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Application: A.22-09-015
Witness: Marjorie Schmidt-Pines
Chapter: 18a

PREPARED REBUTTAL TESTIMONY OF

MARJORIE SCHMIDT-PINES

ON BEHALF OF SOUTHERN CALIFORNIA GAS COMPANY

AND SAN DIEGO GAS AND ELECTRIC COMPANY

(COST ALLOCATION AND LONG RUN MARGINAL COST STUDY)

July 28, 2023
(Errata redlined August 31, 2023

Commented [MK1]: Ranjna, this needs to move up to the cover page.

TABLE OF CONTENTS

CHAPTER 18

PREPARED REBUTTAL TESTIMONY OF MARJORIE SCHMIDT-PINES

(COST ALLOCATION AND LONG RUN MARGINAL COST STUDY – SOCALGAS AND SDG&E)

I. INTRODUCTION

This joint rebuttal testimony addresses the direct testimonies of California Public Advocates (Cal Advocates), The Utility Reform Network (TURN), and Indicated Shippers (IS) which were served on June 12, 2023.[1] These intervenors addressed Applicants' proposals contained in Chapters 9b and 10b (Schmidt-Pines) ~~and Chapter 10 (Foster)~~ related to the cost allocation for SoCalGas's and SDG&E's (i) Customer-related Marginal Unit Cost, (ii) Operating and Maintenance (O&M) loaders costs, (iii) Cost Allocation methodology and (iv) Marginal Demand Measures. Because intervenors' treatment of issues is largely consistent between the two utilities, Applicants are providing rebuttal as a joint chapter.

II. SUMMARY OF APPLICANTS' REBUTTAL TO INTERVENORS

The following summarizes Applicants' rebuttal positions to the various proposals and recommendations contained in in intervenors' testimonies:

- Reject TURN's proposed SoCalGas's/SDG&E's Service Line, Regulator & Meter (SRM) capital costs to zero and Cal Advocates' proposed SoCalGas's 50% reduction to Service Line, Regulator & Meter (SRM) capital costs;
- Reject TURN and Cal Advocates' proposed SoCalGas's Administrative & General (A&G) Loading Factor;

[1] Given the volume of the various arguments, positions, and proposals raised by intervenors, Applicants have prioritized which issues to address in rebuttal testimony. Silence on any issue should not be construed as agreement with, or non-opposition to, that issue, as Applicants reserve the right to address additional issues not specifically mentioned in this rebuttal testimony at a later opportunity, such as evidentiary hearings and briefs.

- Reject TURN's proposed SoCalGas's Plant Loading Factor;
- Reject TURN's proposed update to Real Economic Carrying Charge factors;
- Reject TURN's proposals regarding SoCalGas's/SDG&E's cost allocation;
- Reject Indicated Shippers' proposals regarding SoCalGas's cost allocation demand measures.

III. CUSTOMER-RELATED MARGINAL UNIT COST

A. Marginal Capital Costs

1. TURN and CAL Advocates' Proposals for Service Lines, Meters and Regulator Costs

Meter, regulator, service line costs are addressed in Chapter 9b (Schmidt-Pines), pages 5-7 and Chapter 10b (Schmidt-Pines~~Foster~~), pages 4-5. SoCalGas and SDG&E estimate new meter, regulator, service line (SRM) costs, in this cost allocation proceeding (CAP). Both companies capped residential SRM costs at the line extension allowance amount.

On September 15, 2022, the California Public Utilities Commission (CPUC) issued Decision (D.) 22-09-026 as part of Rulemaking (R.) 19-01-011, Order Instituting Rulemaking (OIR) Regarding Building Decarbonization. Starting July 1, 2023, Residential New Construction Builders who submit an application to install new natural gas line service to their projects may do so but will have to pay for the full cost of installing a main and/or a service line to the Project. SoCalGas and SDG&E filed the CAP Application on September 30, 2022.

TURN recommends reflecting the impact of D.22-09-026, which eliminated line extension allowances for new connections requested after July 1, 2023, to remove all Service Line, Regulator, and Meter (SRM) costs.[2] TURN incorrectly points out that the already awarded

[2] Ex. TURN-02 (McGovern) at 3.

allowances are now a sunk cost to the utility, and no longer a marginal cost in the test year. TURN erroneously updated the SoCalGas's marginal customer-related distribution costs to remove the capital component of all customer classes.[3] SoCalGas and SDG&E only applied the line extension cap to the residential customer class in their Customer Cost Studies. The line extension allowances do not impact the other customer classes' capital costs.

