Application of Southern California Gas Company for authority to update its gas revenue requirement and base rates effective on January 1, 2012. (U904G)

Application No. 10-12-___
Exhibit No.: (SCG-15)

PREPARED DIRECT TESTIMONY OF

LISA GOMEZ

ON BEHALF OF SOUTHERN CALIFORNIA GAS COMPANY

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

DECEMBER 2010

The Gas Company

TABLE OF CONTENTS

PREPARED DIRECT TESTIMONY OF

LISA GOMEZ

ON BEHALF OF SOUTHERN CALIFORNIA GAS COMPANY

(ENVIRONMENTAL)

I. INTRODUCTION

A. Purpose of Testimony

The Southern California Gas Company ("SoCalGas") believes in treating our Earth's resources with respect. We are committed to protecting the environment and ensuring the health and safety of our employees, our customers, and the diverse communities where we operate.

The purpose of this testimony is to provide information regarding the key federal, state and local environmental programs that are yielding upward operations and maintenance ("O&M") financial pressures within the Environmental Services Department ("Environmental Services") and upward O&M and capital financial pressures for the operating groups we support. The testimony will demonstrate that Environmental Services' forecasts for O&M expenditures are just and reasonable. The testimony will also describe environmental legislative and regulatory drivers for other witnesses who will testify to the financial impact environmental pressures will have on the groups responsible for daily gas operations (the "Operating Departments"). This testimony does not include capital expenditures for the Environmental witness's cost centers because capital expenditures are charged directly to capital projects.

Environmental Services is requesting that the California Public Utilities Commission ("CPUC") adopt Environmental Services' 2012 Test Year (TY) forecast of $2.86M for O&M expenses and a book value of $4.86M. A summary of Environmental Services' overall request is presented in Table SoCalGas-LPG-1 below.

Table SoCalGas-LPG-1

Summary of TY2012 Change
(Thousands of 2009 Dollars)

Functional Area: *ENVIRONMENTAL*

Description	2009 Adjusted-Recorded	TY2012 Estimated	Change	Testimony Reference
Total Nonshared Service	*600*	*594*	*-6*	Section II
Total Shared Services (Book Expense)	*3,235*	*4,262*	*1,027*	Section III
Total O&M (Book Expense)	*3,835*	*4,856*	*1,021*	
Total Capital	*0*	*0*	*0*	Section IV

B. Overview of Operations

Environmental Services oversees compliance with over 400 federal, state, regional and local environmental statutes, rules and regulations, including laws protecting air quality, water quality, hazardous materials, waste, cultural resources, land planning and natural resources. Environmental Services' responsibilities include tracking and analyzing the final versions of environmental regulations; developing compliance policies, procedures and tools; developing and delivering training material; developing and implementing internal quality assurance and quality control procedures; screening proposed projects (including proposed real and personal property transactions) for environmental compliance, soils contamination considerations and permitting needs; and developing and obtaining environmental permits and plans. Environmental Services also manages a California certified environmental laboratory, two SoCalGas treatment storage and disposal facilities ("TSDFs") and the remediation of contaminated soils at current and former utility sites.

This Environmental Services testimony covers seven functional areas: Executive Oversight, Environmental Services Director, Environmental Strategy, Environmental Management, Hazardous Materials and Waste, San Diego Gas & Electric ("SDG&E") Environmental Analysis Laboratory and Site Assessment and Mitigation. A description of each area follows.

Executive Oversight

The Executive Vice President and one administrative assistant make up this functional area. The Executive Oversight function provides oversight and leadership for Environmental, Safety and Support Services.

Environmental Services Director

The Director of Environmental Services provides overall leadership and direction to the Environmental Services organization and is supported by one administrative assistant.

Environmental Strategy

The Environmental Strategy group manages the environmental component of SoCalGas' internal environmental governance and self-evaluation program – the Environmental & Safety Compliance Management Plan ("ESCMP"), and provides a number of other strategic functions. For example, the Environmental Strategy group develops, tracks and reports to management SoCalGas' environmental compliance metrics and goals. The group develops, manages and maintains environmental compliance policies, procedures and compliance tools; internal environmental communications; environmental training modules; and an internal environmental website as the repository for this information. In 2009, to achieve efficiencies and added effectiveness, the group assumed responsibility for the development, management and maintenance of safety training modules and the safety website. In 2010, the group assumed responsibility for monitoring, coordinating and tracking environmental regulatory developments and auditing environmental hazardous waste vendors.

Environmental Management

The Environmental Management group includes subject matter experts in air and water quality, biological resources, cultural resources and land planning. The group supports ongoing environmental compliance, including obtaining environmental permits and approvals, developing environmental plans and conducting specialized environmental training. The group also screens proposed facility, field and real property projects and transactions that have the potential for environmental impacts. This environmental screening involves a thorough review and analysis of potential environmental impacts, permits and compliance requirements for all environmental disciplines, as appropriate for the project scope.

