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

Application 10-12-___
Exhibit No.: (SCG-01)

PREPARED DIRECT TESTIMONY OF
ANNE SMITH
ON BEHALF OF SOUTHERN CALIFORNIA GAS COMPANY

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

DECEMBER 2010

The Gas Company

SCG Doc#250052

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PREPARED DIRECT TESTIMONY OF
ANNE SMITH
ON BEHALF OF SOUTHERN CALIFORNIA GAS COMPANY
(POLICY OVERVIEW)

I. INTRODUCTION

This exhibit provides the overarching policy testimony for the Southern California Gas Company ("SCG"). It describes how the proposals in SCG's 2012 General Rate Case ("GRC") application support our vision of the future, and ways that SCG intends to meet our customers' energy needs. SCG – like many other businesses in California and the nation – faces significant operating challenges. Some of these challenges are a reflection of the current economic conditions, while others reflect evolving public policy that is increasingly focused on environmental sustainability, energy security and climate change. Our customers at the same time are seeking more from the utility on ways to reduce their costs or use energy more wisely. Overlaying this are the challenges of operating the nation's largest natural gas utility which serves communities of vast lifestyle, cultural and language diversity.

A significant portion of our anticipated cost increases result from mandated programs that are beyond the direct control of the company. In this GRC, SCG forecasts significantly increased expenses associated with complying with federal, state, and local environmental regulations related to air quality and greenhouse gas monitoring and control, storm-water runoff, fleet vehicle emissions, and the removal of PCBs from our system. SCG is also facing significant cost increases related to Department of Transportation natural gas pipeline safety inspection and repair regulations. Recent pension legislation, combined with the impact of the economic downturn on market returns, is driving up the minimum pension funding requirements (although SCG is proposing to reduce this increase for TY2012). And finally, SCG faces ever-increasing reporting responsibilities which include the CPUC's Affiliate Rules, FERC Standards of Conduct, Occupational Safety and Health Administration (OSHA) requirements and Sarbanes-Oxley requirements which also result in higher operating costs.

SCG has examined the changes we expect to occur over the term of this GRC and are proposing investments for maintaining and enhancing system integrity, enhancing service to customers, deploying new technology, and delivering clean and efficient energy to the region –

all the while being very mindful to be cost efficient with our customers' money. As we look to the future our customers will be expecting that SCG incorporate new technologies in the business to automate business processes and where possible increase service options, while maintaining reasonable and competitive rates. In this GRC, SCG is requesting a forecasted revenue requirement that will accomplish the above. SCG has also developed a post-test year ratemaking mechanism that responds to today's uncertain economic climate and maintains incentives to pursue greater operational efficiencies.

SCG is requesting a TY2012 revenue requirement of $2.124 billion. When the impact of commodity costs and other ratemaking items such as regulatory account balances are included, this increase results in a TY2012 system average rate revenue increase of $308 million (7.4%) as compared to currently effective 2010 rates. If approved by the CPUC, the effect of this proposed increase, in 2012, on a residential customer's typical monthly bill[1] is an increase of $3.35 (7.7%) over two years, or an annual average increase of 3.8%.

As described later in my testimony, SCG is mindful of the difficult economic circumstances facing many of our customers. Because of this, SCG has incorporated two proposals into the GRC that lower the requested TY2012 revenue requirement in an effort to help mitigate the rate pressures that customers would otherwise experience. SCG has also incorporated in this GRC two proposals to help encourage productivity in the post-test years: an earnings sharing mechanism that will share any productivity gains beyond a set benchmark with customers and an efficiency carry-over mechanism that will encourage SCG to undertake longer-term productivity projects that may extend beyond one GRC cycle.

Finally, while the shared management organizational structure that SCG and San Diego Gas & Electric Company ("SDG&E") have operated under since 2002 has worked well, some revisions to the model have become necessary to better address future challenges and allow for more focused management attention to the unique issues facing each utility. For those reasons an organizational realignment was undertaken in early 2010 to provide greater autonomy and separate senior leadership for each company. This is further discussed in Section III of this testimony.

