



CPUC Docket: A.25-09-014
Exhibit Number: TURN-03
Witness: Michel P. Florio

PREPARED REBUTTAL TESTIMONY OF MICHEL PETER FLORIO

ADDRESSING SELECTED ISSUES REGARDING COST ALLOCATION, STORAGE AND LOAD BALANCING FOR THE SEMPRA ENERGY UTILITIES

THE UTILITY REFORM NETWORK

360 Grand Avenue, #150
Oakland, CA 94610
(415) 929-8876

June 15, 2026

Table of Contents

I.	INTRODUCTION.....	1
II.	SUMMARY OF RECOMMENDATIONS.....	2
III.	THE STORAGE CAPACITIES AND RESERVATIONS PROPOSED BY THE SEUs ARE REASONABLE	4
IV.	NSBA BALANCES SHOULD BE ALLOCATED TO ALL CUSTOMERS CONSISTENT WITH CURRENT PRACTICE.....	6
V.	LOAD BALANCING COSTS ARE NOT DRIVEN PRIMARILY BY PEAK DEMAND	7
VI.	PEAK DAY IS NOT AN APPROPRIATE ALLOCATION FACTOR FOR LOCAL TRANSMISSION OR HIGH-PRESSURE DISTRIBUTION COSTS.....	8
VII.	IF ANY SHIFT OF COSTS FROM BACKBONE TO LOCAL TRANSMISSION IS ALLOWED, IT SHOULD NOT BE CALCULATED BASED ON PEAK DAY DEMAND	9
VIII.	CONCLUSION	9

PREPARED REBUTTAL TESTIMONY OF MICHEL PETER FLORIO

I. INTRODUCTION

This Cost Allocation Proceeding (CAP) was filed by the Sempra Energy Utilities (SEUs), Southern California Gas Company (SoCalGas) and San Diego Gas & Electric Company (SDG&E), in order to update their natural gas demand forecasts for the 2027-2029 rate period, allocate their base margin (typical General Rate Case (GRC) costs, which exclude the gas commodity and certain balancing accounts) costs among customer classes, and design the rates that customers will pay. I submitted Prepared Direct Testimony on behalf of The Utility Reform Network (TURN) on May 15, 2026, addressing a number of the SEUs' cost allocation proposals (Ex. TURN-01). Ms. Sylvie Ashford also submitted direct testimony on behalf of TURN on residential rate design issues (Ex. TURN-02).

Opening testimony has also been submitted in this proceeding by a number of other parties in addition to TURN, including the Public Advocates Office (CalAdvocates), the Southern California Generation Coalition (SCGC), the Indicated Shippers (IS), and others. This limited rebuttal testimony will respond to the testimony submitted by witness Collins on behalf of IS (Ex. IS-01) and, to a limited extent, the testimony of witness Yap on behalf of SCGC (Ex. SCGC-01).

Before addressing the issues where I disagree with these other witnesses, I want to express my appreciation to Mr. Collins for acknowledging my long-held position that Asset Retirement Obligations (AROs) have no place in an embedded cost allocation.¹ When two experienced and independent experts who disagree on almost everything else both conclude that a utility practice is contrary to fundamental ratemaking principles, this Commission must take it

¹ Ex. IS-01, pp. 25-30

seriously and reconsider its prior acceptance of AROs. The SEUs do not include AROs in their rate base in the GRC and logically should not then use AROs to allocate that rate base to customers in this CAP.

II. SUMMARY OF RECOMMENDATIONS

I offer the following recommendations in this rebuttal testimony, which will be addressed in more detail below. This Commission should:

- (1) Adopt storage functional capacities based on median availability as proposed by the SEUs, not maximum capacities as suggested by IS and SCGC, because maximum capacities are not available for customer use most of the time.
- (2) Adopt the SEUs' proposed increase in the amount of inventory assigned to Load Balancing service from 8 Bcf to 12 Bcf, because cumulative customer imbalances have exceeded 8 Bcf in recent history, resulting in Core or UBS inventory space being used for Load Balancing instead, without compensation.
- (3) Reject the SEU proposal to divert revenue from the NSBA to the FARSMA, direct that the overcollection in the NSBA continue to be allocated to both core and noncore customers and reject the IS proposal to give it only to noncore.
- (4) Adopt the SEUs' proposed allocation of Load Balancing costs by equal cents per therm and reject the IS proposal to allocate based on peak day demand, because imbalances occur throughout the year and there is no evidence that they occur disproportionately during peak demand periods.
- (5) Reject the IS proposal to allocate Local Transmission and High-Pressure Distribution costs by peak demand, because peak demand no longer drives the incurrence of costs on these systems.
- (6) Reject the SEUs' proposal to reallocate costs from Backbone to Local Transmission, but if any reallocation is allowed, base it on annual use of the system not peak day demand as recommended by IS.

