneous Revenues on April 24, 2015.[1] The following is a summary of ORA's position(s):

- ORA's proposed miscellaneous revenues for TY2016 are $1.6 million greater than my forecast.
- ORA's methodology is inconsistent and shows no regard for the nuances of the different areas of miscellaneous revenues. Specifically, ORA uses a version of a 5-year average forecast methodology as the basis for their forecast to derive higher forecasted revenues for Service Establishment Charges (SECs), Residential Reconnection Charges, and revenues coming from the Residential Limit Parts Program. However, for forecasting revenue from the Home Serve program instead of using a 5-year average methodology, ORA chooses the 2013 recorded revenues in order to produce a higher result.

[1] Exhibit ORA-4, Report on the Results of Operations for San Diego Gas & Electric Company and Southern California Gas Company, Test Year 2016 General Rate Case, Miscellaneous Revenues (ORA-4).

III. REBUTTAL TO PARTIES' MISCELLANEOUS REVENUE PROPOSALS

A. Service Establishment Charge (SEC) Fee Revenues

Constant 2013 ($000)			
	Base Year 2013	**Test Year 2016**	**Change**
SOCALGAS	**23,268**	**24,875**	**1,607**
ORA	**23,268**	**25,467**	**2,199**

My TY 2016 forecast methodology is consistent with the 4-year average methodology (2010-2013) used to forecast the volume of Customer Service Field (CSF) orders that generate SEC fees as documented in Ms. Franke's prepared direct testimony and workpapers (see Exs. SCG-10 and SCG-10-WP). In contrast, ORA recommends a 5-year average, which is inconsistent with Test Year (TY) 2016 cost estimate for CSF operations.

My direct prepared testimony states, "the 2016 forecast is based on the four-year historical average (2010-2013) adjusted for the annual customer growth factors for the period 2014-2016. This forecast methodology utilizes the available, applicable historical data and excludes the unusual activity in 2009 due to the economic downturn."[2] In fact, witness Ms. Franke did not include 2009 historical order counts for the SoCalGas TY 2016 forecast of turn-on and change of account order volumes, which would have increased the SoCalGas CSF order volume and resulted in a larger cost estimate for CSF operations in TY 2016. If ORA recommends a 5-year average methodology for forecasting SEC revenues then ORA must also support a 5-year average methodology for estimating CSF order volumes and a higher CSF operations costs estimate for SoCalGas' TY 2016.

B. Reconnection Charge Revenues

Constant 2013 ($000)			
	Base Year 2013	**Test Year 2016**	**Change**
SOCALGAS	**1,396**	**1,498**	**102**
ORA	**1,396**	**1,537**	**141**

My Reconnection Revenue forecast is based on a 5 year average, which I believe is appropriate and consistent with current disconnection policies and practices. ORA applies a growth rate to the 5-year average, which has the unintended consequence of incentivizing

[2] Ex. SCG-32, p. MAS-3, lines 12-15.

SoCalGas to be more aggressive in disconnecting customers for non-payment of bills. Indeed, based on SoCalGas' current disconnection policies, we have what we believe to be are minimal disconnections. Therefore, I reiterate my belief that a 5-year average is appropriate for a stable and controlled disconnection practice.

C. Residential Limited Parts Revenues

Constant 2013 ($000)			
	Base Year 2013	**Test Year 2016**	**Change**
SOCALGAS	**1,948**	**2,030**	**82**
ORA	**1,948**	**2,057**	**109**

In contrast to my proposal, ORA's revenue estimate uses a historical average of customer counts in its forecasting assumptions. I have attempted to be more accurate in my TY 2016 forecast of Residential Limited Parts revenues by relating parts sales to forecast of CSF orders. A residential parts sale cannot occur without a customer service order, but a customer service order does not necessarily lead to a parts sale. Additionally, customer counts do not reflect the best correlation as not all customers generate CSF orders and some generate more than one. Therefore, as described in my prepared direct testimony[3], revenues generated from sales of Residential Limited Parts is best associated with CSF orders, specifically the 5-year average percentage yield of (2009-2013) parts sales orders per customer service order multiplied by the forecasted CSF orders and the 3-year historical average of revenues per sales order. The 3-year average is the best price predictor and is used for this forecast as fees were increased in 2010 making 2011 the first full year of the upward adjusted parts fee. This is also the methodology I used to forecast its Commercial Parts and Connection Appliance Program revenues which was uncontested by ORA.

