Application No: A.11-11-002
Exhibit No.:
Witness: Jason Bonnett

In the Matter of the Application of San Diego Gas & Electric Company (U 902 G) and Southern California Gas Company (U 904 G) for Authority to Revise Their Rates Effective January 1, 2013, in Their Triennial Cost Allocation Proceeding.	A.11-11-002 (Filed November 1, 2011)

REVISED REBUTTAL TESTIMONY OF

JASON BONNETT

SAN DIEGO GAS & ELECTRIC COMPANY

AND

SOUTHERN CALIFORNIA GAS COMPANY

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

March 15, 2013

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REVISED REBUTTAL TESTIMONY OF

JASON BONNETT

I. INTRODUCTION

My name is Jason Bonnett. My business address is 8330 Century Park Court, San Diego, California 92123-1530. I have previously testified in this proceeding.

II. PURPOSE

The purpose of this rebuttal testimony is to respond to and rebut the testimony of The Utility Reform Network (TURN) regarding San Diego Gas and Electric Company's (SDG&E's) proposed residential customer charge and Clean Energy Fuels Corp. (Clean Energy) regarding their proposed testimony on the compression rate adder.

III. RESIDENTIAL CUSTOMER CHARGE

SDG&E proposes to implement a residential customer charge of $0.16348 per meter per day. In its testimony, TURN recommends denial of SDG&E's proposal. On this issue, TURN provides only a cursory discussion at the end of its testimony and relies on the same arguments from its protest to A.11-11-002[1], which SDG&E responded to in its March 16, 2012 Supplemental Testimony. TURN claims that SDG&E has not adequately distinguished its proposal from the California Public Utilities Commission (Commission) Decision (D.) 11-05-047 regarding Pacific Gas & Electric's (PG&E) customer charge proposal. Additionally, TURN states that SDG&E does not address the conservation signal impact of reducing the non-baseline rate. In fact, SDG&E addressed both of those concerns in its March 16, 2012 Supplemental Testimony, and will address them again below.

First, SDG&E's Supplemental Testimony distinguishes between the Commission's PG&E decision and SDG&E's proposal by showing that the legal impediments present in

PG&E's proceeding do not apply to SDG&E.[2] PG&E was proposing an electric residential customer charge and the statutory restrictions discussed in D.11-05-047 only apply to electric rates. Additionally, SDG&E's supplemental testimony showed the rate impacts of its proposed residential customer charge was significantly less than PG&E's proposal and the threshold discussed in D.11-05-047.

Second, TURN relies on outdated information in support of its conservation signal argument. On page 18, TURN comments that the reduction in the non-baseline residential rate of $0.05/therm sends the wrong price signals. However, this rate impact relies on SDG&E's original testimony filed on November 11, 2011. SDG&E subsequently updated rates on June 1, 2012, pursuant to the February 24, 2012 scoping memo to reflect 2012 rates and again on September 18, 2012. When the customer charge is included, the current non-baseline rate decreases by only $0.01/therm, from $0.69934 to $0.68888 hardly enough of a difference to warrant concern regarding any type of conservation price signal that currently exists.

IV. NGV COMPRESSION RATE ADDER

In its testimony, Clean Energy claims that SoCalGas' and SDG&E's compression rate falls "below the fully allocated cost of utilities' compression services."[3] As a result, Clean Energy proposes the Commission: i) clarify that costs common to public and private refueling at a dual use station should be allocated to both public and private refueling on an embedded cost methodology; and ii) clarify that all non-labor or other corporate overheads are included in the compression rate adder calculation.[4] Additionally, Clean Energy puts forth a proposal averaging

[1] Protest of The Utility Reform Network, dated January 13, 2012.
[2] A.11-11-002, Supplemental Direct Testimony of Jason Bonnett, dated March 16, 2012, pages 3-4.
[3] Prepared Direct Testimony of Clean Energy at 3.
[4] Prepared Direct Testimony of Clean Energy at 13.

the public and private costs of NGV stations and establishing a compression rate adder of $1.19/therm. SoCalGas and SDG&E respond to Clean Energy's proposals below.