Hazardous Materials and Waste

The Hazardous Materials and Waste group has three primary responsibilities at SoCalGas: to operate two TSDFs; manage the receipt, storage and shipment of hazardous materials and wastes; and manage the content of all hazardous materials and waste procedures and training materials for the utility.

San Diego Gas & Electric ("SDG&E") Environmental Analysis Laboratory

SDG&E operates a California State Certified environmental laboratory that conducts environmental sampling and test analyses for SoCalGas. The SDG&E Environmental Analysis Laboratory is certified to test over 500 chemical compounds. The SDG&E Environmental Analysis Laboratory's sampling and test analyses on behalf of SoCalGas primarily support SoCalGas' water quality testing for gas transmission.

Site Assessment & Mitigation

The Site Assessment & Mitigation group is responsible for investigation and remediation of contamination at former SoCalGas Manufactured Gas Plant ("MGP") sites and other former or current operating sites. The group manages complex cleanup projects to obtain "site closure" from governmental agencies that have oversight over the cleanup. The group also pursues cost recovery from government agencies, third parties and insurance companies, when applicable and conducts environmental due diligence for real property transactions (e.g., Phase I and II Environmental Site Assessments). In 2009, the group assumed added responsibility for coordinating SoCalGas' compliance with underground and aboveground storage tank retrofit requirements. In 2010, the group also assumed responsibility for developing a strategy to responsibly, efficiently and effectively manage the various environmental mitigation requirements that are applicable to SoCalGas under federal and state air quality, water quality, endangered species and land planning statutes, regulations and permits. Once the strategy is identified, the group will retain responsibility for the SoCalGas' environmental mitigation program.

C. Challenges Facing Operations

Environmental compliance continues to become more complex and challenging for the natural gas industry. In the past few years, federal, state and local legislatures and government agencies have adopted and proposed new environmental laws, rules and programs that will be implemented in the GRC period. These new environmental laws, rules and programs are yielding upward financial pressures in Environmental Services as well as in the Operating Departments. Environmental laws, rules and programs that will yield upward financial pressures to Environmental Services and the Operating Departments include environmental mitigation requirements and strategic needs, greenhouse gases ("GHGs"), air quality, cultural resources, stormwater, polychlorinated biphenyls ("PCBs") and wastes, regulatory tracking, vendor audits, environmental and safety employee compliance training and other miscellaneous environmental expenses. These laws, rules, and programs and their projected impact on Environmental Services' spend during the GRC period are discussed below. The impacts these new laws, rules and programs are projected to have on the Operating Departments are discussed in the Operating Departments' witness testimonies and workpapers.

Environmental Mitigation Strategy and Implementation

The acquisition, creation and management of environmental mitigation are becoming an increasingly important and complex issue. Federal and state water quality regulations require mitigation for impacts to Waters of the United States and Waters of the State, including wetlands.   Federal and state regulations protecting species and their habitats require mitigation for impacts to species and habitats. The air quality regulations require mitigation for emissions from new and existing major sources of criteria pollutants in non-attainment areas (emission reduction credits) and from sources in South Coast Air Basin (Regional Clean Air Incentives Market credits). Certain sources of GHG emissions will also be subject to mitigation requirements under proposed state GHG regulations.

Environmental mitigation may be satisfied through various means, including the purchase of credits or in-lieu fees and/or the development and maintenance of company-owned or company-sponsored projects or acquisitions. It is anticipated that, over time, the availability of some mitigation options will decrease and their costs increase, perhaps substantially. This could delay and add significant cost to utility projects.

Until now, SoCalGas has acquired air and water quality mitigation primarily on a case-by-case basis as needed for specific projects, while a programmatic approach for biological (habitat) resources has long been a staple for the utilities. SoCalGas now believes there are advantages to implementing a company-wide programmatic approach to environmental mitigation. A programmatic approach may benefit the company by providing increased project planning, permitting and budgeting efficiency; increased ability to meet project timelines; reduced overall cost; utilization of environmental mitigation credits in a more effective manner; and optimal use of utility-owned assets and property for environmental mitigation solutions.

The Site Assessment and Mitigation group within Environmental Services will lead SoCalGas' environmental mitigation strategy and program. This is a new role for Environmental Services. Environmental Services will utilize a consultant to identify mitigation opportunities, develop a procedure for evaluating and optimizing mitigation options and develop a mitigation program. Environmental Services will also require one new project manager full-time equivalent (FTE) beginning in 2012, when SoCalGas will formally roll-out the new mitigation program. See Environmental Services' workpapers for cost center 2100-3035.

Coastal Region Conservation Permit

SoCalGas is developing a programmatic incidental take permit application under Section 10 of the Federal Endangered Species Act and Section 2081 of the California Fish and Game Code for O&M activities and limited new construction in the coastal region spanning from San Luis Obispo area to Orange County, the Coastal Region Conservation Permit area. SoCalGas will propose a 50-year permit and up-front compensatory mitigation bank. SoCalGas anticipates that it will establish this mitigation bank to offset potential impacts in the coastal region. See the witness testimony of Mr. Ray Stanford for Gas Engineering (SCG-05) and capital workpapers.

