

Company: Southern California Gas Company (U 904 G)
Proceeding: 2024 General Rate Case
Application: A.22-05-____
Exhibit: SCG-11

PREPARED DIRECT TESTIMONY OF
MARTIN F. LAZARUS
(GAS ACQUISITION)

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA



May 2022

TABLE OF CONTENTS

I.	INTRODUCTION	1
A.	Summary of Gas Acquisition Costs and Activities.....	1
B.	Support To and From Other Witnesses.....	3
1.	Injection Enhancement Cost Memorandum Account.....	3
2.	Sustainability and Safety Culture.....	3
C.	Organization of Testimony	3
II.	SUSTAINABILITY AND SAFETY CULTURE	4
III.	NON-SHARED COSTS	8
A.	Description of Costs and Underlying Activities	9
B.	Forecast Method.....	11
C.	Cost Drivers	13
IV.	CONCLUSION.....	24
V.	WITNESS QUALIFICATIONS.....	25

Appendix A – Glossary of Terms

SUMMARY

SoCalGas Gas Acquisition (In 2021 \$)			
	2021 Adjusted-Recorded (000s)	TY2024 Estimated (000s)	Change (000s)
Total Non-Shared Services O&M	5,081	5,247	166

Summary of Requests

- Southern California Gas Company (SoCalGas) requests authority to recover \$5.247 million (an increase of \$166 thousand from base year (BY) 2021 adjusted-recorded costs) in operations and maintenance (O&M) costs to support the Gas Acquisition Department, which procures natural gas and clean fuels¹ for retail core customers of both SoCalGas and San Diego Gas & Electric Company (SDG&E),² as well as Cap-and-Trade greenhouse gas (GHG) emissions compliance instruments for SoCalGas’s covered end-use customers and its gas transmission and storage facilities.
- SoCalGas must fill existing vacancies within the Gas Acquisition Department in order to execute its responsibilities related to natural gas and clean fuels procurement, as well as Cap-and-Trade GHG emissions compliance instrument procurement and reporting responsibilities for the Assembly Bill (AB) 32 Cap-

¹ E.g., SoCalGas Advice Letter (AL) 5295, approved July 5, 2018 and effective June 17, 2018, supports a voluntary Renewable Natural Gas (RNG) procurement pilot for transportation load where the RNG procured is dedicated for use by customers refueling natural gas motor vehicles at SoCalGas and SDG&E-owned, utility-funded stations and for the use in SoCalGas and SDG&E fleet vehicles. Additionally, Decision (D).20-12-022 authorized SoCalGas to purchase RNG for retail core customers that volunteer to take service under the tariff. RNG purchases are for retail core customer non-transportation stationary load as part of their fossil-based natural gas services. Also, D.22-02-025, approved February 24, 2022, established a Renewable Gas Standard (RGS) for California’s four large natural gas investor-owned utilities (IOUs) including short-term and medium-term biomethane targets where each IOU will purchase their proportional share of biomethane annually for retail core customers.

² Pursuant to D.07-12-019, Ordering Paragraph 4, the retail core portfolios of SoCalGas and SDG&E were consolidated into one single portfolio managed by SoCalGas’s Gas Acquisition Department, effective April 1, 2008.

and-Trade program.³ Thus, SoCalGas’s primary labor forecast methodology is BY 2021 recorded cost with necessary adjustments to reflect the filling of these existing vacancies.

- In addition to filling vacancies that occurred in BY 2021, it is necessary to add incremental resources to the Gas Acquisition Department to ensure its ability to effectively conduct business operations and to fulfill Gas Acquisition Department priorities and responsibilities including: 1) procurement of reliable gas supplies at a reasonable cost for retail core customers, 2) procurement of emissions compliance instruments at a reasonable cost for customers, 3) activities to support California’s decarbonization goals, and 4) ensure compliance with state and federal regulatory requirements and policies. SoCalGas is requesting the following incremental staff positions to support increasing demands and workload:
 - Senior Risk Analyst to strengthen middle office risk management governance and oversight controls encompassing Gas Acquisition Department procurement activities and transactions.
 - Interstate Transportation Analyst to increase interstate and intrastate gas scheduling support.
- The change of \$166,000 from BY 2021 to test year 2024 (TY 2024) consists of the following: 1) adjustments to fill existing Gas Acquisition Department vacancies totaling \$12,000, 2) an increase of \$164,000 for incremental risk management and scheduling personnel, and 3) a net decrease of \$10,000 in non-labor costs.

³ See AB 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.

**PREPARED DIRECT TESTIMONY OF
MARTIN F. LAZARUS
(GAS ACQUISITION)**

I. INTRODUCTION

A. Summary of Gas Acquisition Costs and Activities

My testimony supports the TY 2024 forecasts for O&M costs for non-shared services associated with the SoCalGas Gas Acquisition Department. Table MFL-1 summarizes my sponsored costs.