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[1] Based on annual average usage of 38 therms per month.

II. OVERVIEW OF OPERATIONS

SCG service territory covers approximately 20,000 square miles and encompasses about 500 different communities with a population of 20.5 million. We provide service to these customers in southern California through 5.4 million meters, which is expected to grow to 5.6 million customers by 2012. SCG currently serves approximately 5.4 million residential households and 200,000 commercial and industrial customers.

As shown in Figure AS-1, the geographic boundaries of the service territory encompass San Bernardino, Riverside, Ventura, Orange, Tulare, Los Angeles, Kern, Kings, Imperial, Santa Barbara, San Luis Obispo and parts of Fresno and San Diego counties. The SCG intrastate transmission system is comprised of 3,989 miles of large and high pressure pipeline and 11 compressor stations. The transmission pipeline system is designed to receive natural gas from out of state production via interstate pipelines, and from various California offshore and onshore sources. The gas supply entering the system is measured, analyzed for quality, and then flows into the Company's distribution system, storage fields, and ultimately to end-use customers.

SCG owns, operates, and maintains a gas distribution system that consists of a network of approximately 97,400 miles of interconnected gas pipelines. The primary function of this distribution pipeline network is to receive natural gas from SCG's transmission system and redeliver the supplies at lower pressure to residential homes and businesses in southern California.

