ALJ John Wong

Date: _____

Exhibit _____

BEFORE THE PUBLIC UTILITIES COMMISSION

OF THE STATE OF CALIFORNIA

Application of Pacific Gas and Electric Company Proposing Cost of Service and Rates for Gas Transmission and Storage Services for the period of 2015-2017. (U 39 G)	Application No. 13-12-012 (Filed December 19, 2013)

PREPARED DIRECT TESTIMONY

OF MICHAEL J. ROCHMAN ON BEHALF OF

THE SCHOOL PROJECT FOR UTILITY RATE REDUCTION

August 11, 2014

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1 **I. Witness Background**

2 Q   Please state your name and present employme nt.

3 A My name is Michael J. Rochman. I am Managing Dir ector of the School Project for

4 Utility Rate Reduction ("SPURR") and have held that position since 1998. I am the chief

5 executive officer of SPURR, with management respons ibility for SPURR's operations, including

6 its natural gas procurement program.

7 Q Please describe your educational background.

8 A I received my AB degree from the University of Mi chigan, Ann Arbor, and my JD degree

9 from Boalt Hall School of Law at the University of California, Berkeley.

10 Q Do you hold any professional licenses or certific ations?

11 A I was licensed to practice law in California in 1 988. I voluntarily became an inactive

12 member of the California State Bar in 1999.

13 Q Have you testified before this Commission before?

14 A Yes, most recently in A.13-06-011, regarding the core natural gas capacity planning of

15 Pacific Gas and Electric Company ("PG&E").

16 **II. Purpose of Testimony**

17 Q What is the purpose of this Prepared Direct Testi mony?

18 A My testimony addresses PG&E's proposal in this pr oceeding to revise the methodology

19 for allocating pipeline capacity, and consequently the "stranded" costs of that capacity, to core

20 aggregators (sometimes called "Core Transport Agents" or "CTAs"). Although I disagree with

21 PG&E on the issue of how much pipeline capacity should be allocated to core aggregators, to the

22 extent that such capacity is allocated, I support adoption of PG&E's proposal as an improvement

23 over the current methodology.

24 **III. Background Regarding SPURR**

25 Q What is SPURR?

26 A SPURR is a joint powers authority formed under th e Joint Exercise of Powers Act, found

27 in Government Code sections 6500-6536. SPURR's members are California public school

28 districts, county offices of education, and community college districts. SPURR provides

29 aggregated procurement of various utilities services for our members and for a limited number of

30 eligible non-member agencies, such as public universities and special districts. SPURR has

31 conducted a natural gas procurement program under which it offers gas service to core and

1 noncore gas customers on the PG&E system since at least 1995, and serves thousands of

2 facilities in PG&E's distribution service territory.

3 **IV. Current Allocation of Pipeline Capacity**

4 Q What is the current method of allocating pipeline   capacity to core aggregators on the

5 PG&E distribution system, such as SPURR?

6 A As explained on page 19-16 of PG&E's Prepared Tes   timony in this proceeding, pipeline

7 capacity is allocated to core aggregators three times a year for three four-month periods:

8 November to February, March to June, and July to October. PG&E currently computes the ratio

9 of each aggregator's customers' historical January usage to the "PG&E forecasted core January

10 throughput as adopted in PG&E's latest Cost Allocation Proceeding (CAP) to allocate pipeline

11 capacity[.]" (PG&E's Prepared Testimony in this proceeding dated December 19, 2013, vol. II,

12 p. 19-16.) That ratio determines each aggregator's allocation of capacity throughout the

13 following year.

14 Q How does the allocation of pipeline capacity resu   lt in the allocation of costs to an

15 aggregator?

16 A There is no requirement for aggregators to accept   , or to use, any of the pipeline capacity

17 allocated to them by PG&E. However, under the Gas Accord V Settlement Agreement, approved

18 in D.11-04-031, each aggregator must pay PG&E for the stranded costs of any allocated capacity

19 rejected by that aggregator and then sold at rates lower than PG&E's contracted rates for the

20 capacity. In other words, capacity is offered to aggregators on a take-or-pay basis, so an

21 allocation of capacity is in effect an allocation of stranded costs for that capacity. (D.11-04-03,

22 *MIMEO*, p. 33 & App. B thereto, sections A)7 and A)8.)

23 Q What is your position on allocation of stranded p   ipeline capacity costs to core

24 aggregators?

