

Company: Southern California Gas Company (U 904 G)  
Proceeding: 2019 General Rate Case  
Application: A.17-10-\_\_\_\_  
Exhibit: SCG-16

**SOUTHERN CALIFORNIA GAS COMPANY**  
**DIRECT TESTIMONY OF MARTIN F. LAZARUS**  
**(GAS PROCUREMENT)**

**October 6, 2017**

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



## TABLE OF CONTENTS

I.	INTRODUCTION .....	1
A.	Summary of Gas Procurement Costs and Activities .....	1
B.	Summary of Costs Related to Fueling Our Future (FOF).....	2
C.	Summary of Aliso-Related Costs.....	3
D.	Safety Culture.....	4
E.	Organization of Testimony.....	4
II.	NON-SHARED COSTS .....	4
1.	Description of Costs and Underlying Activities.....	5
2.	Forecast Method .....	6
3.	Cost Drivers.....	8
III.	CONCLUSION.....	12
IV.	WITNESS QUALIFICATIONS.....	13
	LIST OF ACRONYMS	

## SUMMARY

<b>O&amp;M</b>	<b>2016 (\$000)</b>	<b>2019 (\$000)</b>	<b>Change</b>
Non-Shared	\$3,913	\$4,230	\$317

### Summary of Requests

- Southern California Gas Company (SoCalGas) is requesting \$4.230 million in operations and maintenance (O&M) costs to procure natural gas for both SoCalGas and San Diego Gas and Electric (SDG&E) core customers,<sup>1</sup> and to procure greenhouse gas (GHG) Cap-and-Trade emissions compliance instruments for SoCalGas’ covered end-use customers and transmission and storage facilities.<sup>2</sup>
- SoCalGas expects to continue to fulfill its existing responsibilities for natural gas procurement as well as emissions compliance instrument procurement and reporting responsibilities for the Assembly Bill (AB) 32 Cap-and-Trade program<sup>3</sup> by filling existing vacancies and without adding incremental staff. Therefore, our primary labor forecast methodology is base year 2016 (BY 2016) recorded cost. SoCalGas will, however, need to make adjustments to reflect the filling of these existing vacancies.
- The change of \$317,000 from BY 2016 to test year 2019 (TY 2019) consists of the following: 1) adjustments to fill Gas Acquisition department vacancies, 2) a small increase in non-labor costs based on a five-year average forecast methodology, with the increases partially offset by 3) removal of capitalized labor costs relating to a programming language conversion project for Gas Acquisition’s Pinnacle Gas Management System and

---

<sup>1</sup> Pursuant to the Omnibus Decision (D.) 07-12-019 at 114 (Ordering Paragraph #4), the core portfolios of SoCalGas and SDG&E were consolidated into one single portfolio managed by SoCalGas’ Gas Acquisition Department, effective April 1, 2008.

<sup>2</sup> CPUC decision D.15-10-032 at 60, (Conclusions of Law #18) directs memorandum accounts approved by the Commission for recording GHG-related administrative costs to sunset once SoCalGas has had the opportunity to request approval of GHG-related administrative costs in its next general rate case (GRC). Therefore, recorded labor and non-labor GHG administrative costs formerly charged to the New Environmental Regulation Balancing Account (NERBA), and the Greenhouse Gas Memorandum Account (GHGMA) were included as adjustments to 2013-2016 historic costs.

<sup>3</sup> See Assem. Bill No. 32 (2005-2006 Reg. Sess.), “Air pollution: greenhouse gases: California Global Warning Solutions Act of 2006,” and related regulations under Cal. Code Regs., tit. 17, Article 5, “California Cap on Greenhouse Gas Emissions and Market Based Compliance Mechanisms” § 95801 *et seq.* for discussion of program compliance and reporting requirements for covered entities.

transfer of these costs to Information Technology capital projects (see Information Technology testimony of Christopher Olmsted (Exhibit SCG-26)), and 4) reduction of direct labor costs relating to efficiencies identified during the Company's Fueling Our Future (FOF) initiative (see Fueling Our Future Policy testimony of Hal Snyder and Randall Clark (Exhibit SCG/SDG&E-03)).

