

**APPLICATION OF SOUTHERN CALIFORNIA GAS COMPANY  
AND SAN DIEGO GAS & ELECTRIC COMPANY  
FOR AUTHORITY TO REVISE THEIR NATURAL GAS RATES  
EFFECTIVE JANUARY 1, 2017 IN THEIR  
TRIENNIAL COST ALLOCATION PROCEEDING - PHASE 2  
(A.15-07-014)  
(DATA REQUEST ORA-TCAP2-SCG-09)**

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QUESTION 1:

Subject: Revised A.15-07-014 Prepared Direct Testimony of Mr. Chaudhury and Revised Workpapers

At page 5 of the above subject testimony, SoCalGas states that “[t]he Commission approved the NCO method in D.97-04-082. However, in D.97-08-062, the Commission modified its earlier decision and adopted the Rental method.”

(a) Please cite references to the relevant Findings of Fact, Conclusion of Law, and Ordering Paragraph in D.97-08-062 that explains the reasons the Commission modified its earlier decision and adopted the Rental method.

(b) Please state whether the Commission still expressed preference for the NCO method in D.97-08-062 despite the adoption of the Rental method.

RESPONSE 1:

- a) Please see D.97-08-062, Ordering Paragraphs 2 and 3.
- b) The Commission expressed preference for the NCO method for evaluating core rate design proposals and for LRMC allocation within the core class (D.97-08-062, Ordering Paragraph 2).

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QUESTION 2:

At page 7 of above subject testimony, SoCalGas states that “[t]he cost causation unit (i.e., the cost driver) is called marginal demand measure (MDM). The LRMC-based functional cost (marginal cost revenue) is derived by multiplying the LRMC by the number of MDMs. For customer-related costs, the MDM is the number of customers. For medium and high pressure distribution-related costs, the MDM is peak day demand and peak month demand, respectively. Embedded functional costs, on the other hand, are based on the historic costs of that function.” Table 12 shows the MPD and HPD for distribution costs used by SoCalGas.

- (a) Please explain whether each of the above-stated MDMs refer also to the system design planning criteria which SoCalGas uses for purposes of meeting forecast demand.
- (b) Please clarify whether the above-stated MDM for customer-related costs refers to the number of new customers or to the number of existing customers or to both.
- (c) Please explain measure used by SoCalGas to indicate the “number of customers,” i.e., whether this measure is in terms of number of individually metered connections and whether sub-metered customers are not included in the count, or some other measure.
- (d) Please clarify the applicable year for the MPD and HPD numbers shown in Table 12, i.e., whether these represent SoCalGas’ forecast for the year 2017.

RESPONSE 2:

- (a) No, none of the above-stated MDMs refer to the system design planning criteria.
- (b) The MDM for customer-related cost refers to all customers, both existing and new.
- (c) The number of new customers reflects the number of individually metered connections. Sub-metered customers are not included in the count.
- (d) The numbers in Table 12 columns B and E are the three-year average forecasts for the years 2017- 2019.

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**QUESTION 3:**

In D.10-04-027, the Commission approved the SoCalGas Application (A.)08-09-023 for Advanced Metering Infrastructure, with modifications. With these modifications, the Commission authorized funding for SoCalGas' AMI proposal at \$1.0507 billion. In Finding of Fact #10, the Commission found that "[m]oving forward with the AMI rollout will affect, in some way, a workforce of approximately 970 meter readers, both part-time and full-time."

- (a) Please provide a brief project status summary of SoCalGas' implementation of its AMI approved in D.10-04-027. In addition, if any project status reports were required to be submitted to the Commission for the SoCalGas AMI, please provide ORA with an e-copy of the most recent status report.
- (b) Please explain the impact of the SoCalGas AMI to SoCalGas' capital investment costs in the regular non-AMI gas customer meters and facilities, and provide verifiable basis to support those explanations.
- (c) Please explain the impact of the SoCalGas AMI to SoCalGas' O&M and A&G Expenses in the regular non-AMI gas customer meters and facilities, and provide verifiable basis to support those explanations.
- (d) Please explain whether the SoCalGas AMI obviates or reduces the needs for replacements in the regular non-AMI gas customer meters and facilities, and provide verifiable basis to support those explanations.

