Company: Southern California Gas Company (U904G)
Proceeding: 2016 General Rate Case
Application: A.14-11-XXX
Exhibit: SCG-09

SOCALGAS

DIRECT TESTIMONY OF IBTISSAM T. CHANG

(GAS PROCUREMENT)

November 2014

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

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SUMMARY

O&M	2013 ($000)	2016 ($000)	Change ($000)
Non-Shared	$3,722	$3,993	$271

Summary of Requests

- SoCalGas is requesting $3.993 million in operations and maintenance (O&M) costs to procure natural gas for the core customers of SoCalGas and SDG&E.

- The costs requested in this testimony represent the expenses to administer and manage the procurement function, but not the cost of the commodity itself.

- SoCalGas expects to continue to fulfill its existing responsibilities for gas procurement, as well as the new responsibilities for implementing the requirements of Assembly Bill (AB) 32 Cap-and-Trade program, without additional staff. Therefore our primary forecast methodology is Base Year 2013 recorded cost. SoCalGas will, however, need to add 2 FTEs to manage the additional gas nomination cycles proposed by FERC NOPR RPM-14-2-000 to improve gas-electric coordination. [1]

- The $271,000 change from 2013 Base Year to Test Year 2016 consists of the following: 1) adjustments for 2013 vacancies; 2) the addition of 2 FTEs in the scheduling group; 3) removing labor costs associated with implementation of the Cap-and-Trade program, which will be separately presented for cost recovery in the Rulemaking addressing Natural Gas Distribution Utility Cost and Revenue Issues Associated with Greenhouse Gas Emissions (R.14-03-003) (GHG OIR); and 4) a small increase in non-labor cost based on five-year averaging methodology.

[1] *See* Federal Energy Regulatory Commission Notice of Proposed Rulemaking FERC NOPR RM14-2-000, Coordination of the Scheduling Processes of Interstate Natural Gas Pipelines and Public Utilities, March 20, 2014.

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I. INTRODUCTION

A. Summary of Costs

I sponsor the Test Year 2016 forecasts for O&M costs for the forecast years 2014, 2015, and 2016 non-shared services associated with SoCalGas' Gas Procurement function. Table 1 summarizes the total O&M costs in my area.[2]

TABLE 1
Test Year 2016 Summary of Total Costs
CSSP – SOCALGAS GAS PROCUREMENT
(Shown in Thousands of 2013 Dollars)

O&M	2013 Adjusted-Recorded	TY2016 Estimated	Change
Non-Shared	$3,722	$3,993	$271

In addition to this testimony, please also refer to my workpapers, Ex. SCG-09-WP for additional information on the activities described herein.

B. Summary of Activities

SoCalGas' Gas Acquisition Department is responsible for the procurement of natural gas for core customers of SoCalGas and SDG&E.[3] The highest priority of Gas Acquisition is to provide reliable, low-cost gas supplies to core customers. 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 backbone transmission rights that will provide reliable, low-cost supplies in future years.
- Attract and retain a skilled professional staff.
- Maintain an integrated gas management system for accurate recordkeeping.
- Maintain a system of internal management controls.

[2] Note that this forecast does not include expenses related to Secondary Market Services (e.g., parking and loaning) transactions. These expenses are recovered in other CPUC-authorized proceedings.

[3] Pursuant to the Omnibus Decision (D.07-12-019), the core portfolios of SoCalGas and SDG&E were consolidated into one single portfolio managed by SoCalGas' Gas Acquisition, effective April 1, 2008.

- Comply with all federal and state laws, rules and regulations.

Effective 2014, Gas Acquisition assumed the responsibility for procuring and trading emission allowances for SoCalGas facilities in compliance with the AB32 Greenhouse Gas Emissions Cap-and-Trade program. Effective 2015, Gas Acquisition will also be procuring and trading emission allowances for end-users. However, costs associated with this program are excluded from this GRC application as cost recovery will be sought in a separate proceeding.