1 **SOCALGAS DIRECT TESTIMONY OF MARTIN F. LAZARUS**  
2 **(GAS PROCUREMENT)**

3 **I. INTRODUCTION**

4 **A. Summary of Gas Procurement Costs and Activities**

5 My testimony supports the TY 2019 forecasts for O&M costs for non-shared services  
6 associated with the SoCalGas Gas Acquisition Department. Table MFL-1 summarizes my  
7 sponsored costs.<sup>4</sup>

8 **Table MFL-1**  
9 **Summary of Total Costs (\$000's)**

PROCUREMENT O&M (In 2016 \$)	2016 Adjusted-Recorded	TY 2019 Estimated	Change
Total Non-Shared Services	3,913	4,230	317

10 SoCalGas' Gas Acquisition Department is responsible for the procurement of natural gas  
11 for SoCalGas' and SDG&E's core customers, as well as the procurement of Cap-and-Trade  
12 emissions compliance instruments for SoCalGas' covered end-use customers and transmission  
13 and storage facilities. Gas Acquisition's highest priority is to provide reliable gas supplies to  
14 core customers at a low cost, and to lower customer carbon emission costs using Commission-  
15 authorized procurement tools including allowance purchases at California Air Resources Board's  
16 (ARB) quarterly auctions, California Carbon Allowance (CCA) futures purchases, bilaterally-  
17 traded CCAs, and the bilateral purchase of California Carbon Offset (CCO) credits. These  
18 priorities are accomplished not only via day-to-day and month-to-month transactions, but also  
19 through long-term planning and commitments. To achieve and maintain long-term success, the  
20 Gas Acquisition Department must:

- 21 • negotiate and maintain contracts for physical and financial gas transactions, storage  
22 capacity, interstate transmission capacity, and intrastate backbone transmission rights that  
23 will provide reliable, low-cost supplies in future years.

---

<sup>4</sup> Proposed costs exclude O&M expenses related to the execution of Secondary Market Services (SMS) transactions (e.g. gas parks and loans) and sale of Low Carbon Fuel Standard (LCFS) credits as these expenses are recovered under other California Public Utilities Commission (CPUC or Commission) authorized proceedings.

- 1 • negotiate and maintain contracts for carbon emissions compliance instrument procurement
- 2 transactions.
- 3 • attract and retain a skilled professional staff at optimal staffing levels to provide reliable,
- 4 low cost natural gas supplies for core customers and low cost Cap-and-Trade compliance
- 5 instruments, and to support ARB and Commission-mandated Cap-and-Trade reporting
- 6 requirements.<sup>5</sup>
- 7 • maintain a fully-integrated Gas Management System (Pinnacle) for efficient execution of
- 8 transactions and accurate recordkeeping.
- 9 • maintain a robust system of internal business controls.
- 10 • comply with federal and state laws, rules and regulations.

11 In addition to sponsoring my own organization’s costs, my testimony also supports the  
12 reduction of approximately \$148,000 in capitalized O&M labor costs relating to a programming  
13 language conversion project for Gas Acquisition’s Pinnacle Gas Management System from Gas  
14 Acquisition’s cost forecast, and justification for the conversion project (please see testimony  
15 section II A. 3, “Cost Drivers” for further discussion). These costs will be transferred and  
16 included in Information Technology capital projects. See Ex. 26 SCG/Olmsted.

17 **B. Summary of Costs Related to Fueling Our Future (FOF)**

18 As described by Mr. Snyder in Chapter SCE-03, the utilities kicked off the FOF initiative  
19 in May 2016, to identify and implement efficient operations improvements. Two initiatives to  
20 simplify, improve efficiency, and optimize certain aspects of Gas Acquisition operations were  
21 identified during the FOF review process: 1) eliminate back office review and validation of the  
22 value-at-risk (VaR) calculation prepared by front office personnel, and 2) optimize Gas  
23 Acquisition’s carbon trading organizational structure to support an increase in carbon trading  
24 activities. Implementation of the initiatives will result in the reduction of \$12,000 in TY 2019  
25 direct labor cost (please see testimony section II A. 3, “Cost Drivers” for further discussion).  
26 Table MFL-2 provides a summary of the FOF cost efficiencies described in my testimony:

---

<sup>5</sup> D.15-10-032 at 63 (Ordering Paragraphs #5 and #6) requires SoCalGas to forecast and reconcile its natural gas greenhouse gas compliance costs and allowance proceeds, and to provide reasonable supporting information regarding methodologies and assumptions when filing forecasts as part of SoCalGas’ annual natural gas true-up advice letter filing.

