

1 Application No: _____
2 Exhibit No.: _____
3 Witness: Paul M. Goldstein

4 _____)
5 In the Matter of the Application of Southern)
6 California Gas Company (U 904 G), San Diego Gas)
7 & Electric Company (U 902 M) and Southern)
8 California Edison Company (U 338 E) for Approval)
9 of Changes to Natural Gas Operations and Service)
10 Offerings)
11 _____)

A.06-07-____
(Filed August 28, 2006)

12
13 **PREPARED DIRECT TESTIMONY**

14 **OF PAUL M. GOLDSTEIN**

15 **SAN DIEGO GAS & ELECTRIC COMPANY**

16
17 **AND**

18 **SOUTHERN CALIFORNIA GAS COMPANY**

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26 **BEFORE THE PUBLIC UTILITIES COMMISSION**
27 **OF THE STATE OF CALIFORNIA**
28 August 28, 2006

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4 **PREPARED DIRECT TESTIMONY
OF PAUL M. GOLDSTEIN**

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8 **A. QUALIFICATIONS AND PURPOSE**

9 My name is Paul Goldstein. My business address is 555 W. Fifth Street, Los Angeles,
10 California 90013.

11 In August 2005, I became Manager of Gas Trading for Southern California Gas Company
12 (SoCalGas). I have held previous positions within SoCalGas including Senior Supply Forecast
13 Analyst and California Energy Hub Manager. Prior to joining SoCalGas, I held various
14 engineering and financial positions with Nicor Gas in Naperville, Illinois.

15 I hold a Bachelor of Science in Civil Engineering from Cornell University (1991) and a
16 Masters Degree in Business Administration from the University of Chicago (1996).

17 The purpose of my testimony is to support the consolidation of SoCalGas and San Diego
18 Gas & Electric Company's (SDG&E) core procurement functions effective April 1, 2007. I also
19 describe an annual procurement planning process that would include a Procurement Review
20 Group (Gas PRG) composed of non-market participants.

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23 **B. PORTFOLIO CONSOLIDATION**

24 Currently, SoCalGas and SDG&E each have a dedicated procurement group managing
25 independent gas supply portfolios on behalf of their core gas customers. The respective
26 portfolios include interstate capacity and storage assets. The cost of these assets, together with
27 the cost of the natural gas supplies, is passed through to the core customers of each utility in their
28 monthly gas bills. Each utility has an authorized performance-based regulatory mechanism for
gas procurement: SoCalGas' Gas Cost Incentive Mechanism (GCIM) and SDG&E's Gas
Procurement Performance Base Ratemaking Mechanism (Gas PBR).

Prepared testimony served in the 1996 application for approval to merge Enova
Corporation and Pacific Enterprises (A.96-10-038) proposed to consolidate the management of
the gas procurement functions for SoCalGas and SDG&E.

1 In 2001, SoCalGas and SDG&E proposed the consolidation of the gas supply portfolios
2 of SoCalGas and SDG&E in A.01-01-021. The Commission did not accept our proposal at that
3 time, but deferred consideration of core portfolio consolidation until after the Commission had
4 further investigated the natural gas price spikes that took place during the 2000-2001 energy
5 crisis.¹ In November of 2005, the Commission authorized SoCalGas and SDG&E to file a new
6 core gas supply portfolio consolidation application.²

7 In the five years since SoCalGas and SDG&E initially applied for authorization to
8 consolidate their core gas supply portfolios, a number of changes have taken place affecting the
9 core procurement activities of both utilities including increases in energy prices nationwide, new
10 regulatory rules requiring structural reporting changes within both utilities, and changes to the
11 gas supply portfolios of both utilities. These changes further support the consolidation of
12 SoCalGas and SDG&E's core procurement functions. The primary responsibility of both
13 procurement groups is to ensure their core customers are provided with reliable supplies at a low
14 cost. Combining the two portfolios will help us fulfill this responsibility by providing the
15 following:

- 16 • Lower costs to core customers,
- 17 • More efficient organizational structure,
- 18 • More efficient management oversight, and
- 19 • More efficient regulation and regulatory oversight.