//

III. THE STORAGE CAPACITIES AND RESERVATIONS PROPOSED BY THE SEUs ARE REASONABLE

Both IS witness Collins and SCGC witness Yap object to the storage *capacity values* that the SEUs propose to make available to the market for the Core Reservation, Load Balancing and Unbundled Storage (UBS), as shown in Chapter 1, Table MMD-1, on page MMD-3, arguing that these values should be based on the *maximum physical* capacities of the various storage sub-functions, primarily injection and withdrawal, rather than the *median available* capacities. While this proposal has surface appeal, I believe that it would ultimately prove counter-productive and problematic for customers, the utilities and this Commission.

While witness Yap is correct that using the larger maximum physical capacities would reduce the *unit cost* of storage assets by spreading the fixed costs over larger volumes,² those larger volumes **would not actually be available for customer use most of the time**, since they are, by definition, *maximum* values. As utility witness Dandridge stated, peak injection capacity is typically achieved at low storage inventory levels.³ Similarly, peak withdrawal capacity is typically achieved when storage inventory is at or near full capacity. But those conditions do not prevail during most of the year, meaning that the maximum capacities would only rarely be fully available. As a result, customers would need to reserve greater amounts of capacity to meet their actual needs, negating the benefit of lower per-unit rates. Further, the routine unavailability of the capacities that have been reserved would surely lead to frustration and customer complaints, as parties would perceive that they are not really “getting what they paid for.” Just as the SEUs do not market quantities of Backbone Transmission Service (BTS) that they do not expect to be

² Ex. SCGC-01, page 4

³ p. MMD-4

physically available, they should not market storage capacity that is not expected to be available due to mandated safety work.

The company proposal would reserve storage capacity based on the *median* amount of injection and withdrawal that has historically been available, meaning that the actual quantity available for customer use would be greater than that amount roughly half the time and less than that about half the time — but reasonably accurate on average. As witness Dandridge explained:

When the actual injection/withdrawal capacity available on any day is higher or lower than the proposed injection/withdrawal capacity for summer and winter, the daily capacity allocations to each of the classes will be prorated to the percentages indicated in Table 1.⁴

Under this approach customers could expect that the capacity reserved for them would actually be available, on average, over time, rather than not fully available nearly all of the time. I fail to understand the appeal of assigning capacity to customer groups that they cannot actually use the vast majority of the time.

Tellingly, neither Mr. Collins nor Ms. Yap explain how the maximum capacity values that they propose would be assigned to Core, Load Balancing and UBS based on the need for those services. Presumably, those amounts would be larger than the values proposed by company, since capacity that is not actually available cannot meet customers' actual needs. In other words, we could end up right back where we started in terms of cost allocation, albeit with a dash of false advertising thrown in for good measure. This Commission cannot adopt storage capacity values without knowing how they will be allocated to the various storage services.

Mr. Collins asserts that: "it is the 1-in-10 cold day reliability design criteria (where both Core and Noncore demands are served) that drive the fixed capital investments and O&M costs

⁴ pp. MMD-4 and MMD-5

associated with SoCalGas's storage facilities."⁵ That is not precisely true. The 1-in-10 cold day standard applies to the *combination* of backbone transmission and storage withdrawal capacity, not just to storage alone. Moreover, since the Aliso Canyon incident, the storage capacity actually available has been more a function of CalGEM regulations and safety requirements than of any theoretical reliability need. Curtailments occurred when combined outages of storage and backbone capacity precluded the standard from being met, which fortunately no longer appears to be the case today.