To support new compliance requirements associated with the Coastal Region Conservation Permit, Environmental Management requires one environmental specialist (biologist) FTE who will be responsible for overseeing compliance with the new programmatic permit, developing training programs for mitigation and avoidance measures, screening distribution and transmission district projects within the programmatic area, and preparing and submitting all annual and follow-up reports. See Environmental Services' workpapers for cost center 2200-2176.

GHG Programs

Federal, state and local legislative and regulatory bodies have recently adopted and proposed to adopt several new GHG programs that will impact SoCalGas. In October 2009, the United States Environmental Protection Agency ("EPA") issued the GHG Mandatory Reporting Rule ("MRR"), which requires SoCalGas to prepare and submit annual GHG reports to EPA. The rule requires SoCalGas to file the first emissions report in March 2011.

On March 23, 2010, EPA announced a proposed new Subpart W to the MRR, which would expand the MRR's scope by additionally requiring certain natural gas operators to annually report fugitive, vented and flare combustion carbon dioxide and methane emissions from selected equipment at covered facilities that emit greater than or equal to 25,000 metric tons of carbon dioxide equivalent per year.[1] The proposed rule would apply to, among other things, natural gas transmission, storage and distribution systems. It would require selected component inventories; annual leaker surveys using optical gas scanning equipment (e.g., infrared cameras); and other new activities. Subpart W, as currently proposed, would require data collection beginning in January 2011 and the first report containing the expanded information would be due in March 2012 and annually thereafter. SoCalGas is requesting that the costs associated with Subpart W be included in rates and subject to two-way-balancing-account treatment in the New Environmental Regulation Balancing Account ("NERBA"). The specifics of this accounting treatment are discussed in the witness testimony of Mr. Greg Shimansky for Regulatory Accounts (SCG-34). See also the witness testimony of Mr. Ray Stanford

[1] EPA released the final rule for Subpart W to the MRR in November 2010. Although SoCalGas' analysis of the final rule is ongoing, our initial review suggests that the final rule will yield substantially lower costs than the March 2010 proposal would have yielded.

for Gas Engineering (SCG-05), Mr. Jim Mansdorfer for Underground Storage (SCG-04) and Ms. Gina Orozco-Mejia for Gas Distribution (SCG-02) and the workpapers for Environmental Services' cost center 2200-2176.

Environmental Services will prepare and submit the new federally mandated GHG annual reports. The Operating Departments will support Environmental Services' report preparation and other MRR mandates through monitoring, tracking and other activities.

In May 2010, EPA issued the so-called "GHG Tailoring Rule," which requires new major sources of GHG emissions, and modifications to existing major sources of GHG emissions, to obtain preconstruction permits and install GHG best available control technologies to minimize GHG emissions beginning on January 2, 2011. For the first six months of 2011, the permit and technology requirements will apply to major sources already subject to the Clean Air Act's Prevention of Significant Deterioration program. After that, from July 1, 2011 to June 30, 2013, the program will apply to new sources with potential GHG emissions at or above 100,000 tons per year and to major modifications of existing major sources that have the potential to result in greater than or equal to 75,000 tons per year of GHG emissions. EPA also committed to undertake another rulemaking, to begin in 2011 and conclude no later than July 1, 2012, to discuss how the programs should impact smaller sources. Environmental Services will provide permitting support and analysis in connection with EPA's expansion of the Clean Air Act major source permitting program to GHGs and the related Tailoring Rule.

California Assembly Bill 32 ("AB32"), the Global Warming Solutions Act, became law in September 2006. AB32 seeks to reduce California's GHG emissions to 2000 levels by 2010, to 1990 levels by 2020 and to 80 percent below 1990 levels by 2050. To achieve these reductions, AB32 requires the California Air Resources Board ("CARB") to adopt, among other things, mandatory reporting rules, GHG emissions caps and regulations designed to achieve California's GHG emissions reductions goals. AB32 requires CARB to adopt the AB32 implementing regulations for GHG emissions reductions by January 2011 and requires that the regulations become operative beginning in January 2012. See the witness testimony of Mr. John Dagg for Gas Transmission (SCG-03). In support of the AB32 objectives, SoCalGas is proposing to implement a

Sustainable SoCal Program to tap existing renewable biogas resources in an effort to reduce GHG emissions. The specifics of the Sustainable SoCal Program can be found in the witness policy testimony of Ms. Gillian Wright for Customer Services – Information (SCG-09) and the witness testimony of Mr. Ray Stanford for Gas Engineering (SCG-05) for the cost forecasts and project implementation costs.