20 **C. SOUTHERN CALIFORNIA GAS COMPANY CORE GAS PORTFOLIO**

21 SoCalGas' Gas Acquisition Department (Gas Acquisition) currently purchases an
22 average of 1 Bcf per day for SoCalGas' five and half million core procurement customers and
23 optimizes associated transportation and storage assets. In addition to providing gas for core
24 demand, Gas Acquisition is responsible for managing gas used for SoCalGas' company use fuel
25 and unaccounted for gas. Gas Acquisition currently has 35 full time employees and the
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27 ¹ D.02-08-065, mimeo, at 3.

28 ² D.05-11-004, mimeo, at 6. The Commission issued this decision in response to a Petition for Modification of D.02-08-065 submitted by SoCalGas and SDG&E.

1 equivalent of six full time personnel supporting its operations including credit, legal, regulatory,
2 and information technology.

3 Beginning April 1, 2007, the only interstate transportation contracts held by SoCalGas
4 will be held on behalf of core customers. Currently, some of the interstate transportation
5 capacity held by SoCalGas is allocated to noncore customers. In Decision 04-09-022, the
6 California Public Utilities Commission (Commission) adopted a procedure where SoCalGas
7 would consult with the Division of Ratepayer Advocates (DRA), The Utility Reform Network
8 (TURN), and the Commission's Energy Division (ED) on core procurement interstate capacity
9 issues. The proceeding also authorized a range of 1,049 MMcf per day – 1,258 MMcf per day³
10 on an annual average basis for SoCalGas' core interstate pipeline capacity.

11 SoCalGas' Gas Acquisition has the following core procurement interstate capacity
12 volumes under contract on April 1, 2007:

- 13 • 200,000 MMBtu per day on Transwestern,
- 14 • 740,000 MMBtu per day on El Paso, and
- 15 • 45,000 MMBtu per day on Kern River.

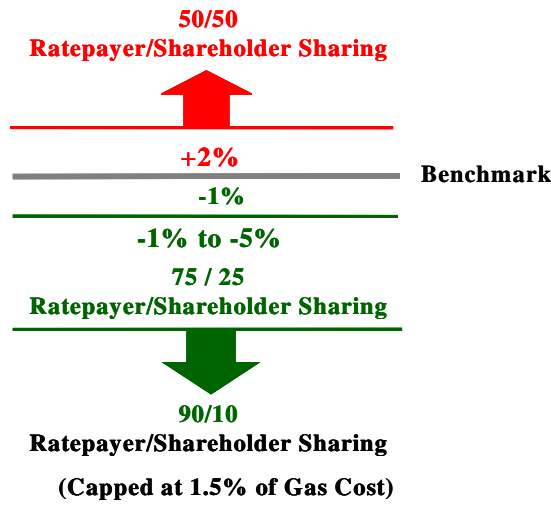
16 In addition to interstate capacity, Gas Acquisition's portfolio of assets includes assigned
17 core storage capacity rights on the SoCalGas system [D.00-04-060-BCAP] as follows:

- 18 • 70 Bcf of inventory,⁴
- 19 • 327 MMcf per day of firm injection rights, and
- 20 • 1,935 MMcf per day of firm withdrawal rights.

21 On March 31, 2006, SoCalGas completed its twelfth year of operation under the GCIM.
22 The current sharing mechanism is portrayed graphically below.

27 ³ SoCalGas plans to file an Advice Letter revising the annual average capacity range based on the 2006
California Gas Report in compliance with Decision 04-09-022.

28 ⁴ The 70 Bcf is exclusive on any cushion gas inventory allocated to the core in A. 05-10-012.



Each month, Gas Acquisition submits a confidential GCIM report detailing all transactions entered into on behalf of core customers to the Commission. Each year, on June 15, SoCalGas submits a GCIM application relating to the GCIM year that ended two and ½ months earlier (e.g., the GCIM Year 12 application submitted by SoCalGas on June 15, 2006, relates to the GCIM Year beginning on April 1, 2005, and ending on March 31, 2006). In these annual GCIM applications, SoCalGas presents a detailed report describing its procurement activities during the GCIM year in question, and seeks CPUC approval of any applicable shareholder reward. In response to these annual GCIM applications, the DRA performs an annual audit to verify the transactions and computation of the GCIM reward.