SoCalGas and SDG&E propose the Rental method for cost allocation purposes.[4] However, Cal Advocates is using the LRMC Method and New Customer Only Method for SoCalGas.[5] Chapter 13b (Foster), Appendix C, and the rebuttal testimony of Foster (Chapter 21a), page 10 -11, explain in detail why the Rental method is more appropriate than the New Customer Only method. In the last TCAP decision, the Commission adopted the Rental Method for allocating the capital component of customer-related costs.[6] Cal Advocates made the following adjustments to SoCalGas's LRMC modeling assumptions based on D.22-09-026, cancellation of line extension credits and allowances:

- 50 percent reduction to Service Line Costs;
- 50 percent reduction to Regulator Costs;
- 50 percent reduction to Meter Costs.

SoCalGas has approximately 12,328 pending ~~residential~~ construction projects (10,003 residential and 2,325 non-residential), based on line extension allowances applications from January 1, 2023 to June 30, 2023, compared to 9,069 line extension allowances applications (7,127 residential and 1,942 non-residential) from January 1, 2022 to June 30, 2022.

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[3] Ex. TURN-01 (Florio) at 73-74

[4] *See* Applicants' Ch. 9a (Schmidt-Pines) at 4; and Applicants' Ch. 10a (Foster) at 3.

[5] Cal Advocates Report (Logan) at 1—4.

[6] D.20-02-045 at 91-92.

Construction for the pending projects and work in progress projects are to be completed in the CAP period. The "cost impact" will not be "incurred" until SoCalGas/SDG&E incurs the costs on the project. The final costs are reconciled after the appliances are turned on. The pending applications line extension allowances are not sunk costs as stated by TURN. A sunk cost is the cost which is already incurred. On the other hand, marginal cost is the additional cost which needs to be incurred. SoCalGas should not adjust its' SRM capital costs for this CAP.

For the next CAP, shifting to a more universal embedded cost approach to ratemaking would better align natural gas rates with Commission policy.[7]

IV. O&M LOADERS

The A&G and general plant loading factors are percentages that are applied to the direct O&M costs for each functional category.[8]

TURN shows a comparison of A&G and General Plant loaders in the 2020 CAP and the 2024 CAP are as follows: [9]

SCG Loaders

	2020 CAP	2024 CAP
A&G	46.40%	87.20%
Gen Plant	44.94%	86.83%

The main reason SoCalGas's loaders increased in the 2024 CAP compared to the 2020 CAP is a decrease in the Net O&M, which is the denominator for the A&G and Gen Plant calculations. The exclusions, that are not part of the authorized base margin, from the Net O&M increased in the 2021 data used for the 2020 CAP. [10] These 2021 exceptions include new accounts, such as the Greenhouse Gas Balancing Account, the Dairy Biomethane Project Balancing Account, and New Environmental Regulatory Balancing Account.

[7] Applicants' Ch. 14a (~~Peress~~Taylor) at 15.

[8] Applicants' Ch. ~~9a~~ 9b (Schmidt-Pines) at 18.

[9] Ex. TURN-02 (McGovern) at 15, *note:* TCAP 2020 Testimony Chapter 9 shows the 2020 CAP A&G factor was 43.64%.

[10] Applicants' Ch. 9b Workpapers (Schmidt-Pines) Section 3 at 3.

A. Transmission and Storage Adjustment

TURN incorrectly uses the transmission and storage costs adjustment of $78.9 million of salaries and wages (along with $41.3 million in payroll taxes) dedicated to transmission and storage for 2021 for the A&G loader. TURN incorrectly uses a Transmission and Storage adjustment of 35.11% for the General Plant loading factor.