A. SoCalGas and SDG&E's Proposed Rate is based on Previously Approved Methodology

Clean Energy's testimony discusses at length the alleged problems with SoCalGas and SDG&E's compression rate calculations. Clean Energy alleges that these deficiencies are based on failure of SoCalGas and SDG&E to adhere to the requirements of D.95-11-035. However, the Commission has approved of SoCalGas and SDG&E's methodology and NGV rates in prior instances, including Resolution G-3380 (approving Advice Letter 1510-G-A and Advice Letter 3475 which requested authority to increase the compression rates charged to customers that use the utility's public access NGV fueling stations) and D.09-11-006 (the 2009 BCAP). Seemingly in order to get around this Commission precedent, Clean Energy argues:

> Clean Energy has not been actively engaged in the development of these rates over the past 15 years, and the SEUs exact methods are unclear. In fact few, if any, stakeholders have had a reason to delve deeply into these rates given the narrow scope and limited revenue requirement at issue. From what I can gather, however, the SEUs have not historically used a *long-run marginal cost* methodology as originally contemplated by D.95-11-025[5]; instead, they seem to have employed a very rough approximation of an embedded cost rate.[6]

This is incorrect. Clean Energy has been a participant in past Commission actions to adjust SoCalGas and SDG&E's NGV rates, has filed comments in support of the same, and has even argued in PG&E's most recent cost allocation proceeding (PG&E BCAP)[7] that SoCalGas and SDG&E's methodology is appropriate.

[5] Clean Energy references D.95-11-025 in its testimony, but I believe the reference intended was to D.95-11-035 and respond in regards to that decision.
[6] Prepared Direct Testimony of Clean Energy at 7.
[7] Application 09-05-026.

In March of 2005, SoCalGas and SDG&E filed Advice Letters 1510-G-A and 3475 proposing revisions to NGV rates. In response, Clean Energy filed a letter of support for the Advice Letters, stating:

> SoCalGas and SDG&E have stated that the proposed revisions in the Compression Charge reflects the fully allocated costs for compression service. Accordingly, if the Commission approves the Advice Letters, the non-NGV customers of the two utilities will not be forced to subsidize the utilities' NGV customers. Furthermore, Clean Energy will not be faced with a competitive disadvantage via the utilities' artificially low compression rates. Because non-NGV ratepayers will no longer subsidize the utilities' below cost compression rate and Clean Energy will not be faced with a competitive disadvantage, the Advice Letters are in the public interest. Accordingly, Clean Energy urges the Commission to approve the Advice Letters.[8]

Subsequently, the Commission issued Resolution G-3380 approving the revisions to the NGV rates. The same methodology supported by Clean Energy in Resolution G-3380 was next used in SoCalGas and SDG&E's 2009 BCAP, which was approved in D.09-11-006.

In the instant proceeding, Clean Energy has taken the position that "the SEUs have not historically used a *long-run marginal cost* methodology as originally contemplated by D.95-11-025;[9] instead, they seem to have employed a very rough approximation of an embedded cost rate."[10] Clean Energy notes that this methodology appears to stem from Advice Letters 1510-G-A and 3475: "The basic methodology that was used in developing the proposed compression rate adders for SoCalGas and SDG&E is based on updates of a cost study methodology which apparently was first developed in 2005 to support AL 3475-A, in which SoCalGas proposed to increase its CRA from $0.35 to $0.75 per therm."[11] Clean Energy then concludes "This methodology, while clearly not a long run marginal cost approach, does not even represent a

[8] Clean Energy's March 24, 2005 Letter Re: Support for SoCalGas Advice Letter 3475 & SDGE Advice Letter 1510-G.
[9] See footnote 6.
[10] Prepared Direct Testimony of Clean Energy at 7.
[11] Prepared Direct Testimony of Clean Energy at 11.

