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Application of Southern California Gas Company (U 904 G) and San Diego Gas & Electric Company (U 902 G) for Authority to Revise their Natural Gas Rates Effective January 1, 2017 in this Triennial Cost Allocation Proceeding Phase 2	A.15-07-____ (Filed July 8, 2015)

PREPARED DIRECT TESTIMONY OF

GWEN MARELLI

SOUTHERN CALIFORNIA GAS COMPANY

AND

SAN DIEGO GAS & ELECTRIC COMPANY

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

July 8, 2015

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PREPARED DIRECT TESTIMONY
OF GWEN MARELLI

I. PURPOSE

The purpose of my prepared direct testimony on behalf of Southern California Gas Company (SoCalGas) and San Diego Gas & Electric Company (SDG&E) is to support the continued decoupling of the Utilities' profits from their noncore transportation revenues through continuation of 100% balancing account treatment for those revenues.

II. CONTINUED BALANCING ACCOUNT TREATMENT FOR NONCORE TRANSPORTATION REVENUES ALIGNS COMMISSION AND UTILITY INTERESTS

SoCalGas and SDG&E recommend continuing the 100% balancing account treatment currently in place for noncore throughput in order to continue to align shareholder, customer, and Commission interests in achieving energy efficiency and greenhouse gas reduction goals. The Commission most recently reaffirmed100% balancing account treatment in D.14-06-007 for the current TCAP period. Decoupling profits and noncore transportation revenues provided a clear directive to SoCalGas and SDG&E not to de-emphasize aggressive energy conservation and efficiency efforts in the interest of increasing noncore throughput. Changing that policy and placing shareholders at risk for the throughput on the system would create a conflict between the interests of SoCalGas and SDG&E to maximize profits and the State's energy efficiency and greenhouse gas reduction goals.

In D.09-09-047, the Commission affirmed that cost-effective energy efficiency measures are the State's highest energy priority. The Commission instituted a comprehensive, long-term energy efficiency strategy to achieve the ultimate goal of making energy efficiency a way of life. This goal reflects the Energy Action Plan policy placing energy efficiency at the top of the loading order in response to growing energy demand. Placing shareholders at risk for system

throughput by providing an incentive to increase energy usage would send the wrong message. The 100% balancing account treatment for noncore revenues should continue and is aligned with the State and Commission's objectives concerning energy efficiency.

In R.04-01-025, the Commission recognized that its effort to develop "new policies to guard against a future natural gas shortage" required a re-examination of "at-risk" ratemaking policies.[1] More specifically, the Commission expressed the concern that:

> "At risk" type of conditions may create incentives to the utilities to focus too much upon short-term gains or potential losses rather than long-term results. Yet it is the long-term supply situation, where we risk potentially serious consequences … [T]hese ratemaking policies may create incentives to the utilities not to have slack capacity, in order to protect their shareholders from any risks. This could undermine the utilities' cooperation with new suppliers of natural gas or independent storage operators. Yet, we need slack capacity and flexibility to enhance California's access to sufficient supplies of natural gas at various times of the year and to make sure that competition at the California border is viable.

Specific risk factors affecting potential profits or losses for the Utilities could potentially shift the Utilities' perspective away from providing adequate and reliable service to all of their customers. First and foremost, the focus of the Utilities should be on providing adequate, safe, and reliable service at reasonable rates to all of their ratepayers in their service territories.[2]

Undoubtedly, placing the Utilities "at risk" for noncore gas throughput is inconsistent with California energy and regulatory policy. The market conditions that formed the original basis for placing utility shareholders at risk for gas throughput have changed significantly and no longer support such an approach for the Utilities. The Commission should support SoCalGas and SDG&E in aligning their risk structure with the State's policy objectives to promote energy

[1] OIR, *mimeo*, p. 22.
[2] *Id.* at 22-23.

efficiency and the construction and maintenance of sufficient utility infrastructure and capacity to meet future demand.

In considering this issue, the Commission should recognize that a policy that promotes throughput risk cannot be harmonized with policies promoting energy efficiency and sufficient infrastructure capacity. Further, there is no strong policy served by placing the Utilities at risk for gas throughput. Finally, as discussed below, the factors that influence electric generation demand on the utilities' systems are largely influenced by factors outside the Utilities' control. The Commission should therefore continue its established policy and not place the Utilities at risk for noncore throughput.