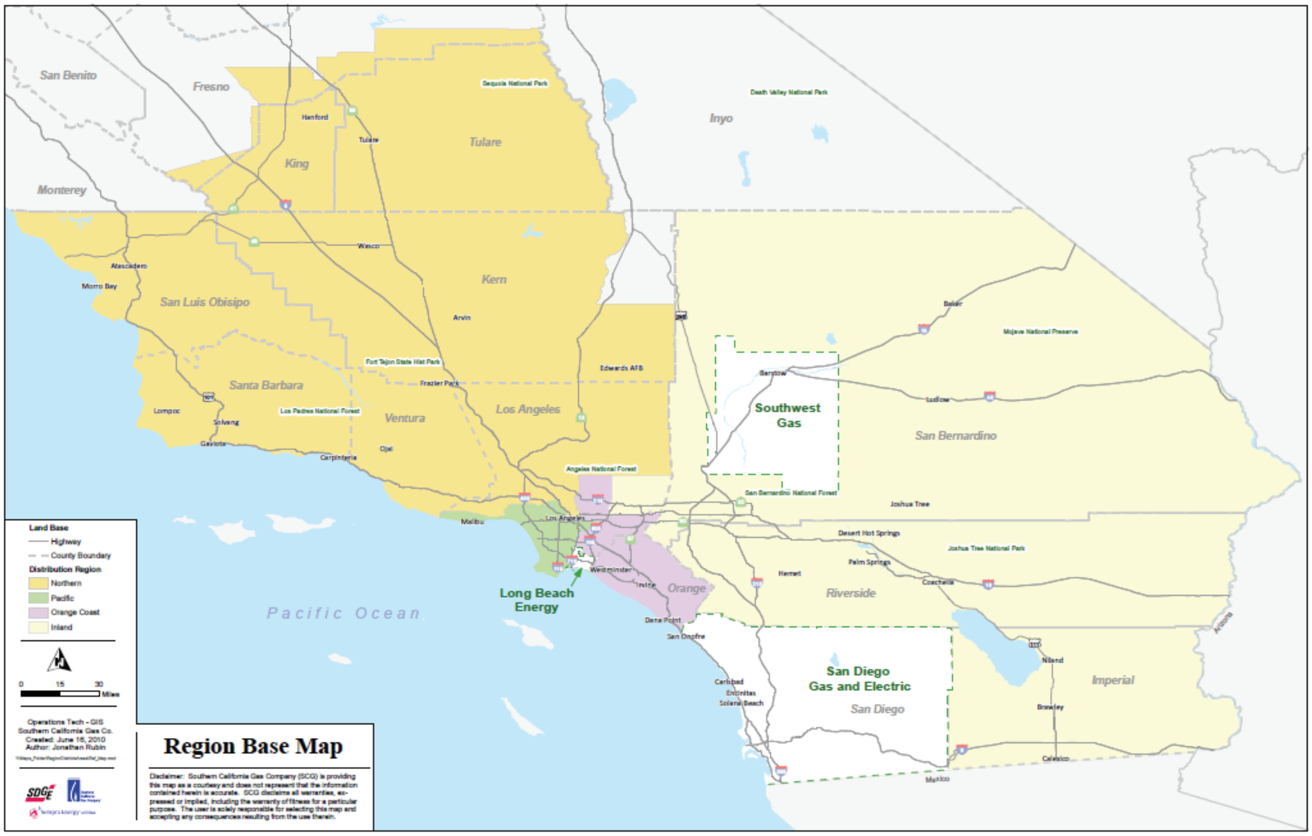

Figure AS-1: SCG Gas Distribution Service Territory

The distribution system consists of not only the pipelines themselves, but a network of valves and regulator stations. Valves serve the purpose of being able to isolate the vast system into smaller operating areas for operational, maintenance, construction and emergency purposes. The regulator stations located throughout the system manage the operating pressure of the pipelines to ensure adequate delivery of gas supplies to meet customers' energy demand. The final step in the gas delivery process is done through the individual customer's gas service lines which connect the pipelines in the street to the customer's meter.

SCG also operates four underground storage fields with a working capacity of approximately 134 Bcf. These fields are Aliso - 86 Bcf, La Goleta – 21.5 Bcf, Honor Rancho 24.1 - Bcf, and Playa Del Rey – 2.4 Bcf. These storage facilities are an integral part of the gas infrastructure required to provide Southern California businesses and residents with safe, reliable, and cost-competitive gas services.

Beyond the safe and reliable delivery of natural gas, another SCG core function is to provide outstanding services to our customers. Customer Services Field representatives provide services at customer's homes and businesses to perform service turn-on, appliance adjustments, safety checks, and meter change-outs. These services include the following activities:

- SCG personnel completed over 4.3 million customer service orders in 2009;
- SCG's Customer Contact Center is a call center operation that averages approximately 8 million customer calls a year, which are handled by approximately 600 customer service representatives (CSRs) at two locations;
- Each month meter readers complete approximately 5.6 meter reads, or 67 million meter reads annually;
- In 2009, SCG rendered over 75 million paper and electronic customer bills, notices and letters including nearly 3 million CARE documents, and processed over 54 million manual and electronic payments, including over 7 million bill payments at 47 different Branch Offices locations and over 200 contracted Authorized Payment Locations;
- The back-office functions play a key role in managing the cash flow of SCG and ensuring customers receive timely and accurate bills. In 2009, approximately 1.2 million billing exceptions were handled and 87,500 customer authentications were completed. In addition, this group maintains the measurement and reporting for the 1,400 large electronic gas meters.

SCG's customer base encompasses a wide range of market segments with varying levels of sophistication, service and communications needs. Advancements in information technology have led to changing customer expectations that information be immediately available. While some customers prefer direct mail as their primary source of communication, others request that information be more readily available and seek more electronic self-service options. Thus, to effectively reach customers with important service and program information, we must build new, and significantly enhance existing, non-traditional communication channels such as web-seminars, social media, personal communication devices, and the SCG website.

SCG is proud of the recognition we have received for superior performance. We have received recent awards in the areas of customer services, supplier diversity and sustainability.

Some of these awards include:

- #1 in JD Power & Associates ranking of customer satisfaction ranking among U.S. natural gas utilities;
- #1 in 2009 and 2010 American Customer Satisfaction Index Survey ranking of customer satisfaction among largest U.S. investor owned utilities;
- Identified as a "model utility" in Greenlining's 2010 supplier diversity report card;
- United States Environmental Protection Agency 2008 Energy Star Leadership in Housing Award.

III. 2010 REORGANIZATION

We have recently undertaken a reorganization that will enable SCG senior management to better focus on the challenges facing our business. Since 2002 we have had a joint management structure that placed both SCG and SDG&E under a single team of officers. We have learned and benefitted from this integrated management, and we continue to take advantage of the current efficiencies by retaining a number of shared services. In addition, the operation of the gas system and the customer service field operations at the two utilities remain integrated to maximize efficiencies and the deployment of best practices.