typical embedded cost approach. Instead, it appears to be an incremental cost methodology using only a sample of actual embedded costs and ratios for estimation."[12]

In PG&E's BCAP, however, Clean Energy takes a very different position, demonstrating knowledge of how SoCalGas and SDG&E developed their NGV rates and reaffirming its approval of the same. There, Clean Energy noted that Advice Letters 1510-G-A and 3475 "were proposed as a result of SoCalGas' and SDG&E's own initiative and their desire to have NGV rates in place which complied with D.95-11-035 by fully recovering the costs that were incurred by each of the two utilities in providing public access NGV refueling services . . . In approving the Advice Letter filings of SoCalGas and SDG&E the Commission also approved an embedded-cost methodology for developing NGV refueling rates which recovered the utilities' average costs of providing third party refueling services."[13] Noting the propriety of the Commission's Resolution G-3380, Clean Energy went on to discuss the methodology employed by SoCalGas and SDG&E:

> Attachment C to SoCalGas' Advice Letter 3475-A which was approved by Resolution G-3380 clearly shows that the costs it took into account in proposing a compression surcharge of $0.74624 per therm included total fixed and variable costs for providing third party refueling services. The surcharge was not at all based solely or primarily on variable costs or so-called "incremental costs." Attachment B to SDG&E's Advice Letter 1510-G-B which was also approved in Resolution G-3380, clearly shows that the costs it took into account in proposing a compression surcharge of $0.80063 per therm included the total fixed and variable costs associated with providing public access refueling services. What SoCalGas and SDG&E did was to include all of the fixed and variable costs associated with providing third party refueling services and then to calculate the appropriate compression surcharge using an average cost approach. No costs associated with refueling the SEUs' fleet were included in the calculation. As a result, SoCalGas' and SDG&E's approach, unlike PG&E's, identified the costs associated with third party refueling which were in addition to the costs of providing fleet refueling services. But the costs included, as PG&E proposes, were not based primarily on the variable costs of providing refueling services. Consequently, the

[12] Prepared Direct Testimony of Clean Energy at 12.
[13] A.09-05-026, Clean Energy Opening Brief at 23.

> reference to "incremental cost" in Resolution G-3380 was a reference to the fact that the costs considered were those third party costs that are in addition to the costs of providing fleet refueling services.[14]

In fact, a review of PG&E's BCAP reveals extensive discussion by Clean Energy of the positives of SoCalGas and SDG&E's efforts. There, according to Clean Energy, SoCalGas and SDG&E's compression rate adder is an accomplishment:

> In contrast to PG&E, the recently adopted decision (D.09-11-006, issued on 11/24/2009) in SoCalGas' and SDG&E's BCAP proceedings approved a proposed "compression cost adder" which was based solely on the estimated cost of providing third party refueling services using an embedded cost approach. The task which PG&E found impossible to accomplish was accomplished by SoCalGas and SDG&E. The SEUs "compression rate adder" was based on the average unit cost of providing third party refueling services, including both the fixed and variable costs of providing public access refueling.[15]

Indeed, SoCalGas and SDG&E's compression rate adder is even lauded by Clean Energy as an example to be followed:

> In contrast, SoCalGas and SDG&E estimated the total costs (including fixed and variable costs) associated with providing public access refueling services for all of their public access refueling stations. Unlike PG&E, the SEUs did not base their compression rate adders on a small non-representative sample of their stations which exhibit significantly higher than average per station throughput. SoCalGas and SDG&E took all of their station costs and volumes associated with providing public access refueling services into account in the approach they used in setting their compression rate adders.[16]

In past proceedings Clean Energy has supported SoCalGas and SDG&E's methodologies and, as discussed further below, their current opposition is seemingly predicated on misunderstandings of SoCalGas and SDG&E's cost study, common costs, and overhead costs.