**Table MFL-2**  
**Summary of Estimated FOF Cost Reductions (\$000's)**

<b>GAS ACQUISITION (In 2016 \$)</b>			
<b>FOF O&amp;M</b>	<b>Estimated 2017</b>	<b>Estimated 2018</b>	<b>Estimated 2019</b>
FOF-Ongoing/<Benefits>	(4)	(12)	(12)
<b>Total O&amp;M</b>	<b>(4)</b>	<b>(12)</b>	<b>(12)</b>

**C. Summary of Aliso-Related Costs**

In compliance with D.16-06-054,<sup>6</sup> the Aliso Incident Expenditure Requirements testimony of witness Andrew Steinberg (Exhibit SCG-12) describes the process undertaken so the TY 2019 forecasts do not include the additional costs from the Aliso Canyon Storage Facility gas leak incident (Aliso Incident), and demonstrates that the itemized recorded costs are removed from the historical information used by the impacted GRC witnesses.

As a result of removing historical costs related to the Aliso Incident from Gas Acquisition adjusted recorded data, and in tandem with the forecasting method(s) employed and described herein, additional costs of the Aliso Incident response are not included as a component of my TY 2019 funding request. Historical Gas Acquisition costs that are related to the Aliso Incident are removed as adjustments in my work papers (EX-SCG-16-WP) and are also identified in Table MFL-3 below. Approximately \$2,000 of labor costs related to Aliso were removed from Gas Acquisition's BY 2016 costs. These costs were incurred by the Gas Acquisition department because of the temporary reassignment of a Gas Acquisition administrative assistant to aid in the Company's efforts to expeditiously and accurately process expense reports submitted by Porter Ranch residents. Table MFL-3 provides a summary of the Aliso-related costs excluded from my testimony:

**Table MFL-3**  
**Summary of Excluded Aliso-Related Costs (\$000's)**

<b>PROCUREMENT</b>			
<b>Work Paper</b>	<b>2015 Adjustment</b>	<b>2016 Adjustment</b>	<b>Total</b>
2SP000.000, Gas Acquisition	0	(2)	(2)
<b>Total Non-Shared O&amp;M</b>	<b>0</b>	<b>(2)</b>	<b>(2)</b>

<sup>6</sup> D.16-06-054, mimeo., at 332 (Ordering Paragraph 12) and 324 (Conclusion of Law 75).

**D. Safety Culture**

Gas Acquisition is committed to the safety of its employees by encouraging an environment of compliance with all applicable federal, state and local safety laws, rules and regulations and SoCalGas safety standards. SoCalGas' Environmental and Safety Compliance Management Program establishes processes that foster compliance with SoCalGas' Injury and Illness Prevention Program and other applicable safety requirements. SoCalGas' Environmental Safety Compliance Management Program is administered to Gas Acquisition personnel via periodic mandatory training.

**E. Organization of Testimony**

My testimony is organized as follows:

- Non-Shared Costs Introduction;
- Description of Costs and Underlying Activities;
- Safety Culture;
- Forecast Methodology;
- Cost Drivers (upward and downward pressures); and
- Conclusion.

**II. NON-SHARED COSTS**

**Introduction**

Non-shared services are activities that are performed by a utility solely for its own benefit. Corporate Center provides certain services to the utilities and to other subsidiaries. For purposes of this GRC, SoCalGas treats costs for services received from Corporate Center as non-shared services costs, consistent with any other outside vendor costs incurred by the utility.

Table MFL-4 summarizes the total non-shared O&M forecasts for the listed cost categories.