However, today and going forward the issues facing the natural gas business are increasingly different from those facing the electricity industry, and we believe each company deserves greater management focus to meet its unique challenges. For example, as Mike Niggli cites in his testimony, electric utilities must meet the existing 20% Renewables Portfolio Standard (RPS), and SDG&E is working hard to meet its voluntary commitment to a 33% RPS. Natural gas utilities are facing AB32 obligations that are significantly different from those facing electric utilities, including the possibility that under certain regulatory proposals SCG will be responsible for the emissions of its customers in addition to the potential regulation of fugitive pipeline emissions. Continuing pressures at the regional level to achieve federal clean air act attainment will increasingly pose tough and costly mandates on SCG and all of its customers. On the supply side, SCG is intently focused on ensuring our customers have access to competitively priced natural gas to meet their energy needs. We are closely monitoring the prospect of increased shale production as well as other supply sources, including imported LNG and the very promising new biogas resources. As the challenges and opportunities facing the natural gas and electricity industries diverge, the ways in which SCG and SDG&E manage their business must also change.

Accordingly, in April of 2010, Sempra Energy announced a corporate reorganization that returned certain functions and accountability to the various Sempra Energy business units. As described by Mr. Folkmann (Exhibit SCG-17), corporate center functions primarily serving SCG and SDG&E were transferred to those utilities. In addition to changes at the corporate center level, SCG and SDG&E also affected changes that established a separate senior management team at each utility. SCG believes that the divergent issues facing each utility warrant such a focus. In total, SoCalGas, SDG&E and corporate center were able to complete this reorganization with a net decrease in costs.

IV. OPERATIONAL FOCUS

SCG's business priorities over the GRC term include:

- Managing the daily operations of the nation's largest natural gas utility safely, reliably, efficiently, and in compliance with all regulations and laws;
- Meeting the needs of over 20 million southern Californians who are increasingly more diverse in their service demands and expectations;
- Acquiring reliable and low-cost gas supplies on behalf of our residential and small business customers;
- Delivering the clean natural gas that fuel much of the State's electric generation and industrial processes, and providing these customers with access to competitive sources of natural gas supply;
- Investing in training and development of our most valuable asset – our employees, so they can remain equipped to provide outstanding service to customers; and
- Investing in technologies that improve operating efficiencies, advances clean energy applications, and empower customers with information and tools to better manage their natural gas usage.

A. Safety and Reliability

Operating our system with the safety of our employee, customers and communities in mind is our primary operational focus. There is also continued expectation of high reliability of gas service. Reliable natural gas service is critical for electric generation facilities that are needed to maintain electric grid reliability, for industrial customers who cannot use alternate fuels or require natural gas in their production processes, and all other customers who rely on natural gas for comfort and businesses operations.

To provide the level of safety and reliability that our customers expect, we need investment and access to capital for the maintenance, operations, and replacement of aging and/or deteriorating infrastructure. As described in testimony of Mr. Stanford (Exhibit SCG-05) and Ms. Orozco-Mejia (Exhibit SCG-02), two significant drivers of the increase sought in the 2012 General Rate Case are the Department of Transportation mandated Transmission Integrity Management Program (TIMP) and Distribution Integrity Management Program (DIMP). Operating in southern California as the largest natural gas distribution company in North America, we face far more complex technical and operational issues than most pipeline operators do. Work required to maintain the integrity of the physical system increases as the system expands; cost involved in keeping an aging system running continue to escalate, particularly in light of the stringent regulatory requirements and restrictions that are being imposed; and all the employees must be highly trained and equipped to work proficiently.

