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BEFORE THE PUBLIC UTILITIES COMMISSION

OF THE STATE OF CALIFORNIA

Application of San Diego Gas & Electric Company (U902G) and Southern California Gas Company (U904G) to Recover Costs Recorded in their Pipeline Safety and Reliability Memorandum Accounts.	Application No. 14-12-016 (Filed December 17, 2014)

REPLY COMMENTS OF THE UTILITY REFORM NETWORK
ON THE PROPOSED DECISION OF ALJ MASON

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Pursuant to Rule 14.3 of the Commission's Rules of Practice and Procedure, The Utility Reform Network (TURN) submits these opening comments on the Proposed Decision (PD) of Administrative Law Judge (ALJ) Mason. TURN's reply comments address the opening comments of Southern California Gas Company (SoCalGas) and San Diego Gas & Electric Company (SDG&E), and Southern California Generation Coalition (SCGC).

I. The Commission Should Deny Rate Recovery of the PSEP-Specific Insurance Costs Due To The Utilities' Failure To Make Any Showing of Reasonableness, Despite the $2 Million They Seek To Recover From Customers.

SoCalGas and SDG&E ask the Commission to modify the Proposed Decision to permit the utilities to recover approximately $2 million of PSEP-specific insurance costs or, in the alternative, to have a second chance to establish the reasonableness of those costs. The Commission should disallow recovery of these costs, as called for in the Proposed Decision. The utilities had every opportunity to attempt to establish the reasonableness of these costs for rate recovery purposes, but provided literally nothing other than a testimony footnote and a listing of the cost in workpapers. The testimony footnote acknowledged that, unlike the other overheads, this category of insurance had <u>not</u> been identified in the original PSEP showing in A.11-11-002. Yet SoCalGas and SDG&E saw fit to merely list the cost and nothing more.

The utilities claim they "satisfied their burden of proof by identifying the PSEP-specific overhead amount."[1] In other words, in the view of SoCalGas and SDG&E, their having listed a $2 million cost, with nothing more, satisfies their burden of proof and permits the Commission to deem that cost reasonable and appropriate for rate recovery. Such a statement is so wrong-headed, not to mention contrary to fundamental principles of cost-of-service ratemaking, that the Commission is obliged to disallow rate recovery just to set them straight.[2] The entire direct

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[1] SoCalGas and SDG&E Opening Comments, p. 3.

[2] Similarly wrong-headed statements appear when the utilities assert that no party demonstrated that the costs were unreasonable, and that the Proposed Decision does not find that SEU failed to behave as reasonable managers in procuring insurance. SoCalGas/SDG&E Opening Comments, pp. 2 and 3. Where the utilities have failed to make a showing of reasonableness, there is no need for a party to

testimony on this PSEP-specific loader is the word "Insurance" with a footnote stating that this is additional PSEP-specific insurance.[3] And the workpapers to support this cost is, again, nothing more than the word "Insurance" and the associated cost figure.[4] It's rare that a party can replicate the entirety of the record evidence within the page limits of reply comments. But here it is possible because SoCalGas and SDG&E literally offered next to nothing to establish the reasonableness of this $2 million cost.

SoCalGas and SDG&E provide a new explanation regarding how the "mechanics" of the PSEP-specific insurance overhead loader were consistent with other overhead loaders, and claim that because the mechanics are similar, they "did not address the PSEP-specific insurance overhead allocation individually."[5] The Commission must understand that this proves TURN's point and demonstrates that the Proposed Decision's treatment is not only correct but also the only legally permissible outcome. The other overheads come from other areas of the utilities' operations that are subject to review in general rate cases.[6] The PSEP-specific insurance loader is unique in that it does <u>not</u> come from an amount that is the product of review in another Commission proceeding. SoCalGas and SDG&E may think it serves their purposes now to treat the PSEP-specific insurance loader as if it were just like all the other loaders. But while it does not say much, the direct testimony makes clear that at the time they submitted their application, they understood that this was a new and different animal as compared to the rest of their loaders.[7]

The Commission must ignore the utilities' claims that the PSEP-specific insurance that is the subject of this loader was "subject to PSEP's competitive bidding efforts."[8] As the cited testimony makes clear, such contracts are "generally competitively bid" except where they are

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demonstrate a cost's unreasonableness, nor is the Proposed Decision obliged to make a finding on an issue not addressed in the utilities' testimony.

[3] Ex. SCG-11 (Austria Direct Testimony), p. 4, fn. 12.

[4] Ex. SCG-12 (Austria Workpapers), p. WP-IV-03.

[5] SoCalGas and SDG&E Opening Comments, p. 4.

[6] The other overheads include things such as payroll tax, workers' compensation, A&G, and benefits.

[7] Ex. SCG-11 (Austria Direct Testimony), p. 4, fn. 12.

[8] SoCalGas and SDG&E Opening Comments, p. 4, fn. 5, citing Ex. SCG-09 (Mejia) at 17.

not.[9] There is no record evidence as to whether the PSEP-specific insurance cost was, in fact, the product of a competitive bid. Similarly, the utilities' attempt to point to a discovery request not part of the evidentiary record as if it provided "additional explanation" of the PSEP-specific insurance overhead is without merit.[10] While TURN usually objects to reliance on non-record material in comments on a Proposed Decision, here we invite the Commission to look at the responses cited by SoCalGas and SDG&E. The word "insurance" does not appear in the data request responses, which are generally limited to an explanation of how overheads were applied to project cost categories. The denial of rate recovery is not due to how the PSEP-specific cost was allocated, but rather due to the abject failure to even address, much less establish, the reasonableness of the associated cost.