**Table MFL-4  
Non-Shared O&M Summary of Costs (\$000's)**

<b>PROCUREMENT (In 2016 \$)</b>			
<b>Categories of Management Gas Acquisition</b>	<b>2016 Adjusted-Recorded</b>	<b>TY 2019 Estimated</b>	<b>Change</b>
Total Labor	3,600	3,867	267
Total Non-Labor	313	363	50
<b>Total Non-Shared Services</b>	<b>3,913</b>	<b>4,230</b>	<b>317</b>



1                                   **1.       Description of Costs and Underlying Activities**

2                   The Gas Acquisition Department manages the procurement of natural gas commodity and  
3 the means to transport the commodity to SoCalGas’ and SDG&E’s core customers by obtaining  
4 interstate / intrastate capacity rights and storage rights. Additionally, Gas Acquisition manages  
5 the entire Cap-and-Trade compliance cycle from the procurement of emissions compliance  
6 instruments to meet customer emissions through the submission and retirement of these  
7 instruments to the ARB as well as mandated ARB and Commission GHG regulatory reporting.

8                   The department consists of five functional groups reporting to the Vice President – Gas  
9 Acquisition: 1) physical gas trading, 2) energy and carbon trading / risk management, 3) gas  
10 scheduling, 4) energy economic analysis, 5) finance and administration (back office) and  
11 Information Technology (IT) support. Physical gas traders purchase and sell gas on a daily,  
12 monthly and long-term basis to optimize core asset utilization and provide reliable gas supply at  
13 a low cost. The energy and carbon trading / risk management group manages price and basis risk  
14 for the core portfolio, trades financial derivatives to limit customers’ price volatility, and  
15 procures Cap-and-Trade emissions compliance instruments for SoCalGas’ covered end-use  
16 customers and facilities. Gas scheduling nominates and schedules gas seven days a week  
17 managing both pipeline constraints and capacity cuts. The energy economic analysis group  
18 continuously monitors market conditions, performs various analyses and forecasts, evaluates and  
19 implements trading strategies to lower core gas costs while meeting operational performance  
20 requirements. The back office negotiates and administers contracts to facilitate physical gas,  
21 financial and carbon trading with a diverse pool of counterparties, processes settlements,  
22 accounts for the cost of gas, storage and emissions expense, compiles financial and regulatory  
23 reports, and maintains a system of robust internal business controls to ensure compliance with  
24 rules and regulations as well as internal policies. IT manages and supports Gas Acquisition’s  
25 Pinnacle Gas Management System, trading and accounting application interfaces, desk-top  
26 computing and hardware. To illustrate the magnitude of Gas Acquisition activities, during  
27 BY 2016 Gas Acquisition executed approximately 10,000 gas purchases and sales transactions  
28 totaling approximately 520 billion cubic feet (Bcf) at a net total cost of approximately \$839  
29 million. In addition, Gas Acquisition executed over 615 financial derivatives transactions  
30 totaling approximately 75 Bcf. Gas Acquisition also purchased Cap-and-Trade emissions  
31 compliance instruments totaling approximately \$90 million.

1           Because of the competitive and dynamic nature of the energy industry and the high dollar  
2 value of transactions, it is imperative for Gas Acquisition to maintain competitive capabilities  
3 commensurate with the rest of the energy industry. To achieve this standard, Gas Acquisition  
4 procurement functions must be tightly integrated using state-of-the-art information systems and  
5 highly skilled personnel must be hired and retained.

## 6                           **2.       Forecast Method**

7           The methodology used to forecast Gas Acquisition’s labor cost is based on BY 2016  
8 recorded cost. Base year recorded cost is the most appropriate forecasting methodology because  
9 Gas Acquisition expects to maintain the same number of positions as in 2016, with a cost  
10 adjustment for filling vacancies even though Gas Acquisition absorbed significant new  
11 responsibilities (primarily Cap-and-Trade). SoCalGas expects to partially fill the vacancies in  
12 2017 with the remaining vacancies to be filled in 2018 resulting in full staffing levels by the end  
13 of 2018 and in 2019. Regarding specifically Cap-and-Trade activities, base year cost is the best  
14 measure of necessary activities conducted to meet Cap-and-Trade program requirements and  
15 excludes the “ramp-up” education, contract administration and programming costs incurred in  
16 2014 when Gas Acquisition was assigned responsibility for the program. Because of the one-  
17 time ramp-up costs that occurred in 2014, an average year (3-year, 4-year or 5-year) forecasting  
18 methodology for direct labor is not the best measure of costs.