B. Customers

SCG will continue to enhance the delivery of value-added services to customers. SCG strives to provide the information customers require to make wise decisions regarding energy use, and also seeks to provide our customers with tools to help effectuate those decisions. We will proactively indentify their service needs and engage them in developing solutions. We will use advanced technology to communicate and interface with our customers and gain a better understanding of their expectations. SCG understands that some of our customers have special needs and will continually shape programs targeted to these customer segments. We also will continually build positive relationships with our broad-based external stakeholders to reflect their views in designing our programs and services and to benefit from their input in our decision making.

As described by Ms. Wright (Exhibit SCG-09), SCG must meet increasing customer expectations for communication and e-services while also supporting ambitious goals for low income customer assistance, improved local air quality, reduced greenhouse gas (GHG) emissions and greater use of renewable energy sources. In addition, we plan to add resources to implement Commission-approved expansion of capacity and pipeline services to maximize the flexibility and value of SCG's transportation and storage infrastructure to customers.

SCG has made significant progress in enabling website-based services over the past five years, and will continue to do so in this GRC cycle. We expect the pace of technology adoption will accelerate among all of our customers. By making investments in developing and enhancing these on-line services, SCG will be able to deliver services through channels of customers' choice that are convenient, time-saving and environmentally-friendly. Examples of the increased use of electronic media include:

- In a five year period, total visits to SCG websites have increased from under 6 million in 2005 to over 23 million in 2009;
- Since 2005, the number of customers registered for SCG secured online personal account management service, "My Account", has increased from under 6% to over 22%. Currently there are over 1.3 million customers registered, with an average of over 15,000 new users added each month;
- Over 1 million customers are registered to receive SCG's informational e-mails and newsletters, up from just 8,500 customers in 2005.

An important segment of SCG's customer base is the Special Needs customers who benefit from assistance beyond the basic services. Special Needs customers are those residential customers who have financial difficulty in paying their utility bills, persons with medical conditions that require the use of natural gas equipment in their homes, and households with limited English language proficiency. This GRC includes funding request for additional outreach and support as part of SCG's continued commitment to serving Special Needs customers.

C. Employees

1. Workforce

SCG's workforce needs to have the skills and tools necessary to provide safe, reliable, efficient, and quality gas service. The OpEx 20/20 program and the upcoming Smart Meter program have introduced, and will continue to introduce, rapid technological changes in our business processes. This requires significant retraining of our existing employees in order for them to remain proficient in the work that needs to be performed. Two key initiatives that will be transformational to our employees are described below:

- The Supervisor Enablement project was undertaken to enable the field supervisors to focus on employee safety, quality and productivity. The project will reduce their administrative burden and increase the time available to support employees in the field. New tools are in place to reduce, automate, or eliminate unnecessary administrative tasks and provide easy access to relevant information that helps to increase their supervisory effectiveness.
- The Single View of the Customer (SVOC) project is designed to enable a consolidated view of a customer by capturing and integrating customer information currently residing in various information sources across the company. Such information may include: history of service transactions, participation in special programs such as energy efficiency rebates or low income assistance, key household demographic attributes such as primary language spoken, and special service preferences such as the use of electronic communication channels or on-line payment options. This

tool will enable our service representatives to anticipate and better respond to our customers' needs.

These initiatives are described in greater detail in Mr. Phillips' testimony (Exhibit SCG-13).

Our company has discovered that a thoughtful strategy is needed to build a workforce of the future. With the pace of technological changes and a maturing workforce, we not only must plan for the level of the workforce, but also need to define and acquire the requisite composite of skills. Many workers and supervisors need to be retrained; new skills must be hired; and leadership styles and work culture must be change to manage the next generation of employees. In short, we need a flexible workforce that can be retrained as jobs are transformed. At the same time, we must continue to develop the leadership skills necessary for continued successful operations.

2. Compensation and Benefits

The ability to attract, motivate and retain a dynamic workforce is critical to SCG being able to maintain its operational and service excellence. We continually monitor our compensation and benefits programs so we can be competitive in the job market. As described by Ms. Robinson (Exhibit SCG-19), the company's 2010 Total Compensation Study conducted by Towers--Watson found SCG total compensation levels to be within the Commission's historical guidelines for reasonableness in this area.