Cap-and-trade is one of the key measures that CARB will employ to achieve AB32's objectives. In November 2009, CARB issued a *Preliminary Draft Regulation for a California Cap-and-Trade Program* for public review and comment ("November 2009 Proposal").[2] CARB expects to adopt a final cap-and-trade regulation no later than January 2011. The November 2009 Proposal would establish a declining aggregate GHG emissions cap for certain specified sources and would allow those sources to trade allowances and offsets to achieve the cap. At the end of each compliance period, each covered entity would be required to surrender allowances and some offsets equal to its total GHG emissions during the compliance period. During the first compliance period (e.g., 2012 to 2014), the program would apply to SoCalGas' large industrial sources and processes that annually emit at or above 25,000 metric tons of carbon dioxide equivalent. During the second compliance period (e.g., 2015 to 2017), the program would be expanded to cover, among other things, natural-gas-deliverers such as SoCalGas. CARB has not yet formally proposed an allocation methodology for GHG allowances. SoCalGas is requesting that the costs associated with CARB's proposed cap-and-trade program be included in rates and subject to two-way-balancing-account treatment in the NERBA to the extent such costs relate to SoCalGas' large industrial sources. SoCalGas is assuming that natural-gas-deliverers will not incur costs under the program until after the GRC period. If this assumption is incorrect and gas-related cap-and-trade costs are incurred during this GRC period, these costs will be tracked in the NERBA. The specifics of this accounting treatment are discussed in the witness testimony of Mr. Greg Shimansky for Regulatory Accounts (SCG-34). See also the witness testimony of Mr. Ray Stanford for Gas Engineering (SCG-05).

---

[2] CARB issued a proposed cap-and-trade regulation at the end of October 2010. SoCalGas' analysis of the proposed regulation is underway.

AB32 also authorizes CARB to recover costs they incur to implement AB32. CARB has adopted a regulation that addresses the manner in which it will recover these costs. The regulations require public utility gas corporations such as SoCalGas to pay annual administrative fees for each therm of natural gas they deliver to any end user (i.e., not to wholesale providers) in California, excluding natural gas delivered to electric generating facilities. CARB will determine its annual revenue requirement and will then allocate the cost to covered entities based on separate formulas developed for each category subject to the fee. The final regulation became effective on July 17, 2010. SoCalGas is requesting that the AB32 administrative fees be included in rates and subject to two-way-balancing-account treatment in the NERBA. The specifics of this accounting treatment are discussed in the witness testimony of Mr. Greg Shimansky for Regulatory Accounts (SCG-34). See also the witness testimony of Mr. Ray Stanford for Gas Engineering (SCG-05) and the workpapers for Environmental Services' cost center 2200-2176.

CARB adopted its mandatory GHG reporting regulations in December 2008. The regulations require annual reporting of GHG emissions. The first reports were due in June 2009. Although SoCalGas has voluntarily reported its GHG emissions inventory to the California Climate Action Registry and/or The Climate Registry since 2004, CARB's new mandatory reporting regulations impose upward pressures associated with an additional mandatory reporting obligation and associated comprehensive third-party verification requirements that will be mandated beginning in 2010. Environmental Services will prepare and submit the annual GHG inventories required by AB32. The Operating Departments will support Environmental Services through monitoring, tracking and other activities.

In February 2010, the California Environmental Quality Act ("CEQA") Guidelines were amended to address GHG emissions. The amendments require local agencies conducting a CEQA review to quantify or describe the proposed project's GHG emissions and to mitigate such emissions when appropriate. As a practical matter, the amendments will require Environmental Services personnel and their contractors to analyze potential GHG emissions and options for mitigation for the majority of projects undergoing CEQA review. The amendments became effective on March 18, 2010.

Environmental Services currently has one air quality environmental principal employee who manages all GHG issues for SoCalGas and SDG&E. To support the above multiple new GHG programs and the other new air quality programs listed below, Environmental Services will require two additional air quality environmental specialists (FTEs) at SoCalGas beginning in 2012. See Environmental Services' workpapers for cost center 2200-2176.

<u>Reciprocating Internal Combustion Engines (RICE) National Emission Standard for Hazardous Air Pollutants (NESHAPS)</u>

In March 2010, EPA issued a final rule that imposes new national emissions standards for hazardous air pollutants ("NESHAPs") from existing diesel-powered stationary reciprocating internal combustion engines ("RICE"), also known as "compression ignition" or "CI" engines. The NESHAPs include work practices standards; monitoring, recordkeeping, reporting and administrative requirements; and performance and compliance testing for diesel-powered engines. The regulations became effective in May 2010. SoCalGas uses diesel-powered CI engines for emergency back-up power and/or fire pumps.

On March 5, 2009, EPA also proposed new NESHAPs for existing spark ignition engines, or "SI" engines, that either (a) have a site rating of less than or equal to 500 brake horsepower and are located at major sources of hazardous air pollutant ("HAP") emissions; or (b) are located at area sources of HAPs (with no horsepower limitation).[3] For purposes of this proposed rule, a "major source" of HAPs is a source that has the potential to emit any single HAP at a rate of 10 tons or more per year or any combination of HAPs at a rate of 25 tons or more per year. An "area source" of HAP emissions is a source that is not a major source. While EPA has not yet finalized a rule for SI engines, it expects to do so by August 2010. The most recent SI engine proposal would require SoCalGas to install improved combustion stability and oxidation catalysts on SI engines to reduce formaldehyde and carbon monoxide emissions. SoCalGas uses SI engines that would be subject to EPA's most recent proposed rule for compression and storage of

[3] In October 2010, EPA issued the final NESHAPs for SI engines. Although SoCalGas' analysis of the final rule is ongoing, our initial analysis suggests that the final rule will yield lower costs than the March 2009 proposed rule would have yielded.

natural gas. See the witness testimonies of Mr. John Dagg for Gas Transmission (SCG-03) and Mr. Ray Stanford for Gas Engineering for related capital costs.

