

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-06)

**PREPARED DIRECT TESTIMONY OF
IBTISSAM T. CHANG
ON BEHALF OF SOUTHERN CALIFORNIA GAS COMPANY**

**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA**

DECEMBER 2010



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**PREPARED DIRECT TESTIMONY OF
IBTISSAM T. CHANG
ON BEHALF OF SOUTHERN CALIFORNIA GAS COMPANY
(GAS PROCUREMENT)**

I. SUMMARY OF REQUESTED COSTS

Southern California Gas Company (SoCalGas) requests that the California Public Utilities Commission (CPUC) adopt its proposal for \$3.64 million of operation and maintenance (O&M) expenses for the 2012 Test Year, for the function of procuring gas for core customers of SoCalGas and San Diego Gas & Electric Company (SDG&E)¹. Pursuant to the Omnibus Decision (D.07-12-019), the core portfolios of both utilities were consolidated into one single portfolio managed by SoCalGas' Gas Acquisition Department, effective April 1, 2008.

A summary of the gas procurement O&M costs is provided below.

**Table ITC-1
Summary of TY2012 Change
(Thousands of \$2009)**

Description	2009 Adjusted- Recorded	TY2012 Estimated	Change	Testimony Reference
Total Non-Shared Services	\$3,544	\$3,639	\$95	Section III

II. OVERVIEW OF OPERATIONS

As mentioned above, SoCalGas' Gas Acquisition Department is responsible for the procurement of natural gas for core customers of SoCalGas and SDG&E. The highest priority of Gas Acquisition is to provide reliable gas supplies to core customers at a low cost. This is accomplished not only via day-to-day or month-to-month transactions, but also through long-term planning and commitments. To achieve long-term success, the Gas Acquisition Department must:

- maintain contracts for physical and financial gas transactions, storage capacity, interstate transmission capacity, and intrastate firm access rights that will provide reliable, low-cost supplies in future years.
- attract and retain a skilled professional staff.

¹ Note that this forecast does not include the expenses related to Secondary Market Services (e.g. parking and loaning) transactions. These expenses are recovered under other CPUC-authorized proceedings.

- maintain a system of internal management controls.

Given the competitive nature of the energy industry and the high dollar value of transactions, it is imperative for Gas Acquisition to maintain capabilities commensurate with the rest of the industry. Gas procurement functions must be tightly integrated using state-of-the-art information systems and highly skilled personnel. During the period April 1, 2009 through March 31, 2010, Gas Acquisition entered into over 10,000 gas purchases and sales transactions totaling over 405 billion cubic feet (Bcf) of net purchases, at a total cost of approximately \$1.6 billion. It also entered into approximately 400 financial derivatives transactions totaling over 185 Bcf.

Reporting to the Vice President – Gas Acquisition are one director and three managers overseeing gas traders, risk management/financial traders, gas schedulers, analysts and back-office support personnel. The department manages not only the procurement of the gas commodity, but also the means to bring it to SoCalGas and SDG&E’s core customers by obtaining interstate and intrastate capacity rights as well as storage rights. It also manages price and basis risk for the core portfolio in accordance with the internal risk management policy, including trading of financial instruments such as futures, options, and over-the-counter swaps. It continuously monitors market conditions, performs various analyses, evaluates and implements trading strategies to lower gas costs while meeting operational performance requirements. The back-office staff supports the traders by negotiating and administering all agreements, processing settlements, accounting for the cost of gas and storage, compiling financial and regulatory reports, providing dedicated IT support, administering the gas management system, and maintaining internal controls.

III. O&M EXPENSES FORECAST AND JUSTIFICATIONS

Table ITC-2 below shows the total 2009 base year adjusted-recorded expenses of \$3,544,000, of which \$3,113,000 was labor expenses and \$431,000 was non-labor expenses.

**Table ITC-2
O&M Nonshared Services
(Thousands of 2009 dollars)**

Description	2009 Adjusted- Recorded	TY2012 Estimated	Change
Total Labor	\$3,113	\$3,113	\$0
Total Non-Labor	431	526	95
Total O&M Expenses	\$3,544	\$3,639	\$95

1 Gas Acquisition is forecasting TY 2012 labor costs using 2009 Base Year recorded costs,
2 adjusted for unfilled vacancies. This forecast methodology is considered most appropriate as Gas
3 Acquisition expects to maintain the same level of staffing in Test Year 2012 as the Base Year, i.e. 30.4
4 FTEs, to support the activities for the gas procurement function. The department does not expect to
5 add new positions during the forecast period. Any potential increase in workload would most likely
6 be offset by increased productivity from the use of technology.

7 Non-labor expenses consist mainly of subscription fees to various industry publications and
8 on-line services, followed by training and associated travel expenses. As the gas industry has become
9 increasingly complex and competitive, it is critical for Gas Acquisition to remain competitive vis-à-vis
10 other market participants by having access to the latest tools and information available to maintain and
11 enhance its analytical capabilities and overall productivity. It is equally vital for Gas Acquisition
12 personnel to keep abreast of industry issues and trends as well as new regulatory requirements. A
13 five-year average forecast methodology is considered appropriate in order to smooth out year-to-year
14 fluctuations in expenses as certain one-time licensing expenses are incurred in one year, while only
15 maintenance expenses are incurred in other years. The five-year average methodology results in
16 estimated total non-labor expenses of \$526,000 for Test Year 2012, an increase of \$95,000 over 2009
17 Base Year recorded expenses.

18 **IV. CONCLUSION**

19 SoCalGas requests that the Commission adopt its proposal for \$3.64 million of O&M expenses
20 in order to allow Gas Acquisition to continue to meet all of its gas procurement responsibilities for
21 core customers of SoCalGas and SDG&E.

22 This concludes my prepared direct testimony.
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V. WITNESS QUALIFICATIONS

My name is Ibtissam T. Chang. I am currently employed by Southern California Gas Company as Contract & Risk Administration Manager in the Gas Acquisition department. My business address is 555 West Fifth Street, Los Angeles, California, 90013.

My responsibilities in the Gas Acquisition department include overseeing contract negotiations and administration, middle and back-office risk management functions, internal controls over physical and financial trading activities, compilation of Gas Cost Incentive Mechanism (GCIM) reports and other regulatory reports, administration of the gas management system, and ensuring compliance with all relevant rules and regulations. I have held a number of positions at SoCalGas in Accounting Systems, General Accounting, Property and Depreciation, Gas Supply and Gas Acquisition. Prior to joining SoCalGas in 1984, I worked for a CPA firm in Los Angeles and a U.S. architecture and engineering firm in its offices in Los Angeles, Tokyo, Singapore and Bangkok.

I hold a BBA degree in International Business from the National Taiwan University, and an MBA degree from the University of California, Los Angeles, and am a CPA (currently inactive). I have not previously testified before the Commission.