Providing competitive benefits to our employees allows us to attract and retain valuable employees. SCG offers its employees a portfolio of benefits in areas including health, welfare (e.g., life insurance), retirement, education assistance and emergency day care. Cost increases are projected in each of these areas. The health and retirement programs, which are highly valued by our employees and represent over 90 percent of SCG benefit expense, will experience significant hikes due to market conditions and anticipated regulatory changes.

D. Technology

Use of information technologies continue to expand at a rapid pace. As examples, SCG and SDG&E together managed approximately 50,000 Internet protocols (IP)-addressable devices in 2009. By 2015, we will operate and manage millions of IP-addressable devices. In 2010, SCG and SDG&E together managed enterprise storage of 680 terabytes (TB). By 2015, the two utilities expect to manage more than 7000 TB. By contrast, in 2005 most Fortune 500 companies managed less than 10 TB.

SCG plans to leverage advances in information, communications, and energy technology, to move our business forward. We believe the effective deployment of technology will help to cost effectively meet our customers' needs by enhancing the services and information available to them. We also believe that advanced technology will improve the cost efficiency of operating our delivery system and maintaining the integrity of our infrastructure. Finally, we believe the wise investment in promising energy technologies can help us achieve greater environmental sustainability. Some examples of how SCG is leveraging advanced technology to achieve our objectives include:

- **Advanced Monitoring Technology for Gas Storage Fields:** These systems automatically monitor pressures, temperatures, vibrations, tank levels, and other variables at the compressors, dehydration plants, tank farms and wells. This technology enables the operating personnel to perform other important tasks rather than spend time to take manual readings.
- **RD&D:** SCG has a vigorous and successful RD&D program that is primarily focused on clean energy technologies, especially solutions to a carbon constrained world.
- **OpEx 20/20:** As described by Mr. Phillips (Exhibit SCG-13), OpEx 20/20 ("OpEx") is a program initiated by SCG and SDG&E to develop a roadmap for the deployment of technology to be used to improve operations, increase efficiency, enhance the customer experience and provide better tools and information for supervisors and front line employees. This programmatic, enterprise-approach

to take advantage of advanced technology--including information and communications technology--is a significant undertaking, but one in which both SCG and SDG&E invested time and talent to pursue because of the significant benefits that could be reaped for our customers. While the program is not expected to produce overall net benefits until 2016, OpEx has produced O&M and capital benefits in TY2012 and those benefits have been included in SCG's TY2012 request.

E. Sustainability

SCG is actively engaged in bringing advanced energy technology to market that captures "raw" biogas and, through the use of a conditioning process, converts it to pipeline quality biogas (biomethane). This biogas will be injected into our system for delivery to meet a significant portion of our company and fleet uses. Use of this renewable biogas will result in a reduction in SCG's "carbon footprint" because we will be able to replace the use of natural gas with bio-methane. This will help SCG avoid the need for GHG emission allowances annually. Further, local air quality will be improved as the raw biogas will no longer be flared or lost into the atmosphere, but rather will be put to productive use. This project is described in greater detail in the testimony of Ms. Gillian Wright (Exhibit SCG-09) and the testimony of Mr. R. Stanford (Exhibit SCG-05).

Another high priority in our operations is ensuring compliance with all environmental laws and regulations. Environmental compliance continues to become more complex and challenging for the natural gas industry. As described in the testimony of Ms. Gomez (Exhibit SCG-15) these regulations have a significant impact on SCG's TY2012 request. SCG must remain in 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. We expect to see increased costs associated with new program development, employee training, monitoring and record keeping, and audits.

Federal, state and local legislative and regulatory bodies have recently adopted and proposed to adopt several new GHG programs that will impact SCG. The most significant of these regulations require SCG to annually report fugitive, vented and flare combustion carbon dioxide and methane emissions from selected equipment. The California Air Resources Board ("CARB") is also scheduled to implement other GHG emissions caps and regulations designed to achieve California's GHG emissions reductions goals. Other environmental regulations that are forecast to impact SCG's costs include the Construction Storm Water General Permit that regulates storm water discharges from construction activities and pending EPA regulation of liquid PCBs in natural gas pipeline systems. Since some of the new environmental regulations are pending, their exact costs remain uncertain. Because of this uncertainty SCG is proposing a New Environment Regulation Balancing Account ("NERBA") for expenses related to pending environmental regulations. The proposed accounting treatment for these NERBA costs is discussed in the testimony of Mr. Shimanski (Exhibit SCG-34).

