**QUESTION 1:**

SCG’s and SDG&E’s testimony (Marelli testimony, pp.1-2, lines 20-23 and line 1, respectively) states “Revenue-sharing incentives for the unbundled storage program are in the best interest of SoCalGas and SDG&E’s customers because they encourage us to maximize customer benefits from unbundled storage program revenues through aggressive negotiations with counterparties, creative product marketing, and storage field operations.” Please provide definitions of “aggressive negotiations”, “creative product marketing”, and “storage field operations” as used in this context, with specific examples and/or implementation details of each.

Are any of these three categories precluded from being carried out under the current revenue sharing mechanism? If so, please explain why/how.

How would a modified revenue-sharing mechanism specifically increase the likelihood of SCG and SDG&E performing these activities?

**RESPONSE 1:**

“Aggressive negotiations” means making sales that capture a higher percentage of the total storage value for the utility and our customers. There is a limited incentive to do this under a 90/10 sharing mechanism, particularly in today’s market. There would be a much greater incentive under a 60/40 mechanism.

“Creative product marketing” means tailoring the package to meet each customer’s needs, rather than selling one standardized product through an auction and having customers tailor their own products through secondary market transactions. It also means developing an active park program. There would be a significant incentive to capture every niche product market, however, under a 60/40 sharing mechanism.

SoCalGas already optimizes storage operations under the existing storage sharing mechanism, but a revised mechanism might lead to additional creative efforts to help maintain the amount of storage capacity that can be sold on a firm basis.

**QUESTION 2:**

SCG’s and SDG&E’s testimony (Marelli testimony, pg. 2, line 20) states “…natural gas price volatility is much lower today than it has been in the past.”

Please define what time period is referred to as “the past” in this context. Please provide a chart presenting the price of the time period and indicate the data source for the price.

**RESPONSE 2:**

SoCalGas analyzed the daily settlement price for the SoCal Border future with the nearest expiration date from 2005 thru 2014. The settlement price is published by the Chicago Mercantile Exchange (previously NYMEX). This price is shown in figure 2.1. Following standard practice, SoCalGas estimated the annualized historical volatility of the daily log returns (i.e. Log return = Log(price) – Log(price\_prior\_day). The results of this calculation are shown in Figure 2.2

**QUESTION 3:**

SCG’s and SDG&E’s testimony (Marelli testimony, pg.4, lines 9-10) states “At the same time, 5% monthly balancing is still generous, and strikes a reasonable balance between the competing interests on this topic.”

Please define the term “balance” as used in this context. Please define the term “competing interests” as used in this context and provide examples.

Do SCG and SDG&E consider 5% balancing to be a compromise between stakeholder positions? What range of potential monthly balancing requirements that would cover the scope of the “competing interests” (including SCE and SDG&E’s) identified in Ms. Marelli’s testimony? Please identify which stakeholder’s interest would be represented by each point in the range and provide relevant documentation.

**RESPONSE 3:**

“Balance” in this context means a reasonable compromise between SoCalGas’ current 10% monthly balancing requirement and the near-zero monthly balancing tolerance of interstate pipelines. “Competing interests” refers to customers, who often favor generous tolerances, and pipeline operators, who prefer less generous tolerances for operational reasons. 5% monthly is the midpoint of these ranges.

**QUESTION 4:**

SCG’s and SDG&E’s testimony (Fung testimony, pg.7, lines 6-7) states, in reference to the Aliso Canyon project “The $27 million figure shown in Table 9 is the average of the first three years’ revenue requirements as shown in Table 2 of D.13-11-023. This revenue requirement is based on a total capital cost of $200.9 million for Aliso.” A footnote at the end of this cited passage further states “The Commission established a maximum cost of $200.9 million for Aliso, SoCalGas’ estimated total capital costs.”

Please provide actual recorded costs through the end of 2014 and associated data/workpapers for the Aliso Canyon project.

**RESPONSE 4:**

Almost $101 million has been spent through the end of 2014. See attached:



**QUESTION 5:**

SCG’s and SDG&E’s testimony (Chaudhury testimony, pg.2, line 2) shows in *Table 1: Proposed Allocation of Capacities and Costs to Functions* that Core Reservation Inventory, Injection (summer/winter), and Withdrawal (summer/winter) are all proposed to remain unchanged from 2016 through 2019, yet costs rise from $59.6 million in 2016 to $65.7 million in 2017 (a 10.2% increase), with no further increases through 2019.

Please describe in detail how the requirement for this increase was formed and provide any accompanying workpapers and data sources.

**RESPONSE 5:**

The increase in costs flows directly from Mr. Watson’s 2016-2019 TCAP Storage Cost Allocation workpapers, which, in turn, are tied to Ms. Fung’s total storage costs. Ms. Fung shows total storage costs rising from $96.19 M in 2016 to $110.58 M for 2017-2019, which represents a 15% increase. This increase is primarily due to the Aliso Canyon project described in Q. 4 above. As a result, the core’s storage costs increase 10.2 percent in 2017 and remain unchanged in 2018 and 2019.

**QUESTION 6:**

SCG’s and SDG&E’s testimony (Chaudhury testimony, pg.2, line 2) shows in *Table 1: Proposed Allocation of Capacities and Costs to Functions* that Unbundled Storage Inventory, Injection (summer/winter), and Withdrawal (summer/winter) are all proposed to remain unchanged from 2016 through 2019, yet costs rise from $15.4 million in 2016 to $17.0 million in 2017-2019, a 10.4% increase.

Please describe in detail how the requirement for this increase was developed and provide any accompanying workpapers and data sources.

**RESPONSE 6:**

The unbundled storage program’s cost increase of 10.4 percent in 2017 is almost identical to that of core storage, whose assets also remained unchanged. The explanation for this increase is the same as that in Response 5.