19           Gas Acquisition’s employee turnover rate has been typically low. However, in 2016 one  
20 employee retired and another employee left the department adding to two existing vacancies.  
21 Although Gas Acquisition was able to operate with these vacancies on a temporary basis, it  
22 cannot sustain the reduced staffing level in the long-run without impacting department priorities  
23 of reliable, low cost gas supplies and lower customer carbon emissions costs. Additionally, since  
24 Gas Acquisition assumed significant Cap-and-Trade activities without adding employees, filling  
25 the existing department vacancies is critical in order for Gas Acquisition to remain competitive  
26 in the market place and to meet important department priorities. As such, an adjustment of  
27 \$276,000 has been made to TY 2019 labor cost to account for filling the vacancies.

28           Because the Commission in D.15-10-032 directed SoCalGas to include Cap-and-Trade  
29 related administrative costs in its next GRC, SoCalGas included an adjustment of approximately  
30 \$173,000 to BY 2016 direct labor costs to account for Cap-and-Trade related labor costs that  
31 were originally charged to the GHGMA.

1 SoCalGas included an adjustment of \$12,000 decreasing TY 2019 direct labor. The  
2 reduction is related to optimization and efficiencies identified during the Company's FOF  
3 initiative. Also, SoCalGas included a minor adjustment increasing direct labor by \$3,000 to  
4 support an expected increase in archiving and administrative work in the Gas Acquisition  
5 Department.

6 Gas Acquisition's labor forecast is conservative with the belief that: 1) the Gas  
7 Acquisition Department can continue to operate effectively and efficiently at a full staffing level,  
8 even though substantial additional workload and responsibilities associated with Cap-and-Trade  
9 activities were assumed, and 2) the Gas Acquisition Department can continue to further improve  
10 productivity through streamlining and automation by use of technology and reliance on  
11 subscriptions to various industry publications, and consultants.

12 Gas Acquisition Department non-labor expenses consist mainly of: 1) subscription fees to  
13 industry publications, 2) consultants and on-line services, and 3) training and associated travel  
14 expenses. These expenses are incurred to provide necessary information and market intelligence  
15 critical for the Gas Acquisition Department to remain competitive in the market place, and to  
16 keep abreast of industry issues, trends and new rules and regulations affecting Gas Acquisition  
17 operations for the ultimate benefit of SoCalGas and SDG&E's ratepayers. Because the  
18 Commission in D.15-10-032 directed SoCalGas to include Cap-and-Trade related administrative  
19 costs in its next GRC, SoCalGas included adjustments to historic and base year costs for Cap-  
20 and-Trade related non-labor expenses originally recorded in the NERBA and GHGMA. These  
21 adjustments consist of expenses incurred by Gas Acquisition after assuming responsibility for  
22 Cap-and-Trade procurement responsibilities for: 1) subscriptions to carbon publications,  
23 2) carbon-market consultants, and 3) training and travel expenses related to the Cap-and-Trade  
24 program.

25 Due to the heavy workload created by Gas Acquisition assuming the Cap-and-Trade  
26 procurement responsibilities in 2014 and BY 2016 department vacancies, many Gas Acquisition  
27 employees did not have an opportunity to attend continuing professional education, energy  
28 industry-specific training or conferences. This downward pressure on training costs in  
29 conjunction with incurring Cap-and-Trade related non-labor expenses in 2014 and 2015  
30 eliminates both base year recorded cost or trends as an appropriate forecasting methodology for  
31 non-labor expenses. Instead, a 5-year average forecast methodology was used as a more

1 reasonable estimate of non-labor costs necessary for Gas Acquisition to efficiently conduct  
2 business, meet department priorities, and level year-over-year variances. SoCalGas' requested  
3 non-labor cost of \$363,000 for TY 2019 is a modest increase of \$50,000 over BY 2016 recorded  
4 costs and is reasonable as it includes Cap-and-Trade non-labor costs as directed by the  
5 Commission that were previously treated as refundable.