Mojave Air District Rule 1160

SoCalGas anticipates that Mojave Desert Air Quality Management District ("MDAQMD") will revise MDAQMD Rule 1160 Internal Combustion Engines ("Rule 1160") in a manner that will require SoCalGas to meet new emission limits and monitoring requirements at North and South Needles and Newberry Compressor Stations. MDAQMD adopted Rule 1160 in 1994 and has not amended the rule in over fifteen years. There is significant interest at MDAQMD to revise the rule. MDAQMD's 2010 Master Rule Development Calendar indicates that MDAQMD will amend Rule 1160 to: "Analyze [particulate matter] measures for cost effectiveness. Update for [Reasonably Available Control Technology]. Conform to [Air Toxics Control Measure]." We anticipate that MDAQMD's Rule 1160 amendments will establish emission limits and other requirements in a manner consistent with South Coast Air Quality Management District ("SCAQMD") Rule 1110.2, Emissions From Gaseous- and Liquid-Fueled Engines (amended February 1, 2008). For costs that SoCalGas Operating Departments anticipate to incur in connection with Rule 1160 amendments, see the witness testimonies of Mr. John Dagg for Gas Transmission (SCG-03) for related O&M costs and Mr. Ray Stanford for Gas Engineering for related capital costs.

Aboveground Storage Tank (AST) Enhanced Vapor Recovery (EVR) Modifications

Pursuant to California Health and Safety Code 41950 (et seq.) and CARB Executive Order G-70-213-B, SoCalGas is required to install certified EVR systems on gasoline dispensing facilities that are using aboveground storage tanks by January 1, 2012. CARB's certification process for EVR systems that are appropriate for these facilities is underway. SoCalGas will install certified EVR equipment on two ASTs (Murrieta Base and Aliso Canyon) by January 1, 2012. These retrofitting projects will require preconstruction air quality permits. Environmental Services will begin to pursue these permits when CARB certifies the EVR system. For additional costs associated with this requirement, see witness workpapers of Mr. David Taylor for Real Estate, Land & Facilities.

Clean Air Act Section 185 Major Source Fees (SCAQMD Rule 317)

Clean Air Act Section 185 requires that major stationary sources of volatile organic compounds (VOCs) or nitrogen oxides (NOx) that are located in areas that fail to attain the federal one-hour standard for ozone by the applicable attainment date must either reduce their emissions by 20% from a baseline amount or pay a fee.[4] The South Coast air basin failed to attain its one-hour ozone standard by the applicable attainment date (2010). Since December 2008, the SCAQMD Board has been debating amendments to SCAQMD Rule 317 to implement Clean Air Act Section 185 for the South Coast air basin, but has failed to adopt the necessary changes. EPA notified SCAQMD in January 2010 that SCAQMD is under a sanction clock for failure to adopt a rule implementing Section 185 requirements. If SCAQMD fails to adopt a rule, EPA will adopt and administer a rule implementing Section 185 requirements for SCAQMD by January 2012.

The most recent version of Rule 317, dated May 7, 2010, would require SoCalGas major sources with NOx and/or VOC emissions greater than 10 tons per year to establish their respective source baseline using their 2010 emissions, and to report their annual emissions starting in 2011.[5] If the major source produces emissions above 80% of the 2010 baseline level, a fee in the amount of $9,080[6] would be assessed for each ton of NOx and VOC above the 80% threshold. Fees must be paid annually, starting in 2012, until SCAQMD achieves attainment with the one-hour ozone standard.

SoCalGas has three storage facilities (Aliso Canyon, Honor Rancho and Playa del Rey) that qualify under both the NOx and VOC provisions of Rule 317. The facilities are projected to exceed 80% of the baseline quantity in 2012. Environmental Services will support the operating groups in their implementation of the rule. The fees that the Operating Departments are anticipated to incur under the rule are set forth in the witness testimony of Mr. Jim Mansdorfer for Underground Storage (SCG-04).

---

4 In October 2010, MDAQMD informed SoCalGas that MDAQMD will assess Clean Air Act Section 185 fees for certain major sources subject to MDAQMD jurisdiction. Our understanding is that MDAQMD may assess these fees as early as 2011. SoCalGas is analyzing the impact these fees would have on O&M expenses.

5 The proposed rule allows for a Recessionary Baseline Adjustment that we have assumed will be included in the final adopted rule.