II. NON-SHARED COSTS

Table 2 summarizes total O&M labor and non-labor cost forecasts for the gas procurement function.

TABLE 2

CSSP - SOCALGAS GAS PROCUREMENT
Shown in Thousands of 2013 Dollars

Categories	2013 Adjusted-Recorded	TY2016 Estimated	Change
Total Labor	**$3,306**	**$3,528**	**$222**
Total Non-Labor	**416**	**465**	**49**
Total	**$3,722**	**$3,993**	**$271**

A. Description of Costs and Underlying Activities

The Gas Acquisition 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. The Gas Acquisition department consists of 5 functional groups reporting to the Vice President, including: 1) physical gas trading, 2) risk management/financial trading, 3) gas scheduling, 4) economic analysis, and 5) back office and IT support. Physical traders purchase and sell gas on a daily, monthly and long-term basis to optimize asset utilization and provide reliable gas supply at low cost. Risk management manages price and basis risk for the core portfolio, and trades financial derivatives to limit customers' price volatility. Schedulers nominate and schedule gas seven days a week, managing pipeline constraints and capacity cuts. Economic analysis continuously monitors market conditions, performs various analyses and forecasts, and evaluates and implements trading strategies to lower gas costs while meeting operational performance requirements. The back office negotiates and administers contracts to facilitate trading with a diverse pool of counterparties, processes settlements, accounts for the cost of gas and storage, compiles financial

and regulatory reports, and maintains internal controls to ensure compliance with rules and regulations as well as internal policies. Additionally, in 2012, the IT personnel dedicated to supporting Gas Acquisition's gas management system transferred from IT to Gas Acquisition to provide more direct support.

To put the Gas Acquisition department's activities in perspective, during Base Year 2013, it entered into approximately 15,000 gas purchases and sales transactions totaling over 559 billion cubic feet (Bcf), at a net total cost of approximately $1.3 billion. It also entered into over 500 financial derivatives transactions totaling over 80 Bcf. Given the competitive and dynamic 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.

B. Forecast Method

The forecast method for Gas Acquisition's labor cost is based on Base Year recorded cost. Base Year recorded cost is most appropriate because prior to 2012 the IT staff was not part of Gas Acquisition and, except for vacancy adjustments and two additional scheduler positions, Gas Acquisition expects to maintain the same number of positions as in 2013. The requested labor cost for TY2016 is $3.528 million, a net increase of $222,000 from the 2013 recorded cost.

As in the last rate case, Gas Acquisition is conservative in its forecast with the belief that it can continue to operate effectively at its full staffing level, even when faced with additional workload and responsibilities associated with the Cap-and-Trade activities.[4] These conservative forecasts are due to the Gas Acquisition department's continuous efforts to further improve productivity through streamlining and automation by use of technology, subscriptions to various industry publications, and consultants. Therefore, the labor forecast is largely dependent on the Commission's approval of Gas Acquisition's non-labor forecast.

Gas Acquisition's non-labor expenses consist mainly of subscription fees to industry publications, consultants and on-line services, followed by training, attendance at industry conferences, and associated travel expenses. These expenses provide valuable information and market intelligence, better enable Gas Acquisition to remain competitive against other market

[4] As explained below, Gas Acquisition will not be able to manage the increased workload imposed by additional nomination cycles as proposed by FERC NOPR RM14-2-000 without additional staff.

participants in this increasingly complex and competitive industry, and allow Gas Acquisition to keep abreast of industry trends and new rules and regulations affecting Gas Acquisition's operations. These efforts ultimately benefit SoCalGas and SDG&E's ratepayers as they enable Gas Acquisition to make informed decisions and provide reliable, low-cost gas supplies, while avoiding potential penalties for non-compliance with rules and regulations.