III. NONCORE THROUGHPUT IS HIGHLY SENSITIVE TO EXTERNAL FACTORS

Should SoCalGas and SDG&E be put at risk for noncore throughput, any difference in actual throughput compared to the Commission's adopted demand forecast used to set customer rates would result in a deviation in the recovery of SoCalGas and SDG&E's fixed costs. An at-risk structure results in utility earnings either rising or falling based on whether actual throughput is greater or less than the adopted demand forecast.

Noncore throughput, particularly for electric generation (EG), is highly sensitive to a number of factors outside of SoCalGas and SDG&E's control. As Mr. Huang explains in his testimony, some of the factors that can significantly affect EG demand include hydroelectric generation in the Pacific Northwest, California electricity demand, and the availability of renewable resources.

Additionally, variations in weather can heavily influence EG demand. As shown in the direct testimony of Mr. Huang, SoCalGas and SDG&E's EG demand is inversely related to hydroelectric power generation in the Pacific Northwest and California. As hydro conditions

vary from year to year, so will the EG gas demand. As Mr. Huang notes, hydro conditions in the last 20 years have ranged between 56% and 151% of normal. Dry-year hydro, which is defined as hydro conditions expected once every 10 years, is about 70% of normal and can cause an increase in EG demand of about 31 MMDth above demand during an average hydro year.

Naturally, demand for electricity is also a significant factor affecting demand for natural gas electric generation. Mr. Huang used the mid energy demand forecast with mid Additional Achievable Energy Efficiency scenario as developed by the California Energy Commission as the demand forecast for electricity in California. Variability in weather can affect this forecast of electricity demand and, therefore, natural gas EG demand. In addition to weather variations, availability of renewable resources will affect EG demand. Mr. Huang assumed in his demand forecast that the state of California as a whole will reach 24% Renewables Portfolio Standard (RPS) by 2015 and will reach the targeted 33% RPS by 2020. The ability for the state to reach the RPS goals more quickly than assumed can place downward pressure on natural gas EG demand.

While each of these factors – hydro conditions, weather, and renewable availability – can individually have a significant and uncontrollable effect on EG demand, the impact would be amplified if they all occurred in the same year. Depending on the direction these conditions broke, this would have the effect of either ameliorating or exacerbating the overall EG demand variation.

IV. CONCLUSION

As discussed above, it is clear that continued balancing account treatment for noncore transportation revenues aligns Commission and utility interests. Noncore throughput is highly

sensitive to external factors. Accordingly, placing the Utilities at risk for gas throughput serves only to:

- Re-couple profits and sales, undermine the State's and Commission's policies to encourage energy efficiency and GHG reduction;
- Provide Utilities a financial incentive to increase the demand on their systems;
- Place revenue recovery at risk for factors that cannot be controlled; and
- Create a more antagonistic and burdensome regulatory environment in which parties seek to shift forecasting risk to the Utilities' shareholders.

For all of these reasons, SoCalGas and SDG&E strongly recommend that the Commission continue 100% balancing account treatment of noncore transportation revenues.

This concludes my prepared direct testimony.

V. QUALIFICATIONS

My name is Gwen Marelli. My business address is 555 West Fifth Street, Los Angeles, California 90013. I am employed by SoCalGas as Director of Energy Markets and Capacity Products for SoCalGas and SDG&E.

I received a Masters of Business Administration degree from Pepperdine University's Graziadio School of Business and Management in 1990 and a Bachelor of Science degree in Mechanical Engineering from the University of California, San Diego in 1986. I have been employed by SoCalGas since 1991. As of August 2014, I have been serving in the role of Director of Energy Markets and Capacity Products. In this position, I manage service to the largest gas customers of SoCalGas, specifically large electric generators, Enhanced Oil Recovery customers, and wholesale customers. I also manage the unbundled storage program, the California Energy Hub, and the Gas Scheduling Group, I oversee minimum flowing supply purchases and maintenance-related supply purchases, scheduling and nominations on the integrated SoCalGas and SDG&E transmission system, SoCalGas' Electronic Bulletin Board, and SoCalGas and SDG&E's interconnection and operational balancing agreements with suppliers delivering natural gas into our system. I also manage the Gas Transmission Planning Department for both utilities.

Prior to joining SoCalGas, I held engineering positions at Bechtel Western Power Company and McDonnell Douglas Corporation.