[14] A.09-05-026, Clean Energy Opening Brief at 19-20.
[15] A.09-05-026, Clean Energy Opening Brief at 22.
[16] A.09-05-026, Clean Energy Reply Brief at 3.

B. Consistency with Commission Approved Methodology and Weekly Pump Price Data

SoCalGas and SDG&E responded to 11 different data requests from Clean Energy containing over 200 questions and sub-questions on the issue of the compression rate adder. Throughout those responses SoCalGas and SDG&E explain that we have included all of the required costs, consistent with D.95-11-035 and subsequent decisions. For example, D.95-11-035 states: "To provide compressed natural gas, the utility faces costs that include not only the purchase of the commodity, but also the construction and financing of the refueling station, electricity to run compressors, operation and maintenance of the station, and various taxes."[17] Additionally, "If the refueling customer only pays for the gas and electricity, then the customer is not paying the full cost of the product being received. As a result, residential and other ratepayers are subsidizing the sale of compressed natural gas."[18] As was discussed in multiple data responses the methodology used by SoCalGas and SDG&E was first approved by the Commission in 1996 in Resolution G-3191 and used continuously since that time. The most recent Commission approval was in D.09-11-006, the 2009 BCAP, during which the same methodology was not contested by any party.

The SoCalGas and SDG&E methodology used to develop the G-NGV compression rate adder is designed to recover all costs necessary to provide CNG to vehicle operators at SoCalGas and SDG&E public access CNG vehicle refueling stations. These costs include CNG vehicle refueling station capital costs, depreciation expenses, operating and maintenance costs, electrical costs, and taxes as normally charged for rate base assets. In addition to the compression surcharge, customer pump prices at SoCalGas and SDG&E public access CNG vehicle refueling

[17] D.95-11-035, Finding of Fact #97.
[18] D.95-11-035, Finding of Fact #101.

stations include transportation costs, procurement or commodity costs, other applicable tariffs (G-SRF and G-PPPS), utility user tax (as applicable), and state and federal motor fuel use taxes. SoCalGas and SDG&E conclude that it is reasonable to continue to use the same methodology the Commission has authorized for the past 16 years, and are not aware of any changes in the Commission's or the Legislature's policies with respect to natural gas-fueled low-emission vehicles that would justify a departure from this established treatment and require loading additional costs into the rate.

Recently, in D.10-06-035 the Commission notes that PG&E calculates its compression cost on an incremental basis.[19] Therein, the Commission considered whether the compression rate adder should be "developed based on a fully competitive CNG market, or should it be based on a growing competitive CNG market."[20] The Commission determined that the compression rate adder should be based on a growing CNG market and the compression rate adder "should reflect PG&E's cost to serve the public users of PG&E's NGV fueling stations."[21] SoCalGas and SDG&E agree that the compression rate adder should be based on a growing CNG market and continues to recommend approval of its proposed compression rate adder methodology.

In order to provide additional evidence that the existing and proposed compression rate adder does not provide an artificially low rate and pump price at SoCalGas and SDG&E CNG vehicle refueling stations, SoCalGas and SDG&E acquired weekly pump price data for the past six months (May 14, 2012 through November 14, 2012) for all public access CNG vehicle refueling stations in operation within the SoCalGas and SDG&E service territories.[22] Table 1 below, demonstrates that despite the claims of Clean Energy, SoCalGas and SDG&E CNG

[19] D.10-06-035, page 32.
[20] D.10-06-035, page 29.
[21] D.10-06-035, page 30. Additionally, the Commission reiterated this point in its conclusion of law #5 on page 37.

vehicle refueling station prices are well within industry norms. Over the past 6 months, SoCalGas and SDG&E pump prices averaged $1.95 per gasoline gallon equivalent. All public access CNG vehicle refueling stations, excluding Clean Energy stations, averaged $2.23 per gasoline gallon equivalent with an average range of $1.62 to $2.95 per gasoline gallon equivalent.[23]

