Application No: A.11-11-002
Exhibit No.: ____________
Witness: Richard Morrow

In the Matter of the Application of San Diego Gas & Electric Company (U 902 G) and Southern California Gas Company (U 904 G) for Authority to Revise Their Rates Effective January 1, 2013, in Their Triennial Cost Allocation Proceeding.	)))))))	A.11-11-002 (Filed November 1, 2011)

REBUTTAL TESTIMONY OF

RICHARD MORROW

SAN DIEGO GAS & ELECTRIC COMPANY

AND

SOUTHERN CALIFORNIA GAS COMPANY

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

December 14, 2012

REBUTTAL TESTIMONY OF

RICHARD MORROW

I. PURPOSE

The purpose of this rebuttal testimony is to respond to the opposition by the Division of Ratepayer Advocates (DRA) and The Utility Reform Network (TURN) to the proposal by Southern California Gas Company (SoCalGas) and San Diego Gas & Electric Company (SDG&E) to allocate our Pipeline Safety Enhancement Program (PSEP) costs to customers using the Equal Percent Authorized Margin (EPAM). For the reasons set forth below and in my direct testimony, EPAM is the most appropriate treatment for these new safety-related costs.

II. RESPONSE TO DRA AND TURN'S PROPOSAL TO USE OUR EXISTING DEFAULT COST ALLOCATION

I will let Mr. Lenart deal with the details of the ratemaking differences between EPAM and existing default cost allocation (and related rate effects) in his rebuttal testimony. I will also defer to Mr. Lenart with respect to cost causation principles, and the implications of such principles for PSEP-related costs. My testimony will focus on the policy-related aspects of these two proposed approaches to allocation of PSEP costs, and the policy-related points I wish to emphasize to the Commission are as follows:

A. EPAM Allocation Provides for an Equitable Allocation of PSEP-Related Rate Increases

As explained in more detail by Mr. Lenart, under an EPAM allocation of PSEP costs, SoCalGas' and SDG&E's transportation rates would increase by roughly equal percentages across all customer classes. This approach is equitable because enhancing the safety of our gas transmission pipelines will benefit all of our customers. Conversely, the default cost allocation methodology advocated by DRA and TURN would lead to a wide disparity in percentage rate increases among various customer classes. Such a wide disparity would not be appropriate for a program that benefits everyone.

Under a default cost allocation, the highest percentage increases would be shouldered by noncore and electric generation customers. Yet those customers would not realize any greater customer-specific improvements to safety or service reliability than residential customers that might justify increasing their rates by a much higher percentage.

B. The Default Cost Allocation Promoted by DRA and TURN will Encourage Uneconomic Bypass

As I explained in my direct testimony, the very large rate increases for noncore customers that would result from the use of default cost allocation would create economic incentives that would likely encourage many of these customers to eventually seek service from FERC-regulated transmission pipelines that are not required to recover the additional pipeline safety costs being ordered in this California proceeding.[1] This concern is real. Our FERC-regulated competitors would like nothing more than to have SoCalGas and SDG&E increase large industrial and electric generation rates by 80% in order to pay for a program they do not have to implement.

Moreover, to the extent that our largest customers bypass SoCalGas and SDG&E as a result of a disproportionate allocation of PSEP costs, our system costs (including PSEP costs) will need to be spread among a smaller group of remaining customers, including core residential customers – thereby ultimately increasing rates even for the residential customers that DRA and TURN are hoping to shield from PSEP-related increases. Although this may not be a classic example of “cutting off the nose to spite the face,” the real-world result of a disproportionate allocation of PSEP costs to our large noncore and electric generation customers would nonetheless be self-destructive.

In addition, SoCalGas and SDG&E would also face the prospect of further “bypass by wire” if electric generators located on our systems are required to pay disproportionately high PSEP costs that their competitors do not. As generators connected to lower-cost systems capture a greater share of the competitive market for electric generation, the result is less throughput to generators located on our systems, and more costs to be allocated to our customers.

C. The Default Cost Allocation Promoted by DRA and TURN will Discourage Business Growth in California

Uneconomic bypass of the SoCalGas and SDG&E systems is one risk presented by the DRA and TURN's preferred PSEP cost allocation approach. Another is the potential harm that would befall our existing business and electric generation customers who are unable to bypass, and the potential discouragement of new business in the state. California is a great place to live and work, but at some point Nevada or Arizona (or other countries) can become attractive options. Job growth is the engine that will hopefully power California (and the rest of the country) out of the recent economic downturn.

It would not make sense for the Commission to establish a new industry-leading pipeline safety program and then fund it by increasing large noncore and electric generation customer transportation rates by 80% over the next several years. At the very least the Commission should adopt policies that do not unnecessarily harm existing businesses in our service territories, and do not unnecessarily discourage new businesses from locating here.

III. CONCLUSION

SoCalGas and SDG&E respectfully request that the Commission approve our proposal to allocate PSEP costs on an EPAM basis. This proposed approach provides for an equitable and reasonable allocation of these costs to our customers. The existing default cost allocation advocated by DRA and TURN would not.

This concludes my rebuttal testimony.

---

[1] Amended Direct Testimony of Richard Morrow at 22-23.