### 6 **3. Cost Drivers**

7 The cost drivers taken into consideration in preparing Gas Acquisition's historic and  
8 forecasted costs include the following:

9 1) **Gas Acquisition Department Vacancies:** To maintain and pursue priorities of  
10 reliable natural gas supplies at a low cost, and lower carbon emissions costs for customers, the  
11 Gas Acquisition Department needs to fill department vacancies. Although department employee  
12 turnover has been typically low, during 2016, one employee retired and another employee left  
13 the Gas Acquisition Department adding to two existing vacancies. We expect these vacancies to  
14 be filled by 2017 and have scheduled these vacancies to reflect the partial filling of existing  
15 vacancies in 2017 up to full staffing levels in 2018 and 2019. Although the department is  
16 capable of functioning with these vacancies on a temporary basis, the department cannot sustain  
17 this reduced staffing level in the long run and still successfully meet its priorities. As such, an  
18 adjustment of \$276,000 is included in TY 2019 labor costs to account for filling Gas Acquisition  
19 vacancies.

20 2) **Cap-and-Trade:** California's Cap-and-Trade program requires covered entities to  
21 obtain and surrender a compliance instrument (CCA or CCO) for each ton of carbon dioxide  
22 equivalent (CO<sub>2</sub>e) emitted to the atmosphere. Effective April 2014, the Gas Acquisition  
23 Department initially assumed responsibility for the procurement of compliance instruments for  
24 SoCalGas' covered transmission and storage facilities, and subsequently for both SoCalGas  
25 covered facilities and end-use customers beginning with the program's second compliance  
26 period effective January 1, 2015. Prior to April 2014, emissions compliance instrument  
27 procurement activities were conducted by Gas Engineering Department personnel. Gas  
28 Acquisition absorbed the Cap-and-Trade procurement and reporting responsibilities without  
29 additional staffing. Gas Acquisition Cap-and-Trade procurement volumes (metric tons of CO<sub>2</sub>e)  
30 and associated compliance instrument transactions will also increase on an annual basis as a

1 result of Cap-and-Trade regulatory requirements<sup>7</sup> where the number of allowances directly  
2 allocated to SoCalGas by the ARB will decrease, and the number of directly allocated  
3 allowances required to be consigned back to ARB's quarterly auctions will increase.  
4 Consequently, Gas Acquisition will be required to purchase significantly more compliance  
5 instruments to meet program requirements. Cap-and-Trade procurement and related ancillary  
6 activities performed by Gas Acquisition personnel involve: 1) continued monitoring of carbon  
7 markets including allowances, futures and offsets, 2) negotiating and administering contracts to  
8 support carbon trading activities, 3) monitoring and review of regulation changes proposed by  
9 ARB and the potential impact on carbon procurement planning and compliance, 4) compliance  
10 with voluminous regulatory reporting requirements, and 5) carbon transaction settlements,  
11 general ledger accounting and financial reporting. Gas Acquisition personnel O&M costs  
12 associated with Cap-and-Trade procurement activities are currently recorded in the GHGMA as  
13 required by D.14-12-040<sup>8</sup>. Additionally, Cap-and-Trade O&M costs were excluded from Gas  
14 Acquisition's prior GRC (test year 2016) O&M forecasts. As discussed in footnote #2, CPUC  
15 decision D.15-10-032 indicates that the memorandum accounts authorized by the Commission to  
16 record GHG administrative costs should sunset for each utility once the utility has the  
17 opportunity to request approval of GHG-related costs in its next GRC or similar proceeding. As  
18 such, BY 2016 costs include an adjustment for Gas Acquisition Cap-and-Trade related labor and  
19 non-labor costs approximating \$173,000 and \$29,000, respectively. To present a complete and  
20 accurate accounting of historic costs, Gas Acquisition Department Cap-and-Trade related labor  
21 and non-labor costs were also added back to 2013-2015 recorded historic costs. Gas Engineering  
22 Department Cap-and-Trade procurement-related costs incurred during 2013 and early 2014 were  
23 also transferred and included in Gas Acquisition's historic recorded costs.

24       3)     **Pinnacle Conversion Project:** Gas Acquisition's Pinnacle Gas Management  
25 System is a fully-integrated, in-house customized, critical application that has been in production  
26 over 20 years. Pinnacle is instrumental in the efficient management and accounting for

---

<sup>7</sup> See Cal. Code Regs., tit. 17, § 95891, Table 9-2: "Cap Adjustment Factors for Allowance Allocation." See also Cal. Code Regs., tit. 17, § 95893, Table 9-4: "Percentage Consignment Requirements for Natural Gas Utilities by Year."

