Company: Southern California Gas Company (U904G)
Proceeding: 2019 General Rate Case
Application: A.17-10-007/-008 (cons.)
Exhibit: SCG-216

SOCALGAS

REBUTTAL TESTIMONY OF MARTIN LAZARUS

(GAS PROCUREMENT)

JUNE 18, 2018

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

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(GAS PROCUREMENT)

I. SUMMARY OF DIFFERENCES

TOTAL O&M - Constant 2016 ($000)			
	Base Year 2016	**Test Year 2019**	**Change**
SOCALGAS	**$3,913**	**$4,230**	**$317**
ORA	**$3,913**	**$3,990**	**$77**

II. INTRODUCTION

This rebuttal testimony regarding SoCalGas' request for $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[1], and to procure greenhouse gas (GHG) Cap-and-Trade emissions compliance instruments for SoCalGas' covered end-use customers and transmission and storage facilities addresses the following testimony from other parties:

- The Office of Ratepayer Advocates (ORA) as submitted by Ms. Fransiska Hadiprodjo (Exhibit ORA-15), dated April 13, 2018.

As a preliminary matter, the absence of a response to any particular issue in this rebuttal testimony does not imply or constitute agreement by SoCalGas with the proposal or contention made by these or other parties. The forecasts contained in SoCalGas direct testimony, performed at the project level, are based on sound estimates of its revenue requirements at the time of testimony preparation.

SoCalGas' Gas Acquisition Department (Gas Acquisition) is responsible for the procurement of natural gas for SoCalGas' and SDG&E's core customers, as well as the procurement of Cap-and-Trade emissions compliance instruments for SoCalGas' covered end-use customers and transmission and storage facilities. Gas Acquisition's highest priority is to provide reliable gas supplies to core customers at a low cost, and to lower customer carbon emission costs using Commission-authorized procurement tools. To achieve and maintain long-

[1] Pursuant to the Omnibus Decision, the core portfolios of SoCalGas and SDG&E were consolidated into one single portfolio, managed by SoCalGas' Gas Acquisition Department, effective April 1, 2008. See Decision (D.) 07-12-019 at Ordering Paragraph (OP) 4.

term success, Gas Acquisition must attract and retain a skilled professional staff at optimal staffing levels. ORA's testimony challenges funding for two vacant Gas Acquisition positions and recommends a decrease of $250,000[2] in SoCalGas' TY 2019 forecast[3] indicating further that Gas Acquisition has been able to conduct procurement activities without staffing the two positions. Although Gas Acquisition had not filled the vacant positions as of the date SoCalGas filed direct testimony in October 2017 and responded to discovery in January 2018, Gas Acquisition filled the Director position on an interim basis in April 2018 and is in the process of filling (e.g. resume review, telephone screening, candidate selection, in-house interviews) the Supply Forecast Analyst position. Staffing these positions will provide for Gas Acquisition's continued long-term success in providing core ratepayers reliable, low cost natural gas supplies and low-cost Cap-and-Trade compliance instruments. Therefore, it is in the Ratepayer's interest that the Commission approve funding for these two positions.

A. ORA

ORA issued its report on SCG Gas Procurement on April 13, 2018.[4] The following is a summary of ORA's position(s):

> Decrease SoCalGas Gas Procurement TY 2019 forecast from $4.230 to $3.990 million because of a $250,000 adjustment related to two positions in the department.

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[2] Table 15-1, included in the April 13, 2018, ORA Report on the Results of Operations for San Diego Gas & Electric Company, Southern California Gas Company Test Year 2019 General Rate Case, SDG&E Electric and Fuel Procurement, SCG Gas Procurement, Exhibit ORA-15 (Fransiska Hadiprodjo) at 2:3-5, incorrectly reflects as $250,000 the difference between Sempra Proposed and ORA recommended funding on the "SCG Gas Procurement" line of the table. The corrected dollar difference for ORA's recommended adjustment should be $240,000. For the purposes of this testimony, the $250,000 number will be used throughout instead of the $240,000 that would be reflective of the difference of $4.230 million and $3.990 million.

[3] Ex. ORA-15 (Hadiprodjo) at 1:16-19.

[4] Ex. ORA-15 (Hadiprodjo).