**TABLE MFL-1
Test Year 2024 Summary of Total Costs**

SoCalGas Gas Acquisition (In 2021 \$)	2021 Adjusted-Recorded (000s)	TY2024 Estimated (000s)	Change (000s)
Total Non-Shared Services O&M	5,081	5,247	166

My testimony requests California Public Utilities Commission (Commission or CPUC) approval of approximately \$5.2 million of annual O&M costs to enable the Gas Acquisition Department to fulfill its procurement responsibilities, meet department priorities, and ensure regulatory compliance. The Gas Acquisition Department’s responsibilities include: (1) procurement of reliable natural gas supplies and clean fuels for SoCalGas and SDG&E retail core customers at a reasonable cost for customers, (2) procurement of Cap-and-Trade GHG emissions compliance instruments for SoCalGas’s covered end-use customers and its gas transmission and storage facilities at a reasonable cost for customers, (3) activities to support California’s decarbonization goals, and (4) ensure compliance with state and federal regulatory requirements and policies. The Gas Acquisition Department manages these responsibilities through the use of Commission-authorized procurement tools and allocated assets including gas storage capacity and injection/withdrawal rights, interstate/intrastate pipeline capacity, Secondary Market Services (SMS) transactions,¹ natural gas sales, exchange-traded and bilateral

¹ SMS activities include natural gas parks, loans and wheels with the intent to optimize the use of retail core allocated assets and reduce retail core gas costs.

1 derivative hedging transactions, and GHG emissions compliance instruments.² Gas Acquisition
2 Department priorities are accomplished not only via day-to-day and month-to-month
3 transactions, but also through long-term planning and commitments. To achieve and maintain
4 long-term success, the Gas Acquisition Department must:

- 5 • Negotiate and maintain contracts for physical and financial gas transactions, clean
6 fuels, storage capacity, and interstate transmission capacity that will provide
7 reliable, cost-effective and clean fuel supplies in future years.
- 8 • Negotiate and maintain contracts for GHG emissions compliance instrument
9 procurement transactions.
- 10 • Attract and retain a skilled professional staff at optimal staffing levels to provide
11 reliable, cost-effective natural gas and clean fuel supplies for retail core customers
12 and cost-effective Cap-and-Trade compliance instruments.
- 13 • Maintain a fully-integrated Energy Trade Risk Management System (Pinnacle)
14 for efficient execution of transactions and accurate recordkeeping.
- 15 • Maintain a robust system of internal business controls including appropriate
16 segregation of duties.

17 The purpose of my testimony is to establish the reasonableness of SoCalGas's forecasted
18 expenses to provide procurement services³ and to demonstrate that the requested Gas Acquisition
19 Department O&M expenses should be approved by the Commission. Additionally, this
20 testimony provides support for vacancy adjustments necessary to achieve current staffing levels
21 within the Gas Acquisition Department and for incremental labor costs discussed below in
22 Section III.3, "Cost Drivers."

23 In addition to sponsoring my own organization's costs, my testimony also supports costs
24 and credits recorded in the Injection Enhancement Cost Memorandum Account (IECMA)

² GHG compliance instruments purchased to meet SoCalGas customer emissions obligations include California Carbon Allowances (CCA) and California Carbon Offsets (CCO). These instruments can be purchased bilaterally, exchange-traded, or at the California Air Resources Board (CARB) quarterly auctions.

³ The Gas Acquisition Department procures natural gas and clean fuels for SoCalGas and SDG&E retail core customers. Additionally, the Gas Acquisition Department procures AB 32 Cap-and-Trade emission compliance instruments for SoCalGas covered facilities and end-use customers, which includes noncore customers with an annual compliance obligation less than 25,000 metric tons of carbon dioxide equivalent (MTCO_{2e}) per annum.

1 totaling approximately a net credit of \$167,000. Commission system reliability directives issued
2 in 2017 and 2018 required SoCalGas to use procurement capabilities of the Gas Acquisition
3 Department to support SoCalGas's storage inventory requirements for system reliability for the
4 benefit of both core and noncore customers, and to record associated incremental costs in the
5 IECMA (please see Section III.3, "Cost Drivers" for further discussion).

6 **B. Support To and From Other Witnesses**

7 My testimony references the testimony and workpapers of several other witnesses, either
8 in support of their testimony or as referential support for my testimony. These witnesses include:

- 9 • Regulatory Accounts testimony of Rae Marie Yu (Exhibit (Ex.) SCG-38)
- 10 • Sustainability and Climate Policy testimony of Naim Jonathan Peress and
11 Michelle Sim (Ex. SCG-02, Chapters 1 and 2).