SoCalGas and SDG&E ask, in the alternative, that the Commission give them another bite at the apple, arguing that because this was the first PSEP after-the-fact reasonableness review, it would be appropriate to allow them an opportunity to "further demonstrate the reasonableness of these costs in a future PSEP cost recovery proceeding."[11] Given where things stand today in this proceeding, such relief would only be appropriate if the Commission were to also provides similar opportunities to ORA, TURN, and SCGC to have a second crack at demonstrating the **un**reasonableness of all of the PSRMA costs deemed reasonable in the Proposed Decision. The second chance to make one's case cannot be limited to just the utilities.

II. The Commission Should Direct That High Pressure Distribution Costs Are To Be Allocated Based On Peak Month or Peak Day Demand, Consistent With The Functional Allocation Set Forth In The Utilities' Direct Testimony.

The direct testimony of SoCalGas and SDG&E explained that the utilities proposed allocating high pressure distribution (HPD) costs on a functional basis, consistent with D.14-06-007.[12] And for that functional allocation of HPD costs, the utilities used a peak month demand by class (for SoCalGas) and a peak day demand by class (for SDG&E). The result is that the vast

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[9] Ex. SCG-09 (Mejia) at 17, ll. 15-21.

[10] SoCalGas and SDG&E Opening Comments, p. 5.

[11] SoCalGas and SDG&E Opening Comments, pp. 5-6.

[12] Ex. SCG-15 (Chaudhury Direct), p. 1.

majority of HPD costs are assigned to core customers; for SoCalGas, 81% of the HPD costs are allocated to core customers, while for SDG&E, 92% is assigned to core customers.[13]

SCGC has advocated a Long Run Marginal Cost (LRMC) allocation that would assign an even greater proportion of HPD costs to the core, with a corresponding reduction of the share assigned to non-core customers. SCGC's comments ask the Commission to modify the Proposed Decision to have HPD costs allocated by the LRMC methodology.

The Commission should reject SCGC's request with regard to the "LRMC methodology." However, TURN agrees with SCGC that the Commission should put this issue to rest here by being very explicit about the allocation to be used for HPD costs of PSEP.

SCGC asserts that this is beyond a "merely academic" concern.[14] TURN agrees with this statement as well, but submits that one step toward making the concern less academic is to lay out the impacts of the different outcomes under consideration, a showing notably absent from SCGC's comments. However, the information is available in the SCGC-sponsored testimony on this issue, where Figure 17 sets out cost allocation figures as proposed by SoCalGas based on its proposed marginal costs.[15] Looking at the HPD costs in isolation, one can calculate from the figures on line 16 the 81% allocation that core customers would bear of the total HPD amount, consistent with SoCalGas's direct testimony on how to allocate HPD PSEP costs.[16] Figure 17 also indicates that SCGC's preferred LRMC method is effectively a mash-up of four separate cost categories (HPD, Medium Pressure Distribution (MPD), customer costs, and customer service and information). On a combined basis, the "LRMC Costs", whether "unscaled" or "scaled," would result in a total core amount that is 95% of the total.[17] And it is that 95% figure that SCGC proposes for allocation of the HPD costs. Non-core SoCalGas customers would, of course, see their collective share reduced from 19% to a mere 5%.

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[13] *Id.*, p. 2, Table 1.

[14] SCGC Opening Comments, p. 7.

[15] Ex. SCGC-TURN-1, p. 35. To be clear, TURN did not join in this section of the otherwise co-sponsored testimony of Ms. Yap, as indicated in footnote 6 on page 2 of the document.

[16] *Id.*, line 16 of Figure 17.

[17] *Id.*, lines 22, 40 and 41.

The rebuttal testimony of SoCalGas and SDG&E made clear why such an approach is inappropriate, as it would "allocate a portion of HPD Safety Enhancement costs to MPD and Customer-related functions."[18] Put another way, the allocation of PSEP costs associated with the HPD equipment would be allocated using a hybrid allocator that is heavily influenced by MPD and customer-related costs.[19] This is not the case with the HPD allocator proposed by the utilities, which reflects only costs associated with the HPD function.[20] There is no logical reason to allocate PSEP costs associated with HPD facilities based on an allocator that reflects MPD or customer-related costs. But the LRMC allocation SCGC seeks would have just that effect.

Rather than adopt the modification SCGC proposes that specifies an LRMC allocation for HPD costs, the Commission should specify that the functional allocation proposed by SoCalGas and SDG&E is the outcome most consistent with D.14-06-007, as it achieves an allocation consistent with the HPD nature of the costs, without having the allocation substantially changed (to the detriment of core customers) because of how MPD and customer-related costs are allocated. To that end, Conclusion of Law 27 should be modified to read as follows:

> The Commission finds that the method to allocate <u>costs functionalized as</u> high pressure <u>distribution (HPD)</u> shall be <u>a functionalized allocation based on an HPD-specific method, rather than an LRMC allocation that would reflect medium pressure distribution and customer-related costs.</u>

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[18] Ex. SCG-17 (Chaudhury Rebuttal), p. 2.

[19] Figure 17 of Ms. Yap's testimony indicates approximately 96-97% of MPD and customer-related costs were proposed to be assigned to core customers. See lines 4, 10 and 20.

[20] Ex. SCG-17 (Chaudhury Rebuttal), p. 2 ("SoCalGas and SDG&E propose to recover Safety Enhancement costs identified as HPD function-related from customer classes that use HPD service, with allocation across customer classes based on peak month demand as the existing marginal demand measure (cost driver).")

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Respectfully submitted,

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