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-06)

QUESTION 1:

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

At page 8 lines 3 through 9 of the above subject, SoCalGas/SDG&E witness Chaudhury state that “Marginal customer-related capital costs have been developed using the Rental method, which reflects the annualized capital cost of hooking up an additional customer. SoCalGas and SDG&E have used the Rental Method because the Rental Method captures the concept of LRMC accurately by estimating the cost of providing an additional customer with access to gas service. In the 2013 TCAP, SoCalGas and SDG&E also proposed the Rental method. The 2013 TCAP Settlement, approved by D.14-06-007, adopted the marginal unit customer-related cost estimates presented in Appendix B to the Settlement.”

(a) Please define marginal customer-related capital costs as used in the above statement. If a definition was provided in the above subject Prepared Testimony, then please provide the cite reference.

(b) Please describe the “Rental Method” as used in the above statement. If a definition was provided in the above subject Prepared Testimony, then please provide the cite reference.

(c) Please describe all the components of the “annualized capital cost of hooking up an additional customer.”

(d) Please explain what is meant by “accurately” as used in the statement “the Rental Method captures the concept of LRMC accurately by estimating the cost of providing an additional customer with access to gas service.”

(e) Please describe the “concept of LRMC” as used in the above statement. If a Commission approved LRMC concept is being referenced in the statement, then please provide the reference to the relevant Commission decision.

(f) Please confirm that in the 2013 TCAP Settlement approved in D.14-06-007, the adopted marginal unit customer-related cost estimates presented in Appendix B to the Settlement was based on a black-box settlement number, and neither the Rental Method, nor the NCO Method, was adopted in D.14-06-007.

<u>RESPONSE 1:</u>

(a) Marginal customer-related capital cost is defined as the annualized capital cost of hooking up an additional customer to the SoCalGas' gas delivery system so that the customer has access to gas service.

(b) Rental method is based on the allocation to all customers of the carrying costs associated with new capital investments in service lines, meters and regulators. The application of Rental Method is described at pages 9 and 10 of SoCalGas/SDG&E witness Chaudhury' s Revised Direct Testimony.

(c) The cost of capital equipment components required to hook up an additional customer includes the costs of service lines, regulators, and meters.

(d) SoCalGas and SDG&E use the term "accurately" because we believe that the Rental method, as opposed to any other method, is the method that provides the most precise calculation of marginal customer-related capital cost.

(e) The Commission-approved LRMC concept is being referenced in the quoted text. D.92-12-058 contains multiple references to the concept of LRMC as quoted below:

"Marginal costs are forward-looking costs: they reflect the costs a utility will incur to meet new demand for its services." (D.92-12-058, at page 7).

"When a marginal cost is defined, it is often described as the cost of an additional unit of goods or services. Implicit in the description is that it is the cost of the next unit in an efficient production process. There may be a number of feasible ways of expanding a utility system to meet additional customer load, but marginal cost pricing reflects efficient expansion of the system." (D.92-12-058, at page 11).

"The purpose of Marginal costing methods is to reflect the costs incurred over the long run caused by serving an additional unit of demand." (D.92-12-058, at page 20).

(f) Confirmed.

QUESTION 2:

In SoCalGas' Cost Allocation model at Tab Cost Allocation, SoCalGas shows a per unit LRMC in $/customer/year cost of $223.60 at Excel cell F6 for residential customers. The value on cell F6 is multiplied against a customer number on cell F7, to arrive at a customer cost under the Rental Method of $1,256,152 (in $000) for residential customers.

(a) Does the number $223.60 at cell F6 represent the LRMC unit marginal cost of adding one more customer to the SoCalGas gas transmission and distribution system? If not, please explain.

(b) Please provide the breakdown of this unit cost in cell F6 in terms of the component costs for customer access (i.e., service line, regulators, and meters). If this component breakdown is available and included in the excel work papers for SoCalGas, then please provide the cite reference in the excel spreadsheet files.

(c) Please explain whether the number $223.60 at cell F6 includes any fixed costs or embedded costs associated with adding one more customer to the SoCalGas gas transmission and distribution system. If so, please identify and explain how these fixed costs or embedded costs change when adding one more customer to the gas system.

(d) Please explain whether the number $223.60 at cell F6 represents unit marginal customer costs at the gas distribution level. If not, please explain.

(e) Does the customer number on cell F7 represent the forecast number of total residential customers on the SoCalGas gas transmission and distribution system?

RESPONSE 2:

(a) Yes.

(b) Please see Chaudhury Excel workpaper titled "SCG 2017 TCAP LRMC Customer Costs", tab "Cust MUC", lines 8 through 81, column I, for the requested breakdown.

(c) The customer-related cost is derived using LRMC, not the embedded cost method. Therefore, the number $223.60 does not include any embedded costs.

The LRMC-based unit customer-related cost of $223.60 is considered a fixed cost for a customer as it represents simply the cost of access to SoCalGas' gas delivery system and does not vary with the level of gas consumption. In rate design, a fixed customer charge is supposed to reflect the unit customer-related LRMC. In SoCalGas' 1993 BCAP, ORA (called DRA at that time) witness S. Roscow noted, "DRA recognizes that recovering at least a portion of the fixed costs incurred by each residential customer in a customer charge is not only economically efficient, but equitable as well." (DRA Report, at page 12-3.)

(d) Residential customers take gas delivery generally from SoCalGas' distribution system. As such, the number $223.60 generally represents unit marginal customer cost for residential customers hooked up to SoCalGas' distribution system.

(e) Yes.

QUESTION 3:

In the SoCalGas 2017 TCAP LRMC OM Loader Excel workpapers, SoCalGas shows in Tab A&G2 of that file various FERC cost accounts that were categorized as marginal (in Excel column Q) and non-marginal (in Excel column S). Please explain how SoCalGas was able to identify and verify whether the costs belong to either column Q or column S. Please provide documentation to support your explanation.

RESPONSE 3:

In its 1993 BCAP implementing the LRMC D. 92-12-058, SoCalGas went through extensive analysis of FERC cost accounts and categorized each into marginal and non-marginal accounts. In subsequent BCAPs/TCAPs, SoCalGas continued the same categorization. Generally, any costs that vary with either the size of labor force or the size of plant are deemed marginal costs.