6 See *SCAQMD May 2009 Draft Staff Report, Proposed Amended Rule 317 – Clean Air Act Non-Attainment Fees* at 21.

Cultural Resources

Cultural resources are archaeological, historical and traditional cultural sites. They may include Native American prehistoric villages, homestead foundations from the early 1900s, and traditional plant gathering areas where basket-making materials were available. Environmental Management cultural resource staff is responsible for researching and field verifying certain activity conditions for potential cultural resources impacts. Cultural resource staff identifies potential environmental impact concerns and document site conditions and risks when the utility works on, builds or maintains certain company-owned facilities. To accomplish the cultural resource project prescreening and review in an effective and efficient manner, SoCalGas will purchase cultural resource exclusion maps for the SoCalGas territory. These maps will enable the Operating Departments to prescreen proposed O&M and capital jobs before submitting the work for environmental review. See the Environmental Services' workpapers for cost center 2200-2176.

Stormwater Construction Permit

In August 2009, the State Water Resources Control Board issued a new Construction Stormwater General Permit that regulates stormwater discharges from construction activities that result in one or more acres of soil disturbance. The new permit includes significant new risk-based requirements for construction projects, including but not limited to: inspections, sampling, effluent limits, reporting, specific minimum construction best management practices (BMPs), post-construction BMPs, bioassessments and personnel certifications. The permit became effective July 1, 2010. The upward pressures for these costs are included in the witness testimonies of Ms. Gina Orozco-Mejia for Gas Distribution (SCG-02) and Mr. Ray Stanford for Gas Engineering (SCG-03).

PCB Reassessment of Use Authorization

In April 2010, EPA published an Advance Notice of Proposed Rulemaking (ANPRM) announcing that EPA is reassessing, among other things, existing authorizations that allow for (a) the use, distribution in commerce, marking and storage for reuse of liquid PCBs in electric and non-electric equipment; and (b) the use of the 50 parts per million ("ppm") level for excluded PCB products. The ANPRM contemplates a mandated phase-out of all PCB-containing equipment. The current PCB use authorizations allow for PCB-containing electrical equipment and PCBs in natural gas pipeline systems to be used for the remainder of the equipment's useful life, provided applicable use conditions are met. The regulations that EPA's ANPRM anticipates would impact SoCalGas' natural gas delivery system as well as the electric distribution systems that SoCalGas owns and operates at three of its gas storage fields (Aliso Canyon, Honor Ranch and Goleta). While SoCalGas has worked diligently to reduce PCBs in its natural gas pipeline system, the termination of current use authorizations would impact the utility from a compliance management and financial standpoint. The phase-outs EPA is considering are as follows: (1) by 2020, eliminate all use of oil-filled equipment ($\geq$500 ppm PCB) and the authorization for use of PCBs at $\geq$50 ppm in pipeline systems; and (2) by 2025, eliminate all use of any PCB-contaminated equipment ($\geq$50 ppm) still authorized for use.

Environmental Services is working with internal technical and external trade groups to respond to EPA's ANPRM and EPA's associated data and information needs and requests. If EPA adopts its contemplated phase-out for electrical equipment, SoCalGas may be required to sample its electrical equipment for PCBs, remove or flush electrical equipment with PCB contamination at or above 50 ppm, and dispose of all wastes generated during these activities. For purposes of this GRC, SoCalGas assumes that any natural gas system-wide testing, new best management practices or PCB elimination efforts required to comply with any future PCB final rule would occur beyond the GRC period. Therefore, such costs have not been included in this GRC request. SoCalGas has included minor costs to begin sampling SoCalGas' electrical equipment. See the witness testimony of Mr. Ray Stanford for Gas Engineering (SCG-03).

<u>Environmental Regulatory Tracking</u>

Beginning in April 2010, Environmental Strategy assumed responsibility for coordinating and tracking new and proposed environmental regulations. This new responsibility is critical to the utility's compliance and strategic planning. Tracking of environmental regulations allows for timely implementation of new compliance requirements. SoCalGas will utilize regulatory publication services, such as the Bureau of National Affairs Federal and State Environmental and Safety Monitoring Reports, to efficiently screen and manage regulatory developments that could impact utility operations. Environmental Strategy requires one employee to manage the environmental regulatory tracking program. This employee will also manage the hazardous waste vendor audit program discussed below. See Environmental Services' workpapers for cost center 2100-3282.

Hazardous Waste Vendor Audit Program

Hazardous waste disposal activities can give rise to significant risk if improperly managed. To mitigate the risk associated with these activities, SDG&E audits third-party vendors who manage or dispose of high-risk wastes on behalf of the company. Environmental Strategy assumed this responsibility in 2010. The vendor audit program includes the use of internal and contract auditors, review of financial and compliance documentation of hazardous waste disposal vendors, periodic facility site audits and internal controls for approved vendor use. See Environmental Services' workpapers for cost center 2100-3282.