Table 1 - Public Access CNG Stations within SoCalGas and SDG&E

CNG Station Operator	Avg Pump Price
Imperial County	$2.95
Pearson Fuels	$2.95
City of Visalia	$2.89
City of Wasco	$2.89
City of Banning	$2.88
City of Pomona	$2.84
Clean Energy	$2.78
City of San Bernardino	$2.67
City of Delano	$2.66
Honda	$2.60
Antelope Valley School Transportation Agency	$2.60
San Bernardino County	$2.56
California Clean Fuels	$2.54
Downs Energy	$2.49
City of Moreno Valley	$2.49
City of San Fernando	$2.44
Whittier Unified School District	$2.40
UC San Diego	$2.39
City of Lemoore	$2.36
Tehachapi Unified School District	$2.30
City of Redlands	$2.28
Kings Canyon Unified School District	$2.25
City of Thousand Oaks	$2.24

[22] Public access compressed natural gas refueling station pricing data across the United States is collected and updated by CNG vehicle operators at www.cngprices.com.

[23] Clean Energy stations were excluded due to the large number of public access CNG stations (29 out of 84 stations) at much higher prices. Including Clean Energy stations would misrepresent how other industry participants are pricing CNG at public access stations.

Trillium	$2.24
Pinnacle	$2.23
SCAQMD	$2.23
PG&E	$2.21
City of Covina	$2.16
Rainbow Disposal	$2.03
City of Exeter	$2.00
City of Porterville	$2.00
Calexico Unified School District	$2.00
City of Ontario	$2.00
City of Perris	$2.00
Orange County	$1.99
SoCalGas and SDG&E	$1.95
Arco	$1.92
City of Riverside	$1.89
Sunline Transit	$1.86
City of Corona	$1.62

Given that SoCalGas and SDG&E rates are cost based and not market based, it is expected that the SoCalGas and SDG&E pump price would be slightly lower than the average, which is the case. As an example, the City of Riverside offers cost based rates that averaged $1.89 per gasoline gallon equivalent over the past 6 months, which is actually lower than the SoCalGas average. These facts implicitly and collectively demonstrate that SoCalGas and SDG&E are capturing all the costs necessary to provide CNG to vehicle operators at SoCalGas and SDG&E public access CNG vehicle refueling stations. In addition, these facts refute the following contentions by Clean Energy: "An artificially low price offered by the SEUs will distort consumer perceptions in the marketplace. Clean Energy and its competitors have no captive ratepayers who will subsidize fuel prices, and their prices may be higher than the utility prices. Consequently, retail CNG customers who refuel at the SEUs' public access refueling stations may perceive that the prices charged by the non-utility competitors are high, when it is

actually the SEU prices that are too low."[24] It is instructive to note that the average retail price at Clean Energy stations over the past 6 months was $2.78 per gasoline gallon equivalent or 25% higher than the average retail price of all other public access CNG vehicle refueling stations within the SoCalGas service territory. Thus, the data supports the accuracy and propriety of SoCalGas and SDG&E's current cost study and suggests that SoCalGas and SDG&E public access CNG vehicle refueling station prices are appropriate and consistent with industry norms.

C. Clean Energy Confuses Issues by Introducing Out of Context General Rate Case Data

Clean Energy confuses the NGV compression rate adder issue by including General Rate Case (GRC)[25] responses in this proceeding and using those responses out of context to introduce a measure of doubt regarding SoCalGas and SDG&E proposed compression rate adder. For example, on page 11, lines 3-9, Clean Energy states:

> "I am generally troubled by conflicting facts presented in their discovery responses. For example, in a February 9, 2012, data response in the 2012 GRC, SoCalGas stated that the estimated revenue requirement for public access refueling was approximately $1.616 million. On March 16, 2012, SoCalGas filed testimony in this proceeding suggesting that the public access revenue requirement is approximately $1.15 million. That's quite a material change in analysis over the course of a month."