25 A SPURR is a member of the Core Transport Agent Con   sortium ("CTAC") and I agree

26 with the position taken by CTAC in the current proceeding addressing PG&E's core interstate

27 pipeline capacity planning that PG&E should only hold interstate capacity on behalf its bundled

28 core customers. (Opening Brief of the Core Transport Agent Consortium in A.13-06-011, filed

29 February 28, 2014, p. 1.) I also agree with the CTAC position in this proceeding that

30 aggregators should be able to elect some or all of the intrastate pipeline capacity reserved by

31 PG&E and that PG&E should adjust its reservation amounts to the extent that the full allocation

1   associated with aggregator load is not subscribed. (Protest of Core Transport Agent Consortium

2   to Pacific Gas & Electric Company's 2015 Gas Transmission and Storage Rate Cae Application

3   in this proceeding, filed January 31, 2014, at p. 3.) But to the extent that aggregators are required

4   to pay for stranded costs of pipeline capacity, those costs should be allocated as proposed by

5   PG&E in its Prepared Testimony in this proceeding.

6   **V. PG&E's Proposed Allocation Methodology for Pipel   ine Capacity**

7   Q What is PG&E's proposal concerning pipeline capac   ity allocation?

8   A PG&E proposes to change the current allocation me   thod by using a "Seasonal Capacity

9   Factor." The proposed method would total an aggregator's historical customer load during each

10   of the three seasonal allocation periods and divide it by the most recent historical load of all core

11   customers for that same period. That would yield a percentage of pipeline capacity assigned to an

12   aggregator for that period.

13   Q What is your position regarding this proposal?

14   A PG&E's proposal is fairer than the current alloca   tion method. For that reason I support

15   its adoption in this proceeding.

16   Q Please explain your position.

17   A As stated above, aggregators are not required to   accept or to use _any_ of the pipeline

18   capacity allocated to them. According to detail att ached to PG&E's stranded capacity invoices

19   sent to SPURR since the Gas Accord V Settlement was implemented, aggregators have rejected

20   most, if not all, of the interstate capacity allocated to them by PG&E. The rationale for requiring

21   aggregators to pay for capacity that they do not want or use is presumably because the entire core

22   is benefitted by this arrangement. I say "presumably" because the Commission has not yet stated

23   a specific reason for the take-or-pay arrangement.

24   However, in the current core capacity planning ran   ge proceeding (A.13-06-011), PG&E

25   specified its rationale as follows: "If the Commission agrees with PG&E that holding firm

26   interstate pipeline capacity is necessary in order to provide reliable service to core customers, _all_

27   core customers, including CTA customers, should have to pay the costs associated with that

28   reliable gas service." (Pacific Gas and Electric Company's (U 39 G) Reply Brief in A.13-06-011,

29   filed March 21, 2014, at p. 4, emphasis added.)

30   I disagree with PG&E's rationale. But assuming str   ictly for the sake of argument that

31   PG&E is correct in its reasoning, then the requirement that aggregators pay for pipeline capacity

1   that they neither want nor use is justified as a benefit for all core customers. If, as PG&E has

2   argued, the take-or-pay rules benefit the entire core, then the fairest method to recover costs from

3   core customers is on an equal cents per therm basis. PG&E's allocation proposal in this

4   proceeding is closer to an equal-cents-per-therm basis than the current allocation methodology.

5   So I favor PG&E's proposal as an improvement over the current methodology.

6   Q Does PG&E propose allocation on an equal-cents-pe   r-therm basis?

7   A No, but the PG&E proposal is very close to equal-   cents-per-therm, so SPURR is willing

8   to accept that result.

9   Q Please explain.

10   A I have created a hypothetical, simplified core po   pulation and used the pro forma

11   computations shown below, in Figures 1 and 2, to illustrate the results of various cost allocation

12   methodologies on core customers.

13   In Figure 1, I show monthly consumption in a hypot   hetical total core program that

14   consists of only three customers, who each use 1,200 Dth (equal to 12,000 therms) per year, an

15   average of 100 Dth per month. The "Flat" customer uses 100 Dth in January, while the "Peaky"

16   customer uses 150 Dth and the "Medium" customer uses 125 Dth in January.