<sup>8</sup> D.14-12-040 at 40-41 (Ordering Paragraphs #3, 6) requires GHG administrative costs to be tracked and recorded in a new memorandum account, and a tier 1 advice letter be filed to establish the new account. The Commission approved SoCalGas advice letter 4740-G authorizing the creation of the GHGMA.

1 transactions / activities executed by the Gas Acquisition Department. Pinnacle allows Gas  
2 Acquisition to capture transactions including natural gas purchases and sales, SMS and LCFS  
3 transactions, financial derivatives, and Cap-and-Trade carbon compliance instruments. Pinnacle  
4 also allows Gas Acquisition to schedule the flow of gas, track physical and financial positions,  
5 process invoices, approve payments to suppliers / pipelines, and generate accounting information  
6 for general ledger recordation, financial reporting and regulatory reporting purposes. Pinnacle is  
7 coded in PowerBuilder Classic 12.5.2, which is an antiquated, obsolete programming language,  
8 and resources available to support PowerBuilder are generally scarce. Additionally,  
9 PowerBuilder does not accommodate data encryption which introduces data security and  
10 integrity risks. Any attempt to rewrite or reconfigure current Pinnacle components introduces a  
11 significant risk in maintaining availability and supportability of the application. Because of the  
12 business risks associated with maintaining PowerBuilder, the PowerBuilder code will be  
13 converted to a “.Net” platform and programming language “C#”. Approximately \$148,000 in  
14 direct labor and 1.4 full-time equivalents (FTE) associated with Gas Acquisition IT personnel  
15 will be removed from Gas Acquisition’s O&M expense forecast (\$132,000 in 2017 and \$16,000  
16 in 2018), capitalized and transferred to Information Technology capital projects. See Ex. 26  
17 SCG/Olmsted. The labor costs to be capitalized and transferred consist of time associated with  
18 testing the Pinnacle application after the code and platform conversion. Benefits arising from the  
19 conversion project include: 1) risk mitigation to Pinnacle application availability, stability and  
20 maintainability by migrating to an industry standard programming language that can be enhanced  
21 to meet future regulatory requirements, development quality and change frequency; 2) internal  
22 business control environment enhancement and compliance with corporate, audit and Sarbanes  
23 Oxley standards and policies; 3) transaction data encryption capabilities that will enhance data  
24 security and integrity; and 4) addresses and remedies the problem of unavailable PowerBuilder  
25 support services. Even with the conversion project and required testing, routine maintenance and  
26 system enhancements will still be performed, but waitlisted and completed at a future date.

27 4) **Fueling Our Future:** As described in the Direct Testimony of Hal Snyder,  
28 Chapter SCG-03, FOF is an initiative spanning all Sempra Energy companies involving the  
29 examination of how work is approached, organized and executed with the intent to improve,  
30 modernize processes and meet future business needs. Two Gas Acquisition Department related  
31 FOF initiatives to simplify, improve efficiency and/or optimize operations were identified during

1 the duration of the project. The first initiative eliminates back office personnel's independent  
2 review of the daily VaR calculation prepared by front office personnel. The second initiative  
3 will optimize Gas Acquisition's carbon trading organization to support additional carbon trading  
4 activities. This will be accomplished by transferring carbon futures and bilateral trade execution  
5 responsibilities to a lower-level employee. The back office independent VaR review was  
6 eliminated at the end of the first quarter 2017. Gas Acquisition anticipates the transfer of carbon  
7 trade execution responsibilities to occur at the end of the third quarter 2017. O&M savings  
8 associated with the two initiatives were estimated and included as a reduction of direct labor in  
9 Gas Acquisition's O&M forecast in the following manner: 1) forecast year 2017 included a  
10 reduction of \$4,000 representing 75% of the total annual cost savings relating to eliminating the  
11 VaR calculation review, and 25% of the total annual cost savings related to the transfer of carbon  
12 trade execution responsibilities, 2) forecast year 2018 included a \$12,000 reduction representing  
13 full implementation of the identified FOF initiatives, and 3) TY 2019 included a \$12,000  
14 reduction representing full implementation of the identified FOF initiatives.