D. SAN DIEGO GAS & ELECTRIC CORE GAS PORTFOLIO

SDG&E’s Gas Procurement Department (Gas Procurement) is responsible for core volumes averaging 135 MMcf per day.⁵ Gas Procurement is also responsible for managing gas used for SDG&E’s company-use fuel and unaccounted for gas. As mentioned in the direct testimony of SDG&E Witness Donna Hadley, SDG&E currently employs eleven employees in

⁵ As mentioned in SoCalGas witness Rodger Schwecke’s testimony, some noncore customers of SDG&E can procure gas directly from Gas Procurement. Mr. Schwecke’s testimony states, “as a result of combining the gas procurement portfolios there is the need to terminate these noncore procurement services upon the earlier of implementation of A.04-12-004 or the effective date when the gas procurement portfolios are combined.” These noncore volumes are not included in the 135 MMcf per day average volume.

1 Gas Procurement and would need an additional seven employees if the SoCalGas and SDG&E
2 core portfolios were not consolidated. SDG&E currently has six direct employees in Gas
3 Procurement with the remaining head count being shared staff including gas settlements, risk
4 management, contract administration, credit, legal, regulatory, and accounting.

5 SDG&E is subject to the same interstate capacity consultation process as SoCalGas.
6 SDG&E's authorized annual capacity range for 2006 is 139 MMcf per day – 167 MMcf per
7 day.⁶

8 SDG&E currently has the following interstate capacity volumes under contract:

- 9 • 32,640 MMBtu per day on Transwestern,
- 10 • 58,949 MMBtu per day on El Paso,
- 11 • 7,245 MMBtu per day on Kern River, and
- 12 • 51,932 MMBtu per day on various pipelines accessing Canadian supplies.

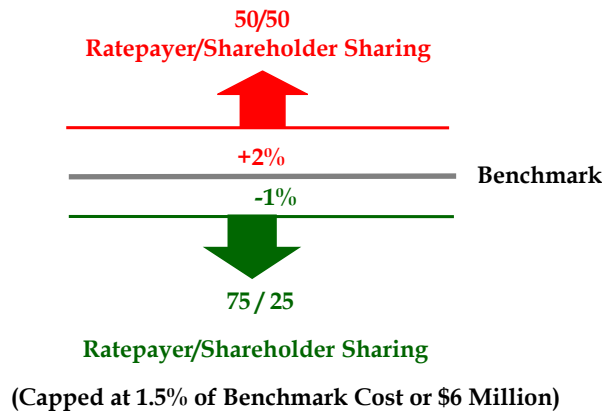
13 SDG&E acquires storage from SoCalGas' Transaction Based Storage Service to serve its
14 core load. Advice Letter 1595-G shows SDG&E has contracted the following volumes for April
15 1, 2007 – March 31, 2008:⁷

- 16 • 9,000,000 MMBtu of inventory,
- 17 • 42,000 MMBtu per day of firm injection rights, and
- 18 • 297,000 MMBtu per day of firm withdrawal rights.

19 SDG&E's Gas PBR has a similar structure to SoCalGas' GCIM with the exception that
20 all savings greater than 1% below the benchmark are shared 75% ratepayer and 25% shareholder
21 and do not switch to 90% / 10% once savings are 5% or more below the benchmark. The cap on
22 shareholder awards for SDG&E's Gas PBR is the lower of \$6 million or 1.5% of the total annual
23 benchmark. As with SoCalGas' GCIM activities, SDG&E's Gas PBR activities are also audited
24 annually by the DRA. An illustration of SDG&E's current Gas PBR is provided below.

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27 ⁶ SDG&E plans to file an Advice Letter revising the annual average capacity range based on the 2006 California
Gas Report in compliance with Decision 04-09-022.