17   Figure 1

Pro Forma Dth Usage												
Core CustomerMar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Annual
Flat 100	100	100	100	100	100	100	100	100	100	100	100	1,200
Peaky 120	110	90	80	70	60	70	90	110	120	150	130	1,200
Medium 110	105	95	90	85	80	85	95	105	110	125	115	1,200
Core Total 330	315	285	270	255	240	255	285	315	330	375	345	3,600

18

19   In Figure 2, I show how pipeline capacity costs wo   uld be allocated to each hypothetical

20   customer under the current allocation methodology, PG&E's proposed methodology, and an

21   equal-cents per therm methodology.

Figure 2

Pro Forma Allocation per $1,000 of Stranded Costs						
	Current Allocation Methodology, Based on Customer's Jan Dth Compared to Forecast Jan Throughput	PG&E's Proposed Allocation Methodology, Based on Prior Year's Same Quarter Usage				Equal Cents Per Annual Allocation Methodology
	Annual Allocated Stranded Cost	Mar - Jun Allocation	Jul - Oct Allocation	Nov - Feb Allocation	Annual Allocated Stranded Cost	Annual Allocated Stranded Cost
Core Customer						
Flat	$ 267	$ 111	$ 111	$ 111	$ 333	$ 333
Peaky	$ 400	$ 111	$ 81	$ 142	$ 333	$ 333
Medium	$ 333	$ 111	$ 96	$ 126	$ 333	$ 333
Core Total	$ 1,000	$ 333	$ 288	$ 379	$ 1,000	$ 1,000

3 Q What assumptions did you use in the computations   above?

4 A I assumed that (a) customer loads are consistent   from year to year, (b) the dollar costs of

5 stranded capacity are consistent from month to month, and (c) the PG&E forecasted January total

6 core throughput (used in the current allocation methodology) is equal to the pro forma January

7 total core throughput, which is 375 Dth in this illustration.

8 Q Do your pro forma computations precisely reflect   how capacity costs would be allocated?

9 A My computations simplify what would actually occu   r under the different methodologies.

10 But in a general sense they accurately illustrate the differences between methodologies with

11 respect to various types of core customers.

12 Q What is your conclusion based on your illustrativ   e computations?

13 A If one assumes, as PG&E asserts, that pipeline ca   pacity benefits all core customers, then

14 Peaky customers have been overpaying for stranded capacity costs under the current

15 methodology and Flat customers have been underpaying. In my hypothetical scenario, Flat

16 customers have been allocated only about $267 out of every $1,000 in stranded costs, while

17 Peaky customers have been allocated about $400. The proposal made by PG&E to revise the

18 allocation methodology would result in a situation very close to a fair equal-cents-per-therm cost

19 allocation, where each customer would pay $333 out of every $1,000 in stranded costs, in line

20 with their share of overall core annual usage in my hypothetical situation.

21 Q Your computations show allocations to customers,   while the PG&E proposal would

1   allocate capacity, and thereby costs, to core aggregators, not directly to customers. Please

2   explain.

3   A Allocations to aggregators are based on the histo   rical usage of the customers currently

4   served by that aggregation. So, aggregator stranded costs will depend on allocations to the

5   customers that they serve.

6   Q Why does allocation based on customer loads matte   r?

7   A Customers with flatter load shapes than the overa   ll PG&E bundled portfolio are allocated

8   relatively fewer capacity costs, per therm, under the current allocation model. This creates an

9   incentive for customers with flatter load shapes to leave bundled service. A flat load customer

10   could leave bundled service by aggregating its own load and thereby pay the lower stranded

11   costs.

12   Q What is the likely effect of this incentive?

13   A Allocating less stranded capacity cost to flatter   load customers provides an economic

14   incentive for the flatter load customer to leave peakier customers in pools, such as the PG&E

15   core procurement pool, with a greater per therm allocation of stranded costs. Incentives in and of

16   themselves are not necessarily a problem. If, for example, overall pipeline capacity costs were

17   reduced proportionately when a customer leaves bundled procurement, then the incentives would

18   not be a problem. That is what CTAC has advocated in another context. But under the current

19   rules, which PG&E has argued should be maintained, the total amount of purchased pipeline

20   capacity (and thus costs) remains the same regardless of who provides commodity supply to that

21   customer.

22   Where capacity purchases are not adjusted, a custo   mer departing bundled service with a

23   relatively flat load necessarily increases the share of pipeline capacity costs that other, peakier

24   load, customers must bear. Allocating pipeline capacity costs under an equal-cents-per-therm

25   methodology, or under the methodology proposed by PG&E, would eliminate most, perhaps all,

26   of this problem.

27   Q Does this complete your Prepared Direct Testimony   ?

28   A Yes, it does.