Application No: A.16-12-__________
Exhibit No.: __________
Witness: R. Austria

In the Matter of the Application of Southern California Gas Company (U 904 G) Requesting Reauthorization of the Customer Incentive Program.	Application 16-12-____ (Filed December 21, 2016)

CHAPTER III

COST TRACKING AND REGULATORY TREATMENT

PREPARED DIRECT TESTIMONY OF

REGINALD M. AUSTRIA

ON BEHALF OF

SOUTHERN CALIFORNIA GAS COMPANY

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

December 21, 2016

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I. PURPOSE AND OVERVIEW OF TESTIMONY

The purpose of my testimony is to sponsor the regulatory accounting treatment of costs and revenues associated with SoCalGas' Customer Incentive Program (CIP), including the costs for the development of the tariff and administration of the program.

II. REGULATORY ACCOUNTING TREATMENT OF REVENUES AND COSTS ASSOCIATED WITH THE CUSTOMER INCENTIVE PROGRAM

SoCalGas proposes to continue the regulatory accounting treatment of revenues under the CIP similar to the treatment of revenues under its previous Core Pricing Flexibility and Noncore Competitive Load Growth Opportunities programs.[1] The regulatory treatment will continue to use the Core Fixed Cost Account (CFCA) and Noncore Fixed Cost Account (NFCA) adjustment mechanisms on an annual basis to ensure that ratepayers are isolated from any risk from offering discounted core and noncore rates, respectively, and upfront cash incentives. The CFCA and NFCA adjustment mechanisms are described in SoCalGas' current Preliminary Statement Part XI, Performance Based Regulation, under Sections F.5. and G.2.d., respectively. As discussed in Chapter II Testimony, under CIP, customers are provided an upfront cash incentive or a discount rate. Under the upfront cash incentive, any incremental revenues above base revenues (i.e., baseload at non-discounted rates) are removed from the NFCA or CFCA and allocated to shareholders, resulting in only base revenues credited to the NFCA or CFCA. Below is an example of CFCA/NFCA adjustments for a customer given an upfront cash incentive for technologies to produce incremental noncore load but may be partially offset by a reduction in the customer's core consumption below the customer's core baseload. As shown in the example below, the CFCA is appropriately credited with core base revenues to ensure core ratepayers are not impacted by the customer's contract under CIP.

[1] The Core Pricing Flexibility Program was authorized in Decision (D.) 97-07-054 and D.98-01-040. The Noncore Competitive Load Growth Opportunities Program was authorized in D.00-04-060.

Assumptions - Upfont Cash:

- Project adds 500 therms to a noncore meter, but offsets 100 therms on core meter

- Actual core and noncore revenues have already been recorded to applicable fixed cost balancing accounts

- Calculation of usage offset: Based on expected loss revenues or available heat data provided by customer.

- Contract Term: 59 Months; Minimum Annual Quantities (MAQ): 20 therms per month

- Customer Incentive (funded by SCG shareholders): $1000

- Incremental Noncore Usage	500	therms
- Baseload Core Usage	400	therms
- Actual Core Usage	300	therms
Expected Loss Core Usage	100	therms
- Transportation Cost	$ 0.10	per therm

CFCA/NFCA Adjustments:

		Ratepayer - (over)/ under collection	Shareholder - (gain)/loss
Credit CFCA for Expected Loss Core Usage:			
Core Loss Usage	-100		
Transportation Cost	$ 0.10		
CFCA Credit Adjustment[1/]		($10)	$10
NFCA Adjustment:			
Noncore Incremental Usage[2/]	500		
Transportation Cost	$ 0.10		
NFCA Adjustment[3/]		$50	($50)
Net Annual Balancing Account Adjustments/Shareholder Impact		$40	($40)
Project incremental revenues over contract term			($2,360)
Shareholder funded incentive			$1,000
Net Shareholder (Gain)/Loss over contract term			($1,360)

[1/] To credit ratepayers for loss revenues.

[2/] This includes billings to customer if customer usage falls below monthly MAQ. For example, if noncore usage is 10 therms lower than the MAQ, customer is billed for the revenue shortfall of $1.00 (i.e., [20 therms MAQ minus 10 therms noncore usage] X $0.10/therm).

[3/] To adjust NFCA for incremental revenues initially balanced during the year.

Under optional pricing, the CFCA or NFCA is credited with revenues equal to those expected absent any optional tariffs or negotiated rates (i.e., base revenues) only if actual revenues exceed base revenues. Any incremental revenues associated with consumption above baseload will be removed from the CFCA and NFCA and allocated to shareholders. Under the prior optional pricing mechanism, if actual revenues are below base revenues, no adjustments would be made to the CFCA/NFCA to reflect base revenues since the customer is only given a discounted rate on consumption above baseload and, as such, the revenue shortfall is not due to optional pricing but due to other factors (i.e., economy, etc.). SoCalGas proposes to continue this regulatory treatment.