Mr. Collins specifically objects the SEUs' proposed increase in the amount of storage inventory assigned to the Load Balancing function from 8 Bcf to 12 Bcf.⁶ As company witness Dandridge explained:

The 12 Bcf of storage inventory allocation will be used to provide 10% monthly balancing when customers create positive imbalances by delivering more gas into the system than what they use, up to 12 Bcf on a combined basis. When positive imbalances are created by customers, there needs to be inventory space available within storage to accommodate supply over deliveries by customers.⁷

The 10% monthly balancing rule allows customers to over-deliver gas in excess of their consumption by 10% in a given month, and customers are then allowed roughly another month to trade those imbalances or otherwise bring themselves back into compliance before penalties are assessed. That means that a cumulative positive imbalance of 10% of monthly demand could easily exist at the end of a month and persist or even grow to some extent before any consequences would apply, incenting customers to reduce their imbalances. The company forecasts that peak month demand could be as high as about 90 Bcf,⁸ meaning that a positive

⁵ Ex. IS-01, p. 7

⁶ Ex. IS-01, pp. 9-10

⁷ p. MMD-8

⁸ Chapter 5, page EM-12, Table EM-8

imbalance of 10% or 9 Bcf could exist at the end of such a month and even grow before the responsible customers suffered any penalties at the end of the *following* month.

Over the last five years, cumulative positive customer imbalances have been as high as 9.77 Bcf (well more than the 8 Bcf currently reserved for Load Balancing) and exceeded 8 Bcf as recently as December 2025.⁹ When cumulative imbalances exceed the Load Balancing inventory reservation, someone else's inventory space must be used (either from the Core Reservation or UBS), but no compensation is provided to the party whose storage space is pre-empted by customers not in balance.

12 Bcf is a reasonable inventory reservation for Load Balancing, given past history and the potential for cumulative positive imbalances to reach that level.

IV. NSBA BALANCES SHOULD BE ALLOCATED TO ALL CUSTOMERS CONSISTENT WITH CURRENT PRACTICE

Mr. Collins objects to the SEUs' proposal to divert revenues from the Noncore Storage Balancing Account (NSBA) to pay off the undercollected balance of Off-System Delivery (OSD) implementation costs in the Firm Access and Storage Rights Memorandum Account (FARSMA). As indicated in my direct testimony, I agree with him on that point. However, Mr. Collins goes on to propose that any overcollected (and presumably undercollected) balance in the NSBA be assigned exclusively to noncore customers.¹⁰ This would represent a marked departure from current practice, in which NSBA balances are allocated to both the core and noncore market segments.¹¹ Balances in the NSBA result when revenues from Unbundled Storage (UBS) service and Hub Services (parking and lending) differ from the costs allocated to UBS. Those balances

⁹ SEU response to TURN Data Request #2, Question 4

¹⁰ Ex. IS-01, p. 24

¹¹ SoCalGas Advice Letter 6548-G-A, filed October 27, 2025, shows that the NSBA is allocated to both core and noncore in Attachment B at line 45.

can be either positive or negative, but Mr. Collins has his eye on the current OVER-collected balance of about \$27 million.¹²

There is no good reason to alter the established allocation of NSBA balances to all customer classes. These revenues result from the marketing of storage capacity that is in excess of the needs for the Core Reservation and Load Balancing, either in the form of UBS service (to which costs are allocated) and shorter-term Hub Services (which are not allocated any costs). Hub Services can make use of temporarily unused system capacity, and UBS service can generate more revenue than has been allocated to that service (something that cannot happen with the Core Reservation or Load Balancing service). It is appropriate that both Core and Load Balancing customers benefit from those revenues (or share in any losses), because they pay for the balance of storage capacity on the system. Mr. Collins' opportunistic proposal to grab the entirety of the current \$27 million NSBA overcollection for the noncore should be rejected.

V. LOAD BALANCING COSTS ARE NOT DRIVEN PRIMARILY BY PEAK DEMAND

Mr. Collins asserts that Load Balancing costs should be allocated between core and noncore based on peak day demand, rather than by equal cents per therm as proposed by the SEUs.¹³ His argument is based on two propositions—that core loads are peakier than noncore, and that core has a lower load factor than noncore—which are true but just two sides of the same coin. Importantly, the core also maintains a large assignment of storage capacity under the Core Reservation to address the peaky, low load factor nature of its demand. Mr. Collins has presented no factual evidence whatsoever, beyond broad generalizations, to support his theory that core contributes proportionately more than the noncore to system imbalances, which are the

¹² Ex. IS-01, p. 24

¹³ Ex. IS-01, pp. 41-49

differences between daily deliveries and daily consumption. If there were no Core Reservation, perhaps Mr. Collins' argument would carry weight, but given the large amount of storage that core already uses and pays for, his assertions are unsupported. There is no evidence in the record that system imbalances are greater on days of high peak demand than on other days throughout the year. Absent any factual basis, Mr. Collins' argument must be rejected.

