

**SAN DIEGO GAS AND ELECTRIC COMPANY
SOUTHERN CALIFORNIA GAS COMPANY
2013 TRIENNIAL COST ALLOCATION PROCEEDING (A.11-11-002)
(DATA REQUEST DRA-PZS-04)**

QUESTION PZS4-1:

On page 1 of the above exhibit reference, witness Lenart states “this Supplemental Testimony reflects the same cost allocation and rate design principles as used in the most recently adopted cost allocation decisions for SoCalGas and SDG&E; and, the transmission costs have been treated consistently with past practices.”

- (a) Please confirm that the statement refers to the cost allocation principles adopted in D.09-11-006 which approved the embedded cost allocation for the transmission and gas storage functions and the long-run marginal cost allocation for the distribution facilities of both SoCalGas and SDG&E. If so, please clarify whether the term “transmission” refers to both backbone transmission and local transmission and “distribution” refers to both high pressure and medium pressure distribution. If not, please explain your response.

- (b) Please explain which rate design principles are referenced by the witness in the above statement.

RESPONSE PZS4-1:

- a) Yes, the statement refers to the cost allocation principles adopted in D.09-11-006, as well as those in the FAR Update Decision (D.11-04-032) which changed the rate treatment of the transmission system.
The term “Transmission” refers to backbone transmission and local transmission. The term “Distribution” refers to high pressure distribution because the distribution work proposed in Phase 1A of PSEP will be done only on the high pressure distribution system.

- b) The principles referenced are the use of marginal demand measure allocation factors used in allocating costs. These factors are cold-year peak-month for local transmission, cold-year peak-month for SoCalGas high pressure distribution, and peak-day for SDG&E high pressure distribution.

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QUESTION PZS4-2:

Continuing in the next paragraph on page 1 of the exhibit reference, witness Lenart states “The revenue requirement for PSEP costs in this Supplemental Testimony are allocated based on the function of the underlying assets. These functions are Transmission and High Pressure Distribution.”

- (a) Please clarify whether the term “Transmission” in the referenced statement pertains to both the backbone transmission and local transmission functions.
- (b) Please identify each of the amounts of the revenue requirements for the PSEP costs used in this Supplemental Testimony which were subject to the allocation based on the transmission function and high pressure distribution.

RESPONSE PZS4-2:

- a) “Transmission” in this case refers generally to costs incurred on the transmission system, which could include both backbone and local.
- b) In the workpapers that were provided along with the exhibit reference, the revenue requirements for the transmission function and high pressure distribution function were listed on the “Model Input” tab of the file “Assumptions – Safety OIR.xls.”

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QUESTION PZS4-3:

In the last paragraph starting at line 23 on page 1 of the exhibit reference, witness Lenart states “Because the cost basis for Backbone Transmission Service rates was set by the Commission in D.11-04-032 at \$135 million, this Supplemental Testimony does not reflect an increase in the Backbone Transmission Service rate. Instead, consistent with past practice, all PSEP costs related to Transmission function assets are treated as Local Transmission system costs for these illustrated rates. All PSEP costs related to Distribution function assets are treated as High Pressure Distribution system costs for these illustrated rates.” Please explain the following:

- (a) Whether the above statements mean that for purposes of the Supplemental Testimony, both utilities have kept the backbone transmission revenue requirement at \$135 million total.
- (b) The reason for treating all PSEP costs related to Transmission function assets as Local Transmission system costs and explain why it is necessary to treat it this way.
- (c) Identify the total amount of “all PSEP costs related to Transmission function assets” that were treated as Local Transmission system costs.
- (d) The reason for treating all PSEP costs related to Distribution as high pressure distribution system costs and explain why it is necessary to treat it this way.
- (e) Do SoCalGas and SDG&E have any PSEP costs related to Distribution that are medium pressure distribution? If so, how much are these medium pressure distribution assets and the implication of treating all PSEP costs related to Distribution only as high pressure distribution. Identify the total amount of “all PSEP costs related to Distribution function assets” that were treated as High Pressure Distribution system costs

RESPONSE PZS4-3:

- a) Yes.
- b) D.11-04-032 set the cost of the Backbone system at \$135 million, with all incremental transmission revenue requirement, including from GRC attrition, being allocated to the local system. To be consistent with past practice, SoCalGas continued this rate treatment for this testimony.
- c) See response PZS-04-2-b above for the location of the transmission revenue requirements utilized in the referenced testimony.