The forecast method used for non-labor cost is five-year averaging. This forecasting methodology was selected because it reduces anomalies in the basis for the forecast. For example, in 2013, due to unusually high vacancies and heavy workloads, many Gas Acquisition personnel did not have an opportunity to attend training or industry conferences, resulting in a decrease in overall non-labor cost. Therefore, other forecast methodology such as Base Year recorded non-labor expenses would not be representative of expenses in a typical year. Nor would trending methodology be appropriate because 2013 was an atypical year. A five-year average forecast methodology was adopted as a more reasonable estimate of the non-labor cost necessary to efficiently conduct the department's gas procurement business. The requested non-labor cost of $465,000 for TY2016 is an increase of $49,000 over 2013 recorded cost.

C. Cost Drivers

Some of the cost drivers taken into consideration in preparing my forecasts include the following challenges and changes faced by Gas Acquisition.

First, the Gas Acquisition department needs to fill department vacancies. The turnover rate in the Gas Acquisition department has typically been low. However, in 2013, one employee was on long-term disability, and several employees were promoted to other departments. Although the department was able to operate with these vacancies on a temporary basis, it cannot sustain this reduced staffing level in the long-run. As such, an adjustment of $232,000 has been made to the Base Year recorded cost to account for the vacancies.

Second, the Gas Acquisition department is assuming responsibility for implementing the AB32 Cap-and-Trade program without additional staffing. SoCalGas will be recording costs associated with the implementation of this program, including emissions allowance costs, labor and non-labor O&M incurred by the Gas Acquisition department in the New Environmental Regulatory Balancing Account (NERBA), or other balancing account as established in the GHG OIR. Since recovery of these recorded costs will be sought in the GHG OIR, total projected

labor cost in the GRC was *reduced* by $130,000 to reflect estimated labor cost that will be dedicated to Cap-and-Trade activities.

Third, increasing volatility in the gas market requires further analysis and monitoring of factors impacting gas prices and an understanding of price interactions among various producing regions. This analysis and monitoring will enhance Gas Acquisition's ability to forecast supplies availability and price movements in order to make informed procurement decisions for the benefit of SoCalGas and SDG&E's core ratepayers.

Fourth, the Gas Acquisition department must proactively monitor ongoing but uncertain changes in the gas marketplace, including expected increased exports to Mexico, declining imports from Canada, future LNG exports, and their impacts on domestic prices. As with the third cost driver, this activity will better equip Gas Acquisition to make more informed decisions for purchasing reliable gas supplies at low cost.

Fifth, FERC NOPR RM14-2-000 is proposing to increase the number of gas nomination cycles and change the deadline for each cycle. This would impose additional workload on our scheduling staff, potentially requiring schedulers to begin work as early as 4 am, and end as late as 10 pm. This would be impossible to accomplish with our existing scheduling staff and would necessitate the addition of two new positions so that working hours could be staggered. As such, $120,000 was added to fund two additional scheduler positions required to manage the expected additional nomination cycles.

Again, Gas Acquisition expects to meet these challenges with only two additional positions and a small increase of forecasted non-labor costs over Base Year by being selective in its subscriptions, training and other services, and through automation and streamlining in an effort to free up staff time to handle additional responsibilities.

III. CONCLUSION

SoCalGas requests that the Commission adopts its proposal for $3.993 million O&M cost to allow Gas Acquisition to continue to meet all of its gas procurement responsibilities and deliver reliable and low-cost gas to the core customers of SoCalGas and SDG&E.

This concludes my prepared direct testimony.

IV. 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 (license inactive since 2010). I have previously testified before the Commission.

APPENDIX A – GLOSSARY OF ACRONYMS

AB: Assembly Bill

Bcf: Billion Cubic Feet

FERC: Federal Energy Regulatory Commission

FTEs: Full Time Equivalents

GCIM: Gas Cost Incentive Mechanism

GHG OIR: OIR addressing Natural Gas Distribution Utility Cost and Revenue Issues Associated with Greenhouse Gas Emissions (R.14-03-003)

IT: Information Technology

LNG: Liquefied Natural Gas

NERBA: New Environmental Regulatory Balancing Account

NOPR: Notice of Proposed Rulemaking

TY: Test Year