28 ⁷ SDG&E AL 1595-G requested approval of a two-year storage contract from SoCalGas. Year 1, from April 1,
2006 through March 31, 2007, was for 7.8 million Dth.



E. BENEFITS OF CORE PROCUREMENT PORTFOLIO CONSOLIDATION

The top priority for the gas supply groups of both utilities is to obtain reliable, low cost supplies for their respective core procurement customers. The consolidation of the two portfolios will only enhance this capability. Lower costs will be obtained through efficiencies in the organizational structure and the use of assets under one portfolio. Consolidation will also provide for a simpler and more streamlined regulatory oversight process.

1. Organizational Structure

SoCalGas' Gas Acquisition and SDG&E's Gas Procurement groups will have a total of 59 positions within or supporting their core procurement efforts if the core procurement groups are not combined. SDG&E also has a separate procurement group to supply the natural gas requirements of its electric generation portfolio. All three of these groups must be functionally separate from each other because of various regulatory rules including the Remedial Measures stemming from the merger of Enova and Pacific Enterprises, and FERC Order 2004. The redundancy in Gas Acquisition and Gas Procurement personnel includes people involved with physical and financial trading, scheduling, risk management, economic analysis, and gas and regulatory accounting. In addition, as noted above, many employees outside of the Gas Acquisition and Gas Procurement Departments support the work of the procurement groups, including credit, legal, regulatory, and information technology. The existence of multiple procurement groups means additional work for these other departments.

1 Consolidating the core procurement groups of both utilities will reduce the number of
2 natural gas procurement groups to two: one for core gas customers (Gas Utility Procurement
3 Department) and the second for SDG&E's electric generation needs.

4 Administratively, Gas Acquisition's existing proprietary gas management system will
5 be able to manage SDG&E's asset mix with only minor changes. Organizationally, the Gas
6 Utility Procurement Department is expected to need 38 direct employees -- Gas Acquisition's
7 current total of 35 plus an additional three employees. Gas Acquisition's current trading
8 personnel can transact the additional 14% of purchases that would be required by the Gas Utility
9 Procurement Department to serve SDG&E's core load. There will, however, be a need for an
10 additional scheduler, "back office" employee, and analytical employee.

11 As discussed in the direct testimony of SoCalGas Witness Reginald Austria, the
12 combined portfolio will have a single Weighted-Average Cost of Gas (WACOG) and will be
13 accounted for in a single Purchased Gas Account (PGA). Furthermore, the credit, legal,
14 regulatory, and information technology groups will only need to support one core gas
15 procurement organization, allowing for better focus and a further reduction in redundancy for the
16 utilities.

17 Therefore, as a result of consolidating, there will be a reduction of 15 full time
18 employees from the number needed in future years if the portfolios were not combined. This
19 will create an annual savings of approximately \$2 million. Upon approval of the proposed
20 portfolio consolidation, SoCalGas and SDG&E will reduce their requested Test Year 2008
21 revenue requirement by a combined total of \$2 million in order for these estimated cost savings
22 to be passed on to our core customers effective on the date that rates are implemented with the
23 approval of SoCalGas and SDG&E's 2008 General Rate Case.

24 **2. Consolidated Assets**

25 The consolidated portfolio will have the following assets to serve the combined core
26 procurement load:

- 27 • 70 Bcf of storage inventory,⁸
- 28 • 327 MMcf per day of firm injection rights,
- 2,225 MMcf per day of firm withdrawal rights, and

⁸ The 70 Bcf of inventory is exclusive of any additional inventory held on behalf of CARE customers, currently 2.75 Bcf. Once the CARE customer gas is withdrawn (by March 31, 2008), the combined portfolio will have 70 Bcf of inventory assigned to it. Additional inventory may be acquired in the same manner that noncore customers acquire storage inventory such as SoCalGas' G-TBS or any secondary storage market.