F. Diversity Business Enterprises

SCG is proud of our achievement in the area of supplier diversity and has excelled in efforts to utilize women, minority and disabled veteran owned businesses. As discussed by Ms. Sedgwick (Exhibit SCG-10), the Diverse Business Enterprise ("DBE") organization ensures compliance with the GO156 target of 21.5% Women, Minority, Disabled Veteran Business Enterprise ("WMDVBE") spending. SCG has surpassed the CPUC goal for several years now and has achieved over 30% WMDVBE spending for two consecutive years (2008 and 2009).

The DBE organization has invested additional resources to expand outreach efforts in underutilized areas (S-I-C specific). With CPUC heightened focus in these areas, DBE has increased small business forums (co-hosted by the CPUC) and technical assistance programs, resulting in increases in mentoring and capacity building initiatives. In addition to these new initiatives, the company is expecting to significantly increase its major capital expenditures, presenting considerable opportunities and challenges in maintaining our DBE results. Some of these new projects will include green procurement initiatives and, with that, the development of green DBE suppliers. The efforts to achieve WMDVBE spending in new capital projects s will require not only more aggressive outreach and development work, but also increased reporting, tracking, and monitoring requirements.

V. TY2012 GRC REQUEST AND POST-TEST YEAR RATEMAKING

A. TY2012 Revenue Requirement

SCG is requesting a TY2012 revenue requirement of $2.124 billion. When the impact of commodity costs and other ratemaking items such as regulatory account balances are included, this increase results in a TY2012 system average rate revenue increase of $308 million (7.4%) as compared to currently effective 2010 rates. If approved by the CPUC, the effect of this proposed increase, in 2012, on a residential customer's typical monthly bill2 is an increase of $3.35 (7.7%) over two years, or an annual average increase of 3.8%.

Due to the moderate climate in Southern California, natural gas consumption is relatively low on a per customer basis. Therefore, residential customer bills will remain low compared to other utilities in the nation. The projected rate increase and residential bill impact requested in this proceeding are discussed in more detail in the testimony of Mr. Gary Lenart (Exhibit SCG-40).

B. TY2012 Rate Reduction Proposals

SCG is mindful of the difficult economic circumstances facing many of our customers. Because of this, SCG has incorporated two proposals into the GRC that lower the requested TY2012 revenue requirement in an effort to help mitigate the rate pressures that customers would otherwise experience.

First, Mr. Lewis (Exhibit SCG-29) provides testimony that calculates a SCG working cash requirement of $34 million to compensate utility investors for providing operating capital to fund daily operating needs. Although this is the amount that SCG would normally include in its TY 2012 GRC request (to be included in the rate base on which SCG is entitled to earn a return), SCG has elected to request a zero ($0) funding level for SCG's 2012 GRC working cash requirement. This one-time non-precedential policy decision was made in recognition of the continuing economic downturn and its impact on our customers. Should economic conditions improve, SCG reserves the right to petition the Commission at that time (which could be prior to SCG's next GRC) to

[2] Based on annual average usage of 38 therms per month.

return to normal treatment of working cash requirements - i.e. to include this amount in rates going forward.