SoCalGas correctly calculates Transmission and Storage A&G adjustment of 17.59% to apply to the marginal A&G and to the Payroll Taxes. See below ($M):[11]

Transmission	Storage	Total	
$66.4	$35.8	$581.5	
11.43%	6.16%	17.59%	% A&G allocated to Tran/Storage

SoCalGas correctly calculates the Transmission and Storage adjustment of 17.59% to apply to the Total General Plant. See below ($M):[12]

Transmission	Storage	Total	
$3.924	$2.116	$34.340	Gen Plant Return
$24.051	$12.968	$210.479	Gen Plant Depreciation
$1.218	$0.656	$10.655	Gen Plant Taxes
$29.193	$15.740	$255.474	
11.43%	6.16%	17.59%	% Gen Plant allocated to Tran/Storage

B. Pension and Benefits Expense adjustment

SoCalGas and SDG&E use FERC Form 2 cost data in calculating the O&M Loaders. Account 926 includes employee pensions and benefits, such as payments for employee accident, sickness, hospital and death benefits, or insurance. Below is a full description:[13]

11 Applicants' Ch. 8a (Seres) at 7.

12 Applicants' Ch. 8a Workpapers (Seres) at 4.

13 18 C.F.R § 367.9260 – Account 926, Employee pensions and benefits, *available at:* www.ecfr.gov/current/title-18/chapter-I/subchapter-U/part-367/subpart-K/section-367.9260.

926 Employee pensions and benefits.

A. This account shall include pensions paid to or on behalf of retired employees, or accruals to provide for pensions, or payments for the purchase of annuities for this purpose, when the utility has definitely, by contract, committed itself to a pension plan under which the pension funds are irrevocably devoted to pension purposes, and payments for employee accident, sickness, hospital, and death benefits, or insurance therefor. Include, also, expenses incurred in medical, educational or recreational activities for the benefit of employees, and administrative expenses in connection with employee pensions and benefits.

B. The utility shall maintain a complete record of accruals or payments for pensions and be prepared to furnish full information to the Commission of the plan under which it has created or proposes to create a pension fund and a copy of the declaration of trust or resolution under which the pension plan is established.

C. There shall be credited to this account the portion of pensions and benefits expenses which is applicable to nonutility operations or which is charged to construction unless such amounts are distributed directly to the accounts involved and are not included herein in the first instance.

D. Records in support of this account shall be so kept that the total pensions expense, the total benefits expense, the administrative expenses included herein, and the amounts of pensions and benefits expenses transferred to construction or other accounts will be readily available.

Items

1. Payment of pensions under a nonaccrual or nonfunded basis.
2. Accruals for or payments to pension funds or to insurance companies for pension purposes.
3. Group and life insurance premiums (credit dividends received).
4. Payments for medical and hospital services and expenses of employees when not the result of occupational injuries.
5. Payments for accident, sickness, hospital, and death benefits or insurance.
6. Payments to employees incapacitated for service or on leave of absence beyond periods normally allowed, when not the result of occupational injuries, or in excess of statutory awards.
7. Expenses in connection with educational and recreational activities for the benefit of employees.

Note A: The cost of labor and related supplies and expenses of administrative and general employees who are only incidentally engaged in employee pension and benefit activities, may be included in accounts 920 and 921, as appropriate.

Note B: Salaries paid to employees during periods of nonoccupational sickness may be charged to the appropriate labor account rather than to employee benefits.

The benefits included are correctly part of A&G in this CAP and in previous CAPs. TURN incorrectly states that, "SCG's (and SDG&E's) practice of placing direct recorded costs for benefits in the A&G loader in the LRMC study is inappropriate. Finally, Disability Benefit expense accounts for 82% of Account 926. This means that SCG has classified Disability Benefit Expense as 56% of the marginal A&G costs, and has not classified any pension and benefits as non-marginal costs." FERC Account 926, however, does **not** include Disability Benefit Expense.

TURN compares 2021 and 2016 Pension and Benefits (P&B) to show a big increase from 2021 P&B to 2016 P&B.[14] The primary reason for the increase is that the 2019 GRC D.19-09-051 increased the level of qualified pension funding. For SoCalGas's Marginal Cost entry for Employee Pensions & Benefits, TURN is using the service cost value from the company's 2021 10K of $114 million. This cost only includes Employee Pensions and excludes Benefits. Cal Advocates adjusts Employee Pensions & Benefits to $8 thousand based on A&G Salaries marginal portion percentage. SoCalGas's Employee Pensions & Benefits from the FERC Form 2 of $228 million is the correct marginal cost.