**RESPONSE 3:**

- (a) A copy of the most recent SoCalGas Advanced Meter Semi-Annual Report submitted to the Commission on August 31, 2015 is available at the following link. Please refer to Chapter 1 – Project Overview and Summary for a brief project status summary.

<https://socialgas.com/regulatory/A0809023.shtml>

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- (b) The advanced meter infrastructure (AMI) consists of two primary components: (i) meter transmission units attached to meters and (ii) a communication network consisting of data collection units installed across SoCalGas' service territory. SoCalGas' AMI-related costs, both capital and O&M, are tracked separately from SoCalGas' capital investment costs in the regular non-AMI customer meters and facilities. See Jason Bonnett's workpaper titled, 2017 TCAP SCG RD Model.xlsm, Cost Alloc tab, line 33 for AMI-related costs.
- (c) The SoCalGas AMI-related O&M and A&G costs are tracked separately from those of SoCalGas' O&M and A&G costs in the regular non-AMI gas customer meters and facilities. See Sharim Chaudhury's workpaper Titled " SCG 2017TCAP LRMC O&M Loaders", tab Net O&M, exclusion: AMI (acct 903100) of \$29,090,804, cell D49.
- (d) AMI should not obviate or reduce the needs for replacements in the regular non-AMI gas customer meters and facilities. The physical life and maintenance needs of non-AMI meters are not changed by the installation of AMI elsewhere in our system.

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**QUESTION 4:**

Table 14 of above subject testimony shows the “Allocation of Base Margin.” At column B, the category reads “Uncollectible.”

- (a) Please explain what the category “Uncollectible” represents.
- (b) Please explain whether the dollars shown under “Uncollectible” are treated as embedded costs, and if not, please explain the treatment of these costs and cite the reference to the Commission decision that approved this treatment.

**RESPONSE 4:**

- a) Uncollectible represents nonpayment of bills by some customers that SoCalGas recovers in rates.
- b) The Commission adopted the currently effective Uncollectible rate of 0.27800% in D.13-05-010. It reflects a five-year average of Uncollectible rates for the years 2005-2009. Uncollectible are not treated as embedded costs because the uncollectible rate is applied to future costs.

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QUESTION 5:

At page 8 of the above subject testimony, SoCalGas proposes marginal customer-related costs developed using the Rental method. At Table 11 in column A, SoCalGas shows the “Customer LRMC (in \$/customer)” for the different customer classes. For the Residential customer class, the customer LRMC is \$224 per customer. Table 1 also provides the same information on customer LRMC and indicates in the heading that the amount is stated in \$/customer per year so that the customer LRMC in monthly terms would be approximately \$18.67 per customer per month.

(a) Please provide the SoCalGas marginal customer-related costs if it were developed by SoCalGas using the NCO method.

(b) Please describe how the SoCalGas marginal customer-related costs compare under the two different methods.

(c) Please explain the reason for any differences between the two values for the SoCalGas marginal customer-related costs.

RESPONSE 5:

(a) Please see Chaudhury’s Excel workpaper titled “SCG 2017 TCAP LRMC Customer Costs”, tab “RD Format”, lines 8 and 9, SoCalGas marginal customer-related costs using the NCO method. While line 8 shows marginal customer-related cost using the NCO method excluding any replacement related capital costs, line 9 shows NCO costs with 2.1% replacement related capital costs.

(b) Compared to the Rental method, the application of NCO method results in lower customer-related capital cost.

(c) The Rental method is based on the allocation to all customers of the annualized carrying costs associated with new capital investment in service lines, meters, and regulators. The NCO approach, on the other hand, allocates only to new customers (and replacement customers in the case of NCO with replacement adder) the entire capital investment as if it were an expense. This total capital cost is then divided into all customers to derive customer-related unit capital cost. NCO-based customer-related capital cost is heavily dependent on the capital investment on the number of new and replacement customers.

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Under the hypothetical scenario of no new customer, the NCO method without replacement adder will lead to zero customer-related capital cost! Clearly, LRMC should be able to produce reasonable customer-related capital cost during period of no customer growth, a result that the Rental method is capable of producing.