Second, as discussed in the testimony of Mr. Sarkaria (Exhibit SCG-20), SCG expects to face significant increases in pension funding requirements and PBOPs funding needs in TY2012 and for the post-test year period (2013-2015). Much of the requirement for this funding is driven by poor market returns resulting from the economic downturn. Should economic circumstances improve, and market returns rise back to historical levels, it is possible that the need for pension funding will be reduced in the future. Because of this, and because SCG proposes to continue 2-way balancing of pensions and PBOPs expenses, SCG proposes to hold pension and PBOPs funding at the 2009 recorded levels for TY2012. Annual actual pension funding will continue as required by law and annual actual PBOPs funding will continue as required by prescribed actuarial calculations. Any shortfall (or surplus) from the 2009 recorded level of expense will be recorded in the pension and/or PBOPs balancing accounts for recovery in the subsequent year. As with the working cash proposal, this one-time non-precedential policy decision was made in recognition of the continuing economic downturn and its impact on our customers. This proposal benefits customers by delaying for at least one-year to 2013 the projected $35 million pension funding increase and $18 million PBOPs funding need that Mr. Sarkaria projects over 2009 recorded levels. The proposal may continue to benefit customers for future years should funding requirements diminish. It is important to note that the proposal to hold pension and PBOPs expense at 2009 recorded levels for ratemaking purposes is contingent upon the Commission also authorizing continued 2-way balancing account treatment for pension and PBOPs expenses. Should this not be adopted, SCG would instead propose that the Commission adopt the level of TY2012 pension and PBOPs funding described in the testimony of Mr. Sarkaria.

C. Post Test Year Ratemaking

As discussed in the testimony of Mr. Emmrich (Exhibit SCG-39), SCG proposes a PTY ratemaking mechanism to adjust its gas authorized revenue requirements in the post test years by applying separate formulas to the medical, operating and maintenance (O&M) -related and capital-related revenues. SCG proposes to absorb the costs associated with customer growth as a productivity factor.

SCG proposes a four-year term for this GRC: TY2012 and Attrition Years (AY) 2013, 2014 and 2015. SCG believes that a four-year GRC term provides greater incentives to the utility to make productivity-enhancing investments and allows SCG to operate the business more efficiently than would a shorter term.

SCG also proposes two mechanisms to allow the sharing of operational efficiencies with customers. The first is very similar to earnings sharing mechanisms the Commission has adopted for SCG in past rate case cycles. The purpose of this mechanism is to encourage SCG to continue to invest in productivity enhancement projects and initiatives. The second mechanism would allow the sharing of efficiencies achieved from productivity investments across rate case cycles. This mechanism incents SCG management to look for longer-term productivity programs (such as OpEx 20/20) that may not achieve full payback in one GRC term.

SCG has been operating under essentially the same non-tariffed products and services ("NTPS") mechanism since its implementation in 1997 as part of (D.98-08-035). As described in the testimony of Mr. Lane (Exhibit SCG-33), SCG proposes modifications to the existing NTPS rules to reflect the challenges facing a modern utility. SCG believes that these modifications would encourage the development of new products and services that would benefit customers without exposing them to any financial risk.

VI. CONCLUSION

SCG intends to maintain outstanding operational excellence in fulfilling our responsibility and commitment to provide energy service to our customers and the communities we serve. We must have the resources necessary to carry out this task and ensure that our customers get the greatest value for their money. We will continue to take steps to improve our customer service and maintain our high level of reliability. We will continue to take affirmative steps to ensure that our workforce and suppliers reflect the diverse face of California. Finally, we will continue to use technology to bring greater choice and empowerment to our customers and greater operational efficiency to our business.

This concludes my prepared direct testimony

VII. WITNESS QUALIFICATIONS

Anne Shen Smith is Chief Operating Officer (COO) for Southern California Gas Company (SoCalGas).

Previously, Smith served as the Senior Vice President of Customer Services and Vice President of Environment and Safety for SoCalGas. Smith started her career with SoCalGas in 1977 and held management positions in public affairs, strategic planning, demand forecasting and market research.

Smith has served on numerous advisory boards, committees and commissions, including the Public Advisory Committee of the Grand Canyon Visibility Transport Commission and as the Vice President of the Los Angeles City Environmental Affairs Commission.

Currently, Smith serves on the board of directors for the California League of Conservation Voters Education Fund, and as an executive advisory board member of the Asian Pacific American Legal Center.

Smith is a native of Taiwan and immigrated to the United States in 1964. She received her bachelor's degree in industrial engineering from the University of Michigan and has a master's degree in industrial engineering and operations research from the University of California at Berkeley.

I have previously testified before the California Public Utilities Commission.