[3] Ex. SCG-32, p. MAS-4, lines 5-14.

D. Revenues for Third Party Services

Constant 2013 ($000)			
	Base Year 2013	**Test Year 2016**	**Change**
SOCALGAS	**1,180**	**213**	**(967)**
ORA	**1,180**	**1,159**	**(21)**

SoCalGas currently provides billing statement and centralized revenue processing services for third party energy-related and home safety-related product and service providers. SoCalGas includes a specific line item charge for the third party energy service provider on the customer's SoCalGas monthly bill so that the company can collect and process the customer payment for the third party energy service provider for a fee, which is included here as Revenues for Third Party Services.

I have used a forecasting method taking into account the changing market conditions of this service -- more specifically, taking current recorded values and applying a declining attrition to reflect decline in this market for SoCalGas as discussed in my direct testimony.[4] ORA, on the other hand, picked 2013 recorded revenues as the basis of its forecast, which happens to represent the highest revenues recorded in five years (as shown below).

ORA asserts, "SCG has not given any justification for its attrition estimates" and "there is no more reason to a priori suppose that third parties will scale down than that SCG's own customers will scale down."[5] I disagree. First, the number of third parties seeking to have their customer bills presented within SoCalGas' monthly bill is limited only to energy-related or home-safety providers. Second, the growth in convenient on-line billing services that allow convenient credit and debit card payments provides competing alternatives to SoCalGas line item billing services. And third, the current line item billing contract will expire in 2016 and the terms of renewal, or whether the vendor will want to renew or others are willing to bid, is uncertain. In addition to the growth in other convenient options, SoCalGas also has restrictions on the third party customer presentations, advertising, and promotional material that most third parties find restrictive, making renewal of these contracts even less attractive.

Moreover, ORA is selective in its data analysis and forecasting methodology. ORA's Table 4-6, "SoCalGas Miscellaneous Revenues" on page 10 of ORA's report shows that 2013

[4] Ex. SCG-32, p. MAS-10, lines 15-25.
[5] Ex. ORA-4 (Kanter), p. 17, lines 5-8.

recorded revenues for Home Serve is the highest year during 2009-2013. ORA does not choose a 3-year, 4-year, or 5-year average, but conveniently chooses the highest revenue year as its TY 2016 forecast for the largest component of Revenues for Third Party Services. However, for Commerce Energy, another line item billing contract, of a much smaller magnitude, ORA accepts my forecast for declining revenues without exception.

IV. CONCLUSION

To summarize, based on the above discussion and analysis, SoCalGas concludes the following regarding ORA's forecasts:

a. ORA's forecast for Service Establishment Charges revenue is flawed and inconsistent with CSF operating cost assumptions;
b. ORA's forecast for Reconnection Charge Revenues does not take into account current disconnection policies, practices, and trends and may have unintended consequences of incentivizing SCG to be more aggressive in disconnecting customers for non-payment of bills;
c. ORA's forecast for Residential Limited Parts Program revenues contains flawed assumptions by linking parts revenues to customer counts where my forecast more accurately uses the assumption of customer service orders to derive the revenues forecast. Furthermore, I use the same order methodology in forecasting Commercial Parts Program and Connection Appliance Program revenues which is uncontested by ORA;
d. ORA's recommendation to maintain the 2013 recorded revenues for its TY 2016 forecast of Home Serve Program revenues is without justification and is inconsistent with forecasting methodologies used in other areas of Revenues for Third Party Services which were uncontested by ORA.

Based on the discussion and analysis above, SoCalGas recommends the Commission adopt my estimate of $100.513 million in total SoCalGas Miscellaneous Revenues for TY 2016 as requested.

This concludes my prepared rebuttal testimony.