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- d) The PSEP costs proposed on the distribution system were on supply-line facilities, which are categorized at SoCalGas and SDG&E for cost allocation as high pressure distribution.
- e) No. See response PZS-04-2-b above for the location of the distribution revenue requirements utilized in the referenced testimony.

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QUESTION PZS4-4:

In the first full paragraph on page 2 of the exhibit reference, witness Lenart states “The rate design method illustrated in this Supplemental Testimony is not a line item surcharge as proposed in the PSEP. Rather, in order to comply with the Amended Scoping Memo, it is the same rate design method that is currently used for costs that are allocated to the Transmission and Distribution functions. That rate design method regards these costs as base margin costs and embeds them in the transportation rates.

- (a) Please explain whether the above means that the rate design for a line item surcharge as proposed in the PSEP is something new and is not the same rate design method that is currently used for costs that are allocated to the Transmission and Distribution functions.
- (b) Please explain whether a line item surcharge rate design as proposed in the PSEP can be established for costs that are allocated to the Transmission and Distribution functions if the Commission orders that the PSEP charge be shown as a line item surcharge using the costs that are allocated based on the function of the underlying assets for transmission and distribution.
- (c) Please explain whether there are any differences in the administrative costs of implementing a line item surcharge rate design under the current cost allocation method for transmission and distribution versus those under the proposed equal percent of authorized margin method. If any costs are identified in your response, please provide your estimates in dollars.

RESPONSE PZS4-4:

- a) While the concept of a line item surcharge is not something new; and, allocating costs based on Equal Percent Allocated Margin (EPAM) is also not new; combining these approaches together as proposed for the PSEP is new. The cost allocation and rate design proposed in the PSEP is not the same rate design method currently used for the transmission and distribution functions.
- b) Yes.
- c) No.

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QUESTION PZS4-5:

In the last paragraph on page 2 of the exhibit reference, witness Lenart states “The impact of these allocation and rate design methods is to change the impact among customer classes from a relatively narrow 10 to 13% range as proposed in the PSEP, to a much wider range of 8% to 80% in this Supplemental Testimony. Industrial customers, refineries and power plants would see rate increases of 40% to 80% for the PSEP if costs are allocated in this manner. Table 1 below illustrates the transportation rate, by class, resulting from the PSEP revenue requirement being allocated and collected in rates as described above. Table 2 contains a ten-year schedule of the PSEP covering Phase 1 for both the proposed Case and the base Case.”

- (a) If the corrections on page 8 of witness Lenart’s Updated Prepared Direct Safety Enhancement Cost Allocation Testimony dated June 1, 2012 in A.11-11-002 were reflected in the first sentence of the above, then should the phrase “relatively narrow 10 to 13% range” be changed to “relatively narrow 7 to 14% range” to update the supplemental testimony that was dated December 2, 2011.
- (b) Please provide any necessary updates to Tables 1 and 2 of this Supplemental Testimony so that it is consistent with the PSEP costs as proposed in the June 1, 2012 testimony of witness Lenart. If you are providing any updates to Tables 1 and 2, then please identify the specific elements of the PSEP costs where the updates come from. Please provide active excel spreadsheets for Table 1 and 2.

RESPONSE PZS4-5:

- a) Yes.
- b) The revenue requirements that were utilized in the June 1, 2012 testimony are consistent with the revenue requirements that were utilized in the December 2, 2011 Supplemental testimony; therefore, there are no updates to Tables 1 and 2 that are required in order to make it consistent with the PSEP costs as proposed in the June 1, 2012 testimony. A decision on Phase 1 of the TCAP, which will determine PSEP costs and revenue requirements, is still pending. Until a final decision is issued in Phase 1, all PSEP revenue requirements displayed in Phase 2 workpapers and testimony as well as resulting PSEP rates are illustrative.