- approximately 1,135 MMBtu per day of interstate capacity.⁹

3. Regulatory Efficiencies

Consolidating the core portfolios will greatly reduce the related regulatory filings and other requirements currently performed by the separate organizations, essentially cutting these activities in half. Besides having only one portfolio WACOG and one PGA, there will also be only one incentive mechanism – SoCalGas’ GCIM. Filings associated with the two existing incentive mechanisms will be cut in half, including monthly reports, annual filings, data requests and responses, and proceedings associated with the annual filings. Furthermore, other communication with the DRA, TURN, and ED regarding procurement planning and activity will be streamlined. There will not need to be any material change to the GCIM stemming from the consolidated portfolio.

F. ANNUAL PROCUREMENT PLAN

Beginning in 2008, the Gas Utility Procurement Department will file an annual plan (Gas Plan) with the CPUC by January 31 of each year. The Gas Plan will be for the prospective period April 1 through March 31 and will contain the following general sections:

- Purchase plan,
- Injection season storage plan including monthly targets,
- Interstate capacity plan, and
- Winter hedge plan.

Prior to submitting the Gas Plan, the Gas Utility Procurement Department will review the proposed plan with a Procurement Review Group (Gas PRG) composed of non-market

⁹ Since SDG&E currently has a G-TBS contract with SoCalGas expiring on March 31, 2008, SoCalGas and SDG&E plan to file an Advice Letter that would amend the SDG&E storage contract as follows: If the effective on the date of implementation of the portfolio combination is April 1, 2007, SDG&E’s storage contract reservations for inventory and injection would be reduced to zero. The withdrawal reservation would remain at 297 MMBtu per day and the term for this reservation would be extended through March 31, 2009 at the existing contract rate. This withdrawal reservation would be added to the current SoCalGas core reservation of 1,935 MMcf per day for a total for the combined portfolio of 2,225 MMcf. In the next BCAP, SoCalGas and SDG&E would propose a new level of withdrawal reservation that would become effective April 1, 2009. If the effective date of implementation of the portfolio combination is after April 1, 2007, SDG&E’s storage contract reservations for inventory and injection would expire at the termination of the contract, March 31, 2008.

1 participants who are either subject to statutory confidentiality requirements or have executed a
2 suitable non-disclosure agreement. SoCalGas currently has a similar process approved in D.04-
3 09-022 for acquiring limited interstate capacity with a consultation group composed of ED,
4 DRA, and TURN. In addition to the Gas PRG, any other market participant may submit
5 comments to the CPUC regarding the Gas Plan. The other market participants, however, will
6 only have access to redacted materials. The annual planning process will also have the following
7 provisions:

- 8 • The ED will review the Gas Plan for compliance on an annual basis,
- 9 • Any transaction identified as not being compliant with the approved Gas Plan
10 will be promptly reviewed for reasonableness using the CPUC’s “reasonable
11 manager” standard. The Gas Utility Procurement Department will have an
12 opportunity to explain how the transaction complies with the approved Gas
13 Plan,
- 14 • The CPUC will issue a decision by December 31 of each year regarding the
15 Gas Utility Procurement Department’s compliance with the Gas Plan having
16 ended on March 31 of the same year, and
- 17 • The Gas Utility Procurement Department will update the Gas PRG at least
18 quarterly regarding the current Gas Plan as well as the development of future
19 Gas Plans.

20 **G. SUMMARY**

21 Consolidation of SoCalGas and SDG&E’s core procurement functions will save our
22 customers \$2 million each year, without taking anything away from the strong service and
23 consistent reliability they have come to expect from both utilities. Moreover, consolidation will
24 create regulatory efficiencies for everyone involved in the regulatory process that surrounds the
25 core procurement efforts of SoCalGas and SDG&E, including the Commission. The new annual
26 procurement planning process will provide the Commission with the opportunity to review and
27 pre-approve the utilities gas procurement and hedging plans for the upcoming year, and will give
28 interested stakeholders a greater voice in how we approach procurement for our customers. The

1 proposed annual planning process will enhance the existing review process under SoCalGas'
2 GCIM and SDG&E's Gas PBR and help ensure core customers continue to receive reliable, low
3 cost gas.

4 This concludes my prepared direct testimony.
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