

A.13-12-012

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.

Application No. 13-12-012
(Filed December 19, 2013)

(U 39 G)

**PREPARED DIRECT TESTIMONY
OF MICHAEL J. ROCHMAN ON BEHALF OF
THE SCHOOL PROJECT FOR UTILITY RATE REDUCTION**

August 11, 2014

TABLE OF CONTENTS

I. WITNESS BACKGROUND 1

II. PURPOSE OF TESTIMONY 1

III. BACKGROUND REGARDING SPURR 1

IV. CURRENT ALLOCATION OF PIPELINE CAPACITY 2

V. PG&E’S PROPOSED ALLOCATION METHODOLOGY FOR PIPELINE
CAPACITY 3

1 **I. Witness Background**

2 Q Please state your name and present employment.

3 A My name is Michael J. Rochman. I am Managing Director 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 responsibility 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 Michigan, 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 certifications?

11 A I was licensed to practice law in California in 1988. 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 Testimony?

18 A My testimony addresses PG&E’s proposal in this proceeding 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 the 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 Testimony 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 result 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 pipeline capacity costs to core
24 aggregators?

25 A SPURR is a member of the Core Transport Agent Consortium ("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 Case 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 Pipeline Capacity**

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

8 A PG&E proposes to change the current allocation method 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 allocation 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 attached 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 range 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 strictly 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 Customer	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Amual
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.

1

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 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

2

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 occur 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 illustrative computations?

13 A If one assumes, as PG&E asserts, that pipeline capacity 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 historical 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 matter?

7 A Customers with flatter load shapes than the overall 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 customer 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.