III. REBUTTAL TO PARTIES' O&M PROPOSALS

A. Non-Shared Services O&M

NON-SHARED O&M - Constant 2016 ($000)			
	Base Year 2016	**Test Year 2019**	**Change**
SOCALGAS	**$3,913**	**$4,230**	**$317**
ORA	**$3,913**	**$3,990**	**$77**

1. Labor Expense Forecast

a. ORA

ORA takes issue with the Test Year O&M forecast for Gas Acquisition labor costs opposing ratepayer funding for two vacant positions, (1) a Director and (2) a Supply Forecast Analyst. ORA states that SoCalGas had requested and was approved funding for these two positions in the previous TY 2016 GRC[5] as discussed by Ms. Fransiska Hadiprodjo (Ex. ORA-15).[6] In addition, ORA states that although the Commission previously authorized funding for the two positions, SoCalGas did not fill the positions and has been able to conduct its procurement activities without staffing the two positions since 2014.[7] As such, ORA recommends a $250,000 adjustment decreasing SoCalGas' TY 2019 labor forecast.[8]

SoCalGas disagrees with ORA's recommended decrease in labor funding for the Director and Supply Forecast Analyst positions as these positions are instrumental to Gas Acquisition's long-term success in meeting department goals of reliability of supply, low-cost gas and low-cost Cap and Trade compliance instruments.

Additionally, ORA's contention that SoCalGas has been able to conduct its procurement activities with existing staffing assumes that Gas Acquisition's responsibilities have remained static since 2014 and fails to consider the additional responsibilities that Gas Acquisition has assumed without adding incremental headcount. Gas Acquisition is dependent upon filling the vacancies to meet these additional responsibilities as well as existing and future regulatory,

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[5] D.16-06-054.

[6] Ex. ORA-15 (Hadiprodjo) at 7:13-15.

[7] *Id*. at 8:3-5.

[8] *Id*. at 8:5-9.

market and operational challenges and department goals. These additional responsibilities include: 1) procurement of Cap and Trade compliance instruments for SoCalGas end-use customers and covered transmission and storage facilities including transacting lower-cost California Carbon Offsets (CCO) to reduce emissions expense for ratepayers; and 2) SoCalGas system operational constraints impacting supply and resulting in Commission mandates for Gas Acquisition to procure incremental gas to support SoCalGas' storage requirement for system reliability.[9]

Upward pressures related to the additional responsibilities described above and requiring that funding be authorized for the vacant positions to achieve full staffing include the following:

Cap and Trade

- California Assembly Bill (AB) No. 398 approved July 25, 2017 extended the Cap and Trade regulation that established a system of market-based declining aggregate emissions limits for sources or categories of sources that emit greenhouse gases to December 31, 2030.[10] As such, uncertainty is eliminated regarding whether the program will continue post December 31, 2020 guaranteeing that Cap and Trade activities and transactions conducted by Gas Acquisition personnel will continue and increase in the near to long-term.

- Gas Acquisition Cap-and-Trade procurement volumes (metric tons of CO2e) and associated compliance instrument transactions will also increase on an annual basis as a result of Cap-and-Trade regulatory requirements[11] where the number of

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[9] CPUC Resolution G-3529 states: "The Commission's Executive Director, Timothy Sullivan, issued a letter on May 8, 2017, directing SoCalGas to develop and propose an agreement between the utility's System Operator and the Gas Acquisition Department that would maximize storage injections for system reliability in gas storage facilities other than Aliso," at 3. Additionally, a second letter dated March 13, 2018 received from the Commission's Executive Director Alice Stebbins requested Gas Acquisition for the summer and winter season 2018-2019 to support SoCalGas' storage requirements for system reliability similar to the Injection Plan and Injection Memorandum process approved by Resolution G-3529, dated June 29, 2017.

[10] *See* A.B. 398, Ch. 135 (Cal. 2017), *amending* CAL. HEALTH & SAFETY CODE § 38562(c)(2) (effective July 25, 2017).

[11] *See* 17 CCR § 95891, Table 9-2, *Cap Adjustment Factors for Allowance Allocation*. *See also* 17 CCR § 95893, Table 9-5, *Minimum Annual Percentage Consignment Requirements for Natural Gas Utilities for 2015-2020*.

allowances directly allocated to SoCalGas by the California Air Resources Board (ARB) will decrease, and the number of directly allocated allowances required to be consigned back to ARB's quarterly auctions will increase. Consequently, Gas Acquisition will be required to purchase significantly more compliance instruments to meet program requirements resulting in additional market analysis and price discovery activities.