V. MARGINAL COST ESTIMATION FACTORS

A. TURN's Proposal for Real Economic Carrying Charge Should Be Rejected

TURN proposes to update the Real Economic Carrying Cost (RECC) component of the Rental Method applied to Customer costs to reflect the rate of return (ROR) authorized in D.22-12-031, as modified by D.23-01-002, for SoCalGas and SDG&E. This would replace 7.30% with the currently authorized rate of 7.10% for SoCalGas and insert the currently authorized ROR of 7.18% for SDG&E.[15] SoCalGas and SDG&E would need to update all elements of the cost studies with 2022 data, including 2022 O&M cost data making it infeasible to incorporate the proposed updates to the Real Economic Carrying Charge factors.

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[14] Ex. TURN-02 (McGovern) at 16-18.

[15] *Id.* at 4.

VI. COST ALLOCATION

A. Indicated Shippers' Proposals

In this CAP, consistent with how it did in prior cost allocation proceedings, SoCalGas proposes to allocate high pressure distribution and local transmission costs across customer classes using Cold Year Peak Month gas demand, allocate backbone transmission costs across customer classes using Cold Year gas demand and allocate storage load balancing and storage balancing plus Average Year gas demand. Indicated Shippers proposes instead to allocate all high-pressure distribution, local transmission and backbone costs among customer classes using Peak Day gas demand. SoCalGas proposes to allocate storage load balancing and storage balancing by Average Year demand. The Indicated Shippers recommends allocating storage load balancing and storage balancing a combination of the volumetric Average Year gas demand allocator weighted by 17.2% and an Excess Demand (Average Daily Throughput Cold Year less Peak Day) allocator weighted by 82.8%.[16] SoCalGas does not agree with Indicated Shippers' recommendation because it is not consistent with the Commission-adopted methodology to allocate these functional costs across customer classes. The Commission's Long Run Marginal Cost decision (D.92-12-058), which was a litigated outcome, clearly stated that SoCalGas's high pressure distribution and local transmission costs are to be allocated using Cold Year Peak Month gas demand as the decision found that Cold Year Peak Month gas demand is the appropriate cost driver or marginal demand measure for these two functions.[17] Similarly, D.92-12-058 clearly stated that the marginal demand measure for SoCalGas's backbone transmission costs is Cold Year gas demand.[18] SoCalGas's cost allocations following this decision have

[16] Indicated Shippers' Direct Testimony (Collins) at Schedule BCC-2.

[17] See D.92-12-058 at 72 (COL 2).

[18] *Id.*

consistently used the D.92-12-058 marginal demand measures. In the 2016 TCAP Phase 1 decision (D.16-06-039), the Commission, through its adoption of a settlement agreement, authorized results based on the use of Average Year Throughput for allocating Load Balancing costs, which continued the longstanding practice of allocating these costs in this manner.

Indicated Shippers' proposed marginal demand measure of Peak Day gas demand for high pressure distribution, local transmission and backbone transmission functional cost allocation across customer classes will lead to significant cost shifts from noncore customers to core customers. Indicated Shippers' proposed combination storage load balancing and storage balancing allocation will also lead to significant cost shifts from noncore customers to core customers. Therefore, the Commission should reject these recommendations.

B. TURN's Proposals for Cost Allocation

TURN recommends SoCalGas and SDG&E scale the LRMC of distribution to the test year distribution revenue requirement only, and base transmission and storage rates on the *actual revenue requirements* for those functions in the year for which rates are being set. Another recommendation is to direct the SEUs, in this GRC and CAP cycle and certainly in the next, to follow PG&E's example by fully functionalizing the gas revenue requirement requested in its GRC into transmission, storage and distribution components (and the sub-categories of each), such that the costs assigned to each function are current and consistent. Once the GRC decision is issued, the *actual adopted figures* (for the test year and each of the attrition years) should replace those originally requested, and the resulting rates recalculated to fully recover the authorized revenue requirement by functional category.[19] SoCalGas and SDG&E do not have

[19] Ex. TURN-01 (Florio) at 2-3.

the GRC Capital and O&M data by functional category available for these TURN recommendations.

TURN recommends that the SEUs in future CAP applications follow PG&E's approach to presenting its proposed cost allocations, by *first* showing the impact of its requested GRC increase (assuming existing allocation methodologies and factors remain in place) and *then*, separately, showing the impacts of the changes proposed in the CAP application (including updated throughput figures and revised allocation factors).[20] SoCalGas and SDG&E agree with this recommendation.

This concludes my prepared rebuttal testimony.

[20] *Id.*