Under both programs, however, to the extent the customer's consumption falls below the incremental load agreed upon by the customer and SoCalGas, SoCalGas shareholders will make up the difference in the public purpose program (PPP) surcharge revenues that would have been recorded to SoCalGas' PPP balancing accounts (i.e., the Demand Side Management Balancing Account, or "DSMBA"; Direct Assistance Program Balancing Account, or "DAPBA"; and California Alternate Rates for Energy Account, or "CAREA") had the incremental load materialized. Below are examples of the CFCA/NFCA and PPP balancing account adjustments for customers under a discounted or negotiated rate. The first example details the adjustment for actual revenues exceeding base revenues. The second example details the adjustment for actual revenues below base revenues.

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Example 1 - Optional Pricing/Incremental Revenues

Assumptions - Rate Discount (Existing Customer-Incremental Load):

- Existing Customer		
- Actual core revenues have already been recorded to the CFCA		
- Rate Discount: 10%		
- Baseload Core Usage	100	therms
- Actual Core Usage	150	therms
Incremental Load	50	therms
- Transportation Cost	$ 0.10	per therm
- Discounted Transportation Cost	$ 0.09	per therm

		Ratepayer - (over)/ under collection	Shareholder - (gain)/loss
CFCA Adjustment:			
Actual Revenues (100 therms @ $0.10/therm)	10.0		
Actual Revenues (50 therms @ $0.09/therm)	4.5		
Subtotal - Actual Revenues	14.5		
Base revenues (100 therms @ $0.10/therm)	10.0		
CFCA Adjustment		$4.5	($4.5)
Net Annual Balancing Account Adjustments/Shareholder Impact		$4.5	($4.5)

Example 2 - Optional Pricing/ Revenue Shortfall

Assumptions - Rate Discount (Existing Customer-Shortfall):

- Existing Customer		
- Rate Discount: 10%		
- Baseload Core Usage	100	therms
- Actual Core Usage	75	therms
Baseload shortfall	(25)	therms
- Estimated Incremental Load	50	therms
- Public Purpose Program (PPP) Surcharge Rate	$ 0.02	per therm

			Ratepayer - (over)/ under collection	Shareholder - (gain)/loss
PPP Balancing Account Adjustment				
Unrealized Incremental Load	50	therms		
Public Purpose Program Surcharge Rate	$ 0.02	per therm		
Rate Discounts provided below baseload	$ 1.00			
PPP Balancing Account Adjustment*			$ (1.00)	$1.00
Net Annual Balancing Account Adjustments/Shareholder Impact			($1.00)	$1.00

* - To be allocated to SoCalGas DSM, DAPBA anc CARE balancing accounts based on rate design structure implemented for the year.

III. IMPLEMENTATION COSTS TO ESTABLISH AND ADMINISTER THE NEW CUSTOMER INCENTIVE PROGRAM TARIFF

Pursuant to D.15-10-049, if SoCalGas proposes a tariff in which shareholders will assume the risk and benefits, SoCalGas shall begin tracking costs of providing the tariff at least 60 days prior to the application filing.[2] SoCalGas has established an internal order to track the development costs of the proposed CIP at least 60 days prior to filing this application, and proposes that to the extent that embedded resources funded by SoCalGas' current general rate case (GRC) are used to develop and implement the CIP, the costs will be credited back to ratepayers as a one-time refund. Specifically, SoCalGas proposes to record the cost of the embedded resources used for CIP as a credit to the CFCA or NFCA. The allocation of these costs between the CFCA and NFCA will be based on the relative percentage of revenues generated by core and noncore customers, respectively, during the first year of the CIP.

In addition to costs associated with the development and implementation of the CIP tariff, SoCalGas will incur ongoing costs to administer the program. SoCalGas will separately track these costs. To the extent embedded resources are used in connection with the administration of the CIP, ratepayers will be refunded these costs through a credit to the CFCA and NFCA similar to the refund and allocation of the development/implementation costs of the CIP tariff.

IV. CONCLUSION

The regulatory accounting treatment of revenues and costs associated with SoCalGas' CIP ensures that ratepayers are isolated from any risks under this program and therefore should be adopted.

[2] Establishment of a Distributed Energy Resources Services Tariff, OP 15.

V. WITNESS QUALIFICATIONS

My name is Reginald M. Austria. I am employed by SoCalGas. My business address is 555 West Fifth Street, Los Angeles, California 90013-1011. I am the Regulatory Accounts Manager of the Regulatory Accounts group within the Accounting and Finance Department which supports the regulatory accounting and reporting activities for SoCalGas. I have held my current position since April 1, 2002. I am responsible for managing SoCalGas' authorized regulatory balancing, tracking and memorandum accounts. My responsibilities include: implementation of regulatory accounting procedures for compliance with Commission decisions; quantifying and recording the monthly entries and adjustments to the Commission-authorized regulatory account mechanisms; and managing the general administration of SoCalGas' authorized regulatory accounts. Prior to April 1, 2002, I was the Utility Accounting Manager for SoCalGas, in which I had similar responsibilities to my current duties.

I received my Bachelor of Science degree in Accounting from California State University, Long Beach in 1982. I am a Certified Public Accountant and a member of the American Institute of Certified Public Accountants and the California Society of Certified Public Accountants. I began my employment with SoCalGas in 1983 in the Accounting and Finance Department. I have held various positions of increasing responsibility in Internal Audit, Cost Accounting, General Accounting, and Utility Regulatory Accounting before assuming my current position.

I have previously testified before the Commission.

This concludes my prepared direct testimony.