VI. PEAK DAY IS NOT AN APPROPRIATE ALLOCATION FACTOR FOR LOCAL TRANSMISSION OR HIGH-PRESSURE DISTRIBUTION COSTS

At pages 37 through 40 of his testimony Mr. Collins argues that both local transmission costs and high-pressure distribution costs should be allocated based on peak day demand rather than cold year peak month demand. This is an old refrain that Mr. Collins and his predecessor noncore industrial representatives have been repeating for about 40 years now, and this Commission has never once agreed with them. It is especially inappropriate now because, as discussed in my direct testimony, peak day demand is no longer driving utility expenditures.

The utility systems today have plenty of capacity because load is declining, not increasing, and utility investments are almost exclusively for maintaining the safety and reliability of current throughput throughout the year, not exclusively or even primarily for meeting peak demands. Whatever merit a peak day allocation may have had in the past — and the Commission has found it has had little — it certainly does not make sense in a declining throughput scenario where the SEUs' spending is almost exclusively focused on assuring that their reduced demands can continue to be met safely and reliably. Lack of growth means that investments to meet increased peak demands are unnecessary.

This no doubt represents a sea change in utility cost incurrence in recent years, and it calls for *increased* recognition of annual throughput as the primary driver of utility costs, not an

embrace of outdated methodologies that the Commission has never accepted in the past. Mr. Collins recommendations should be soundly rejected.

VII. IF ANY SHIFT OF COSTS FROM BACKBONE TO LOCAL TRANSMISSION IS ALLOWED, IT SHOULD NOT BE CALCULATED BASED ON PEAK DAY DEMAND

Mr. Collins agrees with my position that the SEUs' proposed transfer of costs from backbone transmission to local transmission is unreasonable and unsupported, going so far as to describe it as an "artifice".¹⁴ My only disagreement with him is over how the cost shift should be calculated if it is allowed at all. He, predictably, argues that peak day demand should be used to calculate the cost shift.¹⁵ But peak day demand is not the criterion the SEUs use for their backbone systems. The backbone system must be large enough to meet cold-year *annual* demand, not peak demand, and in fact it has well more than enough capacity to meet that standard even when some facilities are out of service. Therefore, if any reallocation of costs from backbone to local is allowed (which Mr. Collins and I agree it should NOT be), that allocation should follow the approach described in my direct testimony.

VIII. CONCLUSION

In this rebuttal testimony I recommend that this Commission do the following:

- (1) Adopt storage functional capacities based on median availability as proposed by the SEUs, not maximum capacities as suggested by IS and SCGC, because maximum capacities are not available for customer use most of the time.
- (2) Adopt the SEUs' proposed increase in the amount of inventory assigned to Load Balancing service from 8 Bcf to 12 Bcf, because cumulative customer imbalances have exceeded 8 Bcf in recent history, resulting in Core or UBS inventory space being used for Load Balancing instead, without compensation.

¹⁴ Ex IS-01, p. 31, line 6

¹⁵ Ex. IS-01, pp. 31-32

- (3) Reject the SEU proposal to divert revenue from the NSBA to the FARSMA, direct that the overcollection in the NSBA continue to be allocated to both core and noncore customers and reject the IS proposal to give it only to noncore.
- (4) Adopt the SEUs' proposed allocation of Load Balancing costs by equal cents per therm and reject the IS proposal to allocate based on peak day demand, because imbalances occur throughout the year and there is no evidence that they occur disproportionately during peak demand periods.
- (5) Reject the IS proposal to allocate Local Transmission and High-Pressure Distribution costs by peak demand, because peak demand no longer drives the incurrence of costs on these systems.
- (6) Reject the SEUs' proposal to reallocate costs from Backbone to Local Transmission, but if any reallocation is allowed, base it on annual use of the system not peak day demand as recommended by IS.

This completes my prepared rebuttal testimony. Thank you.