Environmental & Safety Employee Compliance Training Development:

Environmental Strategy develops and designs SoCalGas' environmental and safety training courses. SoCalGas currently has 141 environmental and safety training courses (74 environmental and 67 safety). Company-specific training is important for environmental and safety compliance as well as employee safety. To enhance training effectiveness and efficiency, Environmental Strategy is converting many training courses to a web-based training format. Web-based training provides efficiencies to operations by providing flexibility of when and how training is taken, reducing down time and saving trainer time. To achieve this conversion while meeting the training demands that new and proposed environmental regulations will yield, and to address the current backlog of existing training course updates, Environmental Services requires three years of contract labor beginning in 2011. See the Environmental Services' workpaper for cost center 2100-3282.

<u>Other Miscellaneous Environmental Expenses</u>

SoCalGas anticipates a number of additional upward financial pressures. To the extent these upward pressures impact Environmental Services, they are set forth in the Environmental Services' workpapers.

D. Summary of Request

The Environmental Services Department is requesting for the 2012 TY just and reasonable net upward pressures. The new regulatory requirements impacting operations for 2012 TY are real and substantive. They are also important to protect our environment both today and for future generations. It is with effective and prudent planning and implementation that the Environmental Services Department requests the amount of $2.86M for the 2012TY, which is an increase over the base year of $434K or 17.9%. Additional staff is needed at the total labor upward pressure of $369K for 4.7 additional full-time equivalents (FTEs) (1.8 due to labor adjustments for full staffing and 2.85 to support new compliance requirements described above). Non-labor upward pressures are in the total amount of only $65K. This increase demonstrates Environmental Services' efforts to identify and implement cost saving efficiencies to offset upward pressures. The regulatory compliance drivers discussed in this testimony also have impacts on the Operating Departments. Those impacts are detailed and substantiated in Operating Department testimonies and workpapers referenced in this testimony.

The Environmental Services Department is focused on achieving efficiencies in its work practices while maintaining its strong commitment to compliance. Environmental Services' request for the 2012 TY is fair and reasonable and demonstrates the dedication of its staff to provide cost effective, high value service to SoCalGas customers and rate payers.

The $2.86M request for 2012TY is detailed in the tables below for O&M non-shared services and shared services. With the billed-in dollars from SDG&E, the book expense is $4.86M.

Table SoCalGas-LPG-2
O&M Non-Shared Services
Testimony Section II
(Thousands of 2009 dollars)

ENVIRONMENTAL

Categories of Management	2009 Adjusted-Recorded	2012 Estimated	Change
A. ENVIRONMENTAL	*600*	*594*	*-6*
Total	*600*	*594*	*-6*

Table SoCalGas-LPG-3
O&M Shared Services
Testimony Section III
(Thousands of 2009 dollars)

ENVIRONMENTAL

Categories of Management	2009 Adjusted-Recorded	2012 Estimated	Change
A. Dir Environmental Services	*1,780*	*2,140*	*360*
B. Billed-In From SDG&E	*1,455*	*2,122*	*667*
Total Shared Services (Book Expense)	*3,235*	*4,262*	*1,027*

This testimony does not include capital expenditures because Environmental Services charges capital expenditures directly to capital projects. Those charges can be found incorporated as direct costs into individual capital projects.

Table SCG-LPG-4
Capital Expenditures
(Thousands 2009 dollars)

Category Description	2009 Recorded	2010 Estimated	2011 Estimated	2012 Estimated
A. Environmental *	*0*	*0*	*0*	*0*
Total	*0*	*0*	*0*	*0*

* Environmental Services charges capital expenditures directly to capital projects.

II. NONSHARED SERVICES

A. Introduction

Non-shared services cost centers support activities that Environmental Services conducts and manages solely for the benefit of SoCalGas. The following non-shared services cost center applies to SoCalGas' O&M costs in this category:

SoCalGas Non Shared Cost Center

Title	Operating Group
2200-0733 Environmental Specialist	Hazardous Materials and Waste

B. Discussion of O&M Activities

1. Category 1 - Environmental

SoCalGas O&M activities for Category 1 non-shared services (Table SoCalGas-LPG-5) are for the operation of two TSDFs and cleanup, management and disposal of hazardous wastes and contamination.

a. Workgroup: A. Environmental

The dollar request for 2012TY is necessary to address hazardous waste management and disposal requirements. Due to prudent management of SoCalGas' processes, the dollar request does not reflect an upward pressure in 2009 dollars estimates, but rather reflects a slight downward adjustment.

