

Application of San Diego Gas & Electric Company (U902M) for Authority, Among Other Things, to Increase Rates and Charges for Electric and Gas Service Effective on January 1, 2012.

A.10-12-005
(Filed December 15, 2010)

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

A.10-12-006
(Filed December 15, 2010)

Application: A.10-12-006
Exhibit No.: SCG-206

**PREPARED REBUTTAL TESTIMONY OF
IBTISSAM CHANG
ON BEHALF OF SOUTHERN CALIFORNIA GAS COMPANY**

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

OCTOBER 2011



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**PREPARED REBUTTAL TESTIMONY OF
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ON BEHALF OF SOUTHERN CALIFORNIA GAS COMPANY**

I. INTRODUCTION

The following rebuttal testimony regarding Southern California Gas Company's (SCG) gas procurement function¹ addresses the Division of Ratepayer Advocates' (DRA) testimony dated September 1, 2011. Specifically, my testimony rebuts DRA's recommendation for no increase for Gas Procurement costs from base year 2009 levels. As explained in more detail in section II, SCG's proposed increase in Operation and Maintenance expenses for Test Year 2012 is already a very conservative one. SCG is not requesting any increase in Labor Cost, and only a \$95,000 increase in Non-Labor cost. DRA's justification for its recommendation fails to look at the requested expenses as a whole, is not based on the merits of the request, and merely relies on a short-term arithmetic trend of a selective period where Non-Labor costs appeared to be declining, while ignoring the upward trend for the period before and after.

No other party contested SCG's forecast for gas procurement expenses.

II. JUSTIFICATION FOR SOCALGAS' PROPOSED EXPENSES

Table ITC-2 in my Testimony, as reproduced below, shows that SCG is requesting \$3.113 million in Labor cost for Test Year 2012, which represents no increase from 2009 Adjusted-Recorded expense level. As for Non-Labor expenses, SCG is requesting \$526,000, which was derived using a five-year average for the recorded non-labor expenses

¹ Pursuant to D.07-12-019, SCG's Gas Acquisition department is responsible for procuring gas for core customers of SCG and SDG&E.

1 for the period 2005 through 2009, and represents an increase of \$95,000 over 2009

2 Adjusted-Recorded expenses of \$431,000.

3 **Table ITC-2**
4 **O&M Nonshared Services**
5 **(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

6 In an effort to control labor cost, SCG Gas Acquisition is striving to keep staffing at
7 the current level despite additional responsibilities being placed on its staff as the result of
8 the gas industry becoming increasingly complex and competitive². The following are just
9 some examples of Gas Acquisition's recent and expected future increased responsibilities:

- 10 1) Actively participating in future pipeline rate cases which may have significant
11 impact on gas costs.
- 12 2) As SCG moves away from longer-term capacity contracts, it needs to more
13 frequently acquire capacity in the secondary market to minimize pipeline
14 reservation charges while maintaining reliability.
- 15 3) Increased complexity in scheduling gas, including the implementation of in-kind
16 fuel and compliance with balancing rules.
- 17 4) Timely executing new contracts, amending existing contracts and completing
18 system modifications in order to take advantage of new trading locations, as well
19 as new financial products as they become available.

² SCG Testimony SCG-06 page ITC-3 lines 8-11

1 5) Compliance with new reporting and record keeping requirements such as the
2 Dodd-Frank Act.

3 SCG feels that these additional responsibilities by themselves would have justified
4 additional staffing. However, Gas Acquisition elected to work within the same staffing
5 level, with the assumption and expectation that the additional workload would be offset by
6 increased productivity from the use of technology, consultants and various on-line services,
7 as mentioned in my testimony SCG-06 page ITC-3 lines 4-6. As for Non-Labor cost, new
8 software applications, publications and on-line services providing industry news and market
9 intelligence continue to be needed and are normally available only at increased costs. Gas
10 Acquisition needs to purchase or subscribe to these services to remain competitive in this
11 fast-changing industry in order to secure the lowest possible gas costs for its core customers.

12 SCG believes that the proposed \$95,000 increase is very reasonable and
13 conservative, as it is based on a five-year average of historical recorded costs.

14 DRA's testimony ignores the whole picture (i.e. the inter-dependence of Labor and
15 Non-Labor costs) and focuses only on Non-Labor costs. Table 46-2 of DRA's Testimony
16 shows the following historical Labor and Non-Labor Cost:

2005-2010 Gas Procurement Recorded Expenses						
(In Thousands of 2009 Dollars)						
Description	2005	2006	2007	2008	2009	2010
Labor	\$ 2,827	\$ 2,903	\$ 2,982	\$ 3,059	\$ 3,113	\$ 3,039
Non-labor	\$ 568	\$ 584	\$ 574	\$ 477	\$ 431	\$ 472
Total	\$ 3,395	\$ 3,487	\$ 3,556	\$ 3,536	\$ 3,544	\$ 3,511

17
18 DRA selectively observes that "the non-labor component has been declining steadily
19 since 2006", ignoring the fact that there was an increase from 2005 to 2006, and also from
20 2009 to 2010. Although DRA did acknowledge that there was a "minimal non-labor
21 increase in 2010 above the 2009 level", it nevertheless concluded that "DRA's review of

1 SCG's 2005-2009 recorded expenses and 2010 recorded expenses does not corroborate
2 SCG's requested increase". DRA's recommendation appears to be made based on
3 superficial review, without further analysis or data requests.

4 **III. SUMMARY AND CONCLUSION**

5 As demonstrated above, DRA's recommendation to disallow any increase in Labor
6 and Non-Labor cost for the gas procurement function in Test Year 2012 is not supported by
7 thorough analysis, and ignores the inter-dependence of Labor and Non-Labor Cost: that in
8 order to keep Gas Acquisition's staffing at the 2009 level, it is essential for its Non-Labor
9 cost to increase to offset additional workload by relying on additional subscription,
10 consultant and on-line services. We believe SCG's request for \$95,000 increase in Non-
11 Labor Cost is conservative and reasonable, and respectfully request that the Commission
12 approve the amount requested.

13 This concludes my prepared rebuttal testimony.