- AB 398 approved on July 25, 2017 modified offset credit limits requiring that at least one-half of offset credits be sourced from projects located in California.[12] California Carbon Offset (CCO) credit purchases have resulted in lower-cost compliance instruments (compared to California Carbon Allowance (CCA) futures and auction-cleared CCA purchases) used to meet SoCalGas ratepayer emission compliance obligations; thus, lowering overall emission expenses for SoCalGas' customers. The legislative mandate to purchase at least one-half of CCOs from California will result in: 1) increased investigation of other Compliance Offset Protocols including California livestock and ozone depleting substances (ODS) projects; 2) increased contract administration; 3) more frequent, smaller volume transactions; and 4) increased settlement and accounting transactions.

Operational Constraints

- Certain pipeline and storage field operational constraints (primarily maintenance-related events) occurring on SoCalGas' system have resulted in increased procurement and related support activities to ensure reliability of core flowing supplies at SoCalGas' city gate and to maximize core storage gas. As an example, the Commission approved Resolution G-3529 on June 29, 2017, requesting SoCalGas to establish month-end system storage targets and for Gas Acquisition to buy and inject incremental natural gas outside of its normal business as usual procurement activities to support system reliability for the 2017 – 2018 summer / winter period. Additionally, in a letter received from the

[12] *See* CAL. HEALTH & SAFETY CODE § 38562(c)(2)(E)(i) *et seq*.

Executive Director of the Energy Division dated March 13, 2018, the Commission expressed concerns regarding the current status of SoCalGas' storage inventory, system operations, and the ability to provide natural gas for the 2018 – 2019 summer / winter period. Similar to the Injection Plan and Injection Enhancement Memorandum process approved by Resolution G-3529, the Commission requested SoCalGas to immediately begin maximizing storage injections for system reliability using the procurement capabilities of the SoCalGas Gas Acquisition Department. Consequently, the Commission approved Resolution G-3540 on May 11, 2018, approving SoCalGas' Second Injection Plan and Second Injection Enhancement Memorandum between the Utility System Operator and Gas Acquisition. As in the prior year, this procurement activity is incremental to Gas Acquisition's normal course of business activities. In addition to Commission mandates for Gas Acquisition to engage in incremental procurement activities to support system storage, several SoCalGas system pipelines[13] were removed from service during 2016 / 2017, which resulted in the necessity for Gas Acquisition to reroute interstate gas supplies delivered to the California border including through Mexico to the Otay Mesa receipt point. In conjunction with the rerouting of gas to Otay Mesa in an effort to enhance system reliability, the Commission approved Resolution G-3535 allowing Gas Acquisition the ability to secure incremental gas import capacity on the three pipelines (North Baja, Gasoducto Rosarito, and Transportadora de Gas Natural Pipeline) needed to transport gas from the California border to the Otay Mesa receipt point. Collectively, these mandates for Gas Acquisition to engage in measures to enhance both storage and system reliability have resulted in increased procurement transactions and ancillary support functions (including market analysis, contracting, settlement, and accounting) underpinning the need to achieve full requested staffing levels to meet these operational challenges which

[13] *See* SoCalGas' ENVOY® Electronic Bulletin Board, Pipeline/Station Maintenance Schedule: SoCalGas line 3000 – out of service July 29, 2016 (estimated return to service – September 2018); SoCalGas line 4000 – out of service on September 18, 2017; SoCalGas line 235-2 out of service on October 1, 2017 (both lines 4000 and 235-2 are currently under restricted operation), *available at* https://scgenvoy.sempra.com/

extend beyond Gas Acquisition's normal course of business procurement responsibilities. As stated earlier, the Director position has been filled on an interim basis and Gas Acquisition is in the process of hiring the Supply Forecast Analyst.

IV. CONCLUSION

Gas Acquisition's ability to successfully meet its priorities to provide reliable gas supplies to core customers at a low cost, and to lower customer carbon emission costs using Commission-authorized procurement tools in both the near and long-term is dependent upon maintaining a skilled, experienced and professional staff at optimal staffing levels. An optimal staffing level requires funding for the two existing vacant positions initially described in the Gas Procurement testimony of Martin F. Lazarus (Exhibit SCG-16). ORA's analysis and failure to consider the additional incremental procurement-related responsibilities that Gas Acquisition has assumed (some mandated by the Commission) and the related increase in transaction and support activities (achieved without adding incremental headcount) minimizes and understates the importance of SoCalGas' request for funding its two existing vacant positions. Therefore; the Commission should deny ORA's recommendation to reduce labor funding by $250,000 and approve SoCalGas TY 2019 forecast as presented in direct testimony.

This concludes my prepared rebuttal testimony.