Table SCG-LPG-5
O&M Non-Shared Services
(Thousands of 2009 dollars)

ENVIRONMENTAL

Categories of Management	2009 Adjusted-Recorded	2012 Estimated	Change
A. Environmental	*600*	*594*	*-6*
Total	*600*	*594*	*-6*

III. SHARED SERVICES

A. Introduction

Shared services cost centers support activities that Environmental Services conducts and manages on behalf of SoCalGas, SDG&E, and in some instances, Sempra Energy Corporate Center. The allocation of the billed-out and billed-in amounts is based on a work activity analysis of staff. The following shared services cost centers apply to SoCalGas' O&M costs in this category:

SoCalGas Shared Service Cost Centers

Title	Operating Group
2200-2012 Environmental Services Director	Environmental Services Director
2200-2176 Environmental Mgmt North Manager	Environmental Management
2200-2197 VP Environmental, Safety & Support Serv	Vice President ES&SS
2200-2312 E&S Training	Environmental Strategy
2200-8918 Billing to SDG&E	

SDGE Shared Service Cost Centers

Title	Operating Group
2100-0206 Hazmat & Hazardous Waste Ops	Hazardous Materials and Waste
2100-0632 Environmental Laboratory	Environmental Laboratory
2100-3022 Environmental Mgmt South	Environmental Management
2100-3034 Environmental Mgmt North	Environmental Management
2100-3035 Site Assessment & Mitigation	Site Assessment & Mitigation
2100-3282 Environmental Strategy	Environmental Strategy
2100-3588 VP Environment, Safety & Support Serv	Vice President ES&SS
2100-3589 Environmental Services Director	Environmental Services Director

Summary of Shared Services Activities

1. Category 1 – Dir Environmental Services

Shared services activities as detailed in the testimony include compliance support provided by SoCalGas staff to SDG&E, and compliance support provided by SDG&E staff to SoCalGas, in the areas of air and water quality, land planning, natural and cultural resources, site assessment and mitigation, environmental laboratory sampling and analyses and hazardous waste management. These activities also include the development and management of environmental standard practices, programs, websites, and training materials; internal environmental governance programs and self-evaluation metrics; monitoring environmental regulatory developments; and auditing hazardous waste vendors. These shared services maximize the value of subject matter experts within the department and ensure consistent policies and programs across both utilities. Of the SoCalGas shared services cost centers' total incurred costs of $2.26M, $122K is billed out to SDG&E for compliance support. SoCalGas is projected to receive $2.12M in services from SDG&E.

a. Workgroup: A – Dir Environmental Services

The net upward pressures reflected in the dollar request for 2012TY include upward pressures that are necessary to address new and emerging GHG, air quality, water quality, environmental mitigation, cultural and natural resources, hazardous materials, hazardous waste, and environmental training requirements and programs. Each of these upward pressures is discussed in greater detail above and in the Environmental Services workpapers.

b. Workgroup: B – USS Billed-In from SDG&E

These costs are those billed to SoCalGas Environmental Services from environmental activities at SDG&E provided as described earlier in this testimony.

Table SCG-LPG-7

O&M Shared Services
(Thousands of 2009 dollars)

ENVIRONMENTAL

Categories of Management	2009 Adjusted-Recorded	2012 Estimated	Change
Incurred Costs (100% Level)			
A. Dir Environmental Services	*1,822*	*2,262*	*440*
B. USS Billed to CCTR for Environmental	*0*	*0*	*0*
Incurred Costs Sub-Total	*1,822*	*2,262*	*440*
Allocations Out To SDG&E			
A. Dir Environmental Services	*42*	*122*	*80*
B. USS Billed to CCTR for Environmental	*0*	*0*	*0*
Allocations Out To SDG&E Sub-total	*42*	*122*	*80*
Allocations Out To CORP			
A. Dir Environmental Services	*0*	*0*	*0*
B. USS Billed to CCTR for Environmental	*0*	*0*	*0*
Allocations Out To CORP Sub-total	*0*	*0*	*0*
Allocations Out To Unreg			
A. Dir Environmental Services	*0*	*0*	*0*
B. USS Billed to CCTR for Environmental	*0*	*0*	*0*
Allocations Out To Unreg Sub-total	*0*	*0*	*0*
Retained by SCG			
A. Dir Environmental Services	*1,780*	*2,140*	*360*
B. USS Billed to CCTR for Environmental	*0*	*0*	*0*
SCG Retained Sub-Total	*1,780*	*2,140*	*360*
Billed-In From SDG&E	*1,455*	*2,122*	*667*
SCG Book Expense	*3,235*	*4,262*	*1,027*

IV. CAPITAL

A. Introduction

This testimony does not include capital expenditures for Environmental Services because Environmental Services charges capital expenditures directly to capital projects.

V. CONCLUSION

This concludes my prepared direct testimony.

//

//

//

//

VI. WITNESS QUALIFICATIONS

My name is Lisa Gomez. My business address is 8335 Century Park Ct., San Diego, California, 92123. My current position is Director of Environmental Services under the Environmental, Safety and Support Services organization. The Environmental Services organization provides services to both SDG&E and SoCalGas. I joined Sempra Energy, the parent company of SDG&E and SoCalGas, in 2002. I have been in my current position at SDG&E (supporting SDG&E and SoCalGas as a shared services Director) since August 2007.

I have a Bachelor Degree in History from University of California, Los Angeles and a Juris Doctor degree from Cornell University Law School.

I currently serve as an appointed member of the Clean Air Act Advisory Committee to the United States Environmental Protection Agency.

I have not previously testified before the Commission.