Application No: A.06-08-026
Exhibit No.:
Witness: Johannes Van Lierop

In the Matter of the Application of Southern California Gas Company (U 904 G), San Diego Gas & Electric Company (U 902 M) and Southern California Edison Company (U 338 E) for Approval of Changes to Natural Gas Operations and Service Offerings	A.06-08-026

PREPARED SUPPLEMENTAL TESTIMONY

OF JOHANNES VAN LIEROP

SAN DIEGO GAS & ELECTRIC COMPANY

AND

SOUTHERN CALIFORNIA GAS COMPANY

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA
January 19, 2007

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PREPARED SUPPLEMENTAL TESTIMONY OF JOHANNES VAN LIEROP

My name is Johannes Van Lierop. I have previously submitted testimony in this proceeding.

This testimony is in response to the Assigned Commissioner's ruling of December 21, 2006 which ordered SoCalGas/SDG&E to file supplemental testimony on several issues. Specifically, this testimony will summarize all prospective changes to SoCalGas' Gas Cost Incentive Mechanism (GCIM), discuss potential rate impacts of certain proposals, and briefly discuss the treatment of long-term gas supply contracts, including possible contracts for LNG.

A. SUMMARY OF GCIM CHANGES

This section summarizes and explains GCIM changes that result from proposals in this application and which are included in Appendix C of my direct testimony in this proceeding.

Winter Hedge: Currently, SoCalGas has authority to use certain financial instruments to hedge gas purchases for the 2006-2007 winter and exclude the costs and benefits of these winter hedges from GCIM.[1] SoCalGas does not have such authority for subsequent winters. In this proceeding, SoCalGas proposes to make the exclusion of winter hedges a permanent feature of GCIM. This exclusion is described in section C.6.j of the proposed GCIM tariff. Also, this section defines Winter Hedges as all financial transactions used to hedge natural gas prices for any portion of the November through March period.

Storage Targets: As described in my direct testimony, currently GCIM provides for a minimum core storage inventory target for the beginning of the withdrawal season on November 1. This minimum target currently equals 72 Bcf.[2] Currently there are no other specific storage targets for the injection season. This application proposes minimum month-end storage targets for each month of the injection season April to November. Section C.7 of the proposed GCIM

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[1] D.06-08-027.

[2] In a recent decision (D. 06-12-010), the Commission increased the core storage capacity allocation by 4 Bcf to 74 Bcf on a temporary basis. The November 1 storage target equals the allocated core capacity with a tolerance of -2/+5 Bcf.

tariff includes a rule to calculate annually minimum storage inventory targets for each of the injection season months.

Portfolio Combination: As discussed by SoCalGas witness Mr. Goldstein, this application proposes to combine the core gas procurement functions of SoCalGas and SDG&E. SoCalGas' GCIM will apply to the combined portfolio. While the combination will not change the structure of GCIM there may be certain changes in how GCIM is applied. For example, GCIM applied to the combined portfolio would likely include the AECO trading point in Canada.

Annual Gas Plan and Gas Procurement Review Group (PRG): As described by Mr. Goldstein, this application proposes annual Gas Plan Filings. It also proposes the establishment of a Gas PRG to review the Gas Plan. These proposals are included in section C.8 of the proposed GCIM tariff.

B. RATE IMPACTS OF CERTAIN PROPOSALS

Storage Targets: As discussed in my direct testimony, this application proposes monthly minimum storage targets for the April-October injection season. Any such targets reduce the flexibility to optimize gas purchases and therefore have the potential to force Utility Gas Procurement Department into transactions that increase gas costs. However, the specific targets proposed in my direct testimony are unlikely to have negative impacts under most market conditions and not likely to have a significant impact on gas costs. If the Commission were to adopt targets that are more restrictive than the ones proposed in my testimony, there could be a significant negative impact on gas costs.

Core Balancing Rules and Minimum Flow Requirements: As discussed in my direct testimony, this application proposes that the core should be subject to the same balancing rules as noncore customers. This application also proposes that the responsibility for the Blythe minimum flow requirements be transferred from the core to the system operator. The settlement with Edison provides that these two proposed changes should be implemented concurrently and that neither of these proposals should be implemented without the other. Therefore, it is appropriate to discuss the combined rate impact of these two proposals. The proposed new balancing rules have the potential to increase core gas costs. This is because the core may incur imbalance charges. It is also because the Utility Gas Procurement Department may operate more conservatively in order to avoid the risk of incurring imbalance charges. The transfer of the minimum flow requirement to the system operator will have the impact of reducing core gas costs. The system operator will incur costs to maintain minimum flows at Blythe which will be born in part by the core and in part by the noncore. SoCalGas believes that this combined proposal is a reasonable compromise, but is not able to quantify the net rate impact of these proposals.

C. TREATMENT OF LONG-TERM GAS SUPPLY CONTRACTS

SoCalGas currently buys a significant portion of its total gas supply under long-term contracts with index-based pricing provisions. These contracts are treated like all other gas supply transactions, i.e. they are benchmarked against monthly bid-week indices. Because these are index-based contracts, there is no reason why they should be treated separately under GCIM. Since GCIM benchmarks all transactions against monthly indices, and because monthly indices can be highly volatile over time, long-term contracts with fixed-price provisions cause large earnings risk under GCIM and the presence of a large volume of such contracts in the gas portfolio would require separate treatment.

With respect to LNG, in its Phase 1 Decision in the Gas Markets OIR (D.04-09-022), the Commission stated that because of the uncertainties over how LNG markets in California will develop, long-term-contracts for LNG require prior Commission review.[3] The Commission also stated that LNG contracts in the utilities' portfolio may affect the working of the existing procurement mechanisms. Because of this existing Commission policy, SoCalGas believes that it is most appropriate to deal with the treatment of long-term LNG contracts in any future filings in which such contracts would be submitted for Commission approval.

This concludes my supplemental testimony.

[3] D.04-09-022, FOF 34.