15 5) **Aliso Canyon Gas Leak:** CPUC Commission Decision D.16-06-054 requires  
16 SoCalGas to provide testimony in its TY 2019 GRC application demonstrating that all additional  
17 costs that stemmed from the Aliso Canyon gas leak are not included in its forecast of costs for its  
18 TY 2019 general rate case application. As such, Gas Acquisition's BY 2016 recorded costs  
19 exclude approximately \$2,000 of direct labor costs relating to the temporary reassignment of a  
20 Gas Acquisition Department administrative employee to help process living expense  
21 reimbursement requests submitted by Porter Ranch residents.

22 6) **Increased Analytical Work:** Increased monitoring and analysis of factors  
23 impacting gas prices, and understanding of price interactions among various producing regions.

24 7) **Monitoring Exports Activity:** Monitoring increased exports to Mexico, as well  
25 as increasing LNG exports, and their impact on domestic prices.

26 8) **Procurement of Renewable Natural Gas (RNG):** Anticipated procurement of  
27 RNG volumes to meet a portion of core load will potentially increase workload including:  
28 1) RNG / biogas market analysis, 2) physical and financial trading, 3) contract negotiation and  
29 administration, 4) settlement, 5) regulatory reporting, and 6) regulatory and financial accounting.

1 Gas Acquisition expects to meet these challenges without additional staff and a small  
2 increase of forecasted non-labor costs over BY 2016 through the prudent management of costs,  
3 process and transaction automation, and streamlining.

4 **III. CONCLUSION**

5 SoCalGas requests that the Commission adopt its proposal for \$4.230 million of O&M  
6 expenses to allow the Gas Acquisition Department to continue to meet its natural gas and Cap-  
7 and-Trade procurement responsibilities to deliver reliable, low-cost natural gas to SoCalGas and  
8 SDG&E core customers, and to reduce carbon emissions expense charged to SoCalGas  
9 customers.

10 This concludes my prepared direct testimony.



1 **IV. WITNESS QUALIFICATIONS**

2 My name is Martin F. Lazarus. I am currently employed by Southern California Gas  
3 Company as the Gas Accounting and Reconciliation Manager in the Gas Acquisition  
4 Department. My business address is 555 West Fifth Street, Los Angeles, California, 90013.

5 My primary responsibilities in the Gas Acquisition Department include financial and  
6 regulatory accounting for the core gas portfolio, accounting for AB 32 GHG Cap-and-Trade  
7 compliance activities (including recordation of carbon compliance instrument purchases and  
8 emissions expense), internal business controls over physical and financial trading activities and  
9 related Sarbanes Oxley Act compliance efforts, and ensuring compliance with all relevant rules  
10 and regulations.

11 I have held the Gas Accounting and Reconciliation Manager position since July 2000.  
12 Prior to joining SoCalGas in 2000, I worked for various energy companies including Sempra  
13 Energy and Occidental Petroleum as an Internal Audit Supervisor. Prior to employment in the  
14 private sector, I worked for a Public Accounting firm in Newport Beach, California as an Audit  
15 Senior providing primarily attestation and tax compliance services.

16 I hold a Bachelor of Science Degree in Geological Sciences and a Bachelor of Arts  
17 Degree in Business Administration (with an emphasis in accounting) from California State  
18 University, Fullerton. I was formerly a Certified Public Accountant (CPA) (inactive) and  
19 Certified Internal Auditor (CIA) (inactive) in the state of California. I have not previously  
20 testified before the Commission.

## LIST OF ACRONYMS

<b>ACRONYM</b>	<b>DEFINITION</b>
AB	Assembly Bill
ARB	California Air Resources Board
Bcf	Billion Cubic Feet
BY	Base Year
CCA	California Carbon Allowance
CCO	California Carbon Offset
CO <sub>2</sub> e	Carbon Dioxide Equivalent
CPUC	California Public Utilities Commission
FOF	Fueling Our Future
FTE	Full Time Equivalent
GHG	Greenhouse Gas
GHGMA	Greenhouse Gas Memorandum Account
GRC	General Rate Case
IT	Information Technology
LCFS	Low Carbon Fuel Standard
NERBA	New Environmental Regulation Balancing Account
O&M	Operations and Maintenance
RNG	Renewable Natural Gas
SDG&E	San Diego Gas & Electric Company
SMS	Secondary Market Services
SoCalGas	Southern California Gas Company
TY	Test Year
VaR	Value-at-Risk