Clean Energy fails to mention that the $1.616 million cited in the GRC response included proposed GRC capital expenditures for NGV refueling stations. As such, Clean Energy is comparing apples to oranges and the reference to these GRC responses does not provide any reason to doubt the accuracy or propriety of SoCalGas and SDG&E NGV compression rate model. Even if one were to include the proposed GRC expenditures, Clean Energy compounds

[24] Prepared Direct Testimony of Clean Energy at 8.
[25] A.10-12-005, General Rate Case Application of San Diego Gas and Electric Company; A.10-12-006, General Rate Case Application of Southern California Gas Company.

the mischaracterization of these expenditures by not including the forecasted volumes which correspond to the increased NGV expenditures.

Additionally, on page 11, lines 10-13, Clean Energy states:

> Similarly, the response to the GRC data request quoted above conflicts with the actual pricing of public access CRAs. SoCalGas estimated that 'it is approximately 20 %-30% more expensive on both the Capital and O&M side to operate public stations than private fueling stations.' This statement appears to conflict directly with the SEU TCAP testimony.

Clean Energy is incorrect. There is no conflict with SoCalGas and SDG&E testimony. The capital cost of public access stations are approximately 25 percent higher, which was accounted for in the rate adder. The O&M costs (not the O&M per therm rate) are higher at our public access stations due to higher volumes at those stations.

D. Common Costs

In data requests Clean Energy asked SoCalGas and SDG&E to complete a table showing the breakdown of costs associated with public and private access. Part of the table also asked about common costs and how much of those costs were allocated to public access. SoCalGas and SDG&E responded that the information was not available "due to identification of common costs not being part of the study." Clean Energy would have the Commission believe that SoCalGas and SDG&E did not include those costs in the compression rate adder. However, Clean Energy has again misrepresented the facts. SoCalGas and SDG&E were merely stating that common costs were not <u>separately</u> identified, <u>not</u> that they were not included in the overall costs associated with the calculation of the compression rate adder. As stated above, SoCalGas and SDG&E have included all appropriate costs necessary to calculate an appropriate compression rate adder.

E. Overhead Costs

SoCalGas and SDG&E continue to argue that the currently approved methodology is appropriate. For example, SoCalGas and SDG&E calculate labor overheads in the compression rate adder and clarified in a recent data response that non-labor overhead costs are embedded in the capital related cost of the compression adder. SoCalGas and SDG&E reiterate however, that we are using an established method which, as discussed above, has continuously been approved for the last 16 years and Clean Energy has provided no reason to change the methodology at this time.

F. Clean Energy's Proposal

On page 13, Clean Energy recommends a compression rate adder of $1.19 for both SoCalGas and SDG&E, before FF&U. Clean Energy arrives at this figure by combining the public and private costs and NGV throughput for both SoCalGas and SDG&E. Contrary to their own arguments' Clean Energy's proposal abandons any attempt to determine the appropriate costs for public access refueling; instead advocating calculating an average rate including both public and private costs. This proposal abandons any attempt at appropriately calculating the NGV compression rate adder for public access and should not be approved. If utility NGV rates are set too high, third-party customers will be unduly harmed and private providers will reap unfair profits while other rate classes actually would be subsidized by NGV customers. This would similarly send incorrect price signals and should be considered when reviewing Clean Energy's proposed rate.

V. SUMMARY OF RECOMMENDATIONS

As further discussed above, in response to the testimony of TURN and Clean Energy, SoCalGas and SDG&E recommends that the Commission:

- approve SDG&E's proposal to implement a $0.16438 per meter per day residential customer charge; and
- approve SoCalGas' and SDG&E's proposed compression rate adders.

This concludes my rebuttal testimony.