12 **1. Injection Enhancement Cost Memorandum Account**

13 Section III.3, "Cost Drivers" of my testimony describes the regulatory authority and
14 procurement activities that support costs and credits recorded in the IECMA. In her testimony,
15 Ms. Yu (Ex. SCG-38) addresses the proposed disposition of those costs and credits into rates.

16 **2. Sustainability and Safety Culture**

17 Section II (Sustainability and Safety Culture) of my testimony discusses the sustainability
18 and safety culture efforts and activities that reside in the Gas Acquisition Department.
19 Additionally, a discussion of the Company's commitment to sustainability and programs that
20 support California's decarbonization goals is included in the testimony of Mr. Peress and Ms.
21 Sim (Ex. SCG-02, Chapters 1 and 2).

22 **C. Organization of Testimony**

23 My testimony is organized as follows:

- 24 • Introduction
- 25 • Support To and From Other Witnesses
- 26 • Sustainability and Safety Culture
- 27 • Description of Costs and Underlying Activities
- 28 • Summary of Gas Acquisition Costs and Activities
- 29 • Forecast Method
- 30 • Cost Drivers
- 31 • Conclusion

1 **II. SUSTAINABILITY AND SAFETY CULTURE**

2 Sustainability at SoCalGas focuses on continuous improvement, innovation, and
3 partnerships to advance California’s climate objectives, incorporating holistic and sustainable
4 business practices and approaches. SoCalGas’s sustainability strategy, ASPIRE 2045, integrates
5 five key focus areas across the Company’s operations to promote the public interest, and the
6 wellbeing of utility customers, employees, and other stakeholders. Please refer to the
7 Sustainability and Climate Policy testimony of Naim Jonathan Peress and Michelle Sim (Ex.
8 SCG-02, Chapters 1 and 2) for a more detailed discussion of SoCalGas’s sustainability and
9 climate policies.

10 Safety is foundational to SoCalGas and SoCalGas’s sustainability strategy. As the
11 nation’s largest gas distribution utility, the safety of SoCalGas’s customers, employees,
12 contractors, system, and the communities served has been – and will remain – a fundamental
13 value for the Company and is interwoven in everything SoCalGas does. This safety-first culture
14 is embedded in every aspect of SoCalGas’s business. The tradition of providing safe and reliable
15 service spans 150 years of the Company’s history and is summarized in SoCalGas’s Leadership
16 Commitment statement, which is endorsed by the entire senior management team:

17 SoCalGas leadership is fully committed to safety as a core value.
18 SoCalGas’s Executive Leadership is responsible for overseeing
19 reported safety concerns and promoting a strong, positive safety
20 culture and an environment of trust that includes empowering
21 employees to identify risks and to “Stop the Job.”

22 SoCalGas’s approach to safety is one of continuous learning and improvement where all
23 employees and contractors are encouraged and expected to engage in areas of opportunity for
24 learning and promote open dialogue where learning can take place. To learn about SoCalGas’s
25 overall safety approach please see the Safety & Risk Management System testimony of Neena
26 Master (Ex. SCG-27).

27 The activities described in this testimony advance the state’s climate goals and align with
28 SoCalGas’s sustainability priorities. Specifically, the proposals discussed below will drive
29 progress in the areas of accelerating the transition to clean energy, protecting the climate and
30 improving air quality in our communities, increasing clean energy access and affordability,
31 advancing a diverse, equitable, and inclusive culture, and achieving world-class safety.

1 Sustainability efforts and activities that reside in the Gas Acquisition Department include the
2 following:

3 **Responsibly Sourced Gas (RSG):** RSG⁴ is natural gas procured from suppliers that
4 proactively manage methane emissions across their entire gas supply chain. Additionally, RSG
5 is certified through a third-party verification process to confirm that the gas meets the highest
6 standards and practices to minimize its environmental footprint. RSG assessment criteria are
7 generally focused on methane emissions but can also consider other qualities such as other air
8 emissions, water use, water quality, land use or community engagement. In an effort to support
9 the reduction of GHG emissions and to minimize environmental and social impacts associated
10 with its natural gas supplies, the Gas Acquisition Department assesses RSG procurement
11 opportunities and has committed to source increased RSG supplies as available and when it is
12 economical to do so.

13 **Senate Bill (SB) 1440:** The Gas Acquisition Department will have primary responsibility
14 for SoCalGas's implementation of SB 1440 by procuring biomethane to meet renewable gas
15 standard (RGS) procurement targets established by the Commission in D.22-02-025 for
16 SoCalGas and SDG&E retail core customers. In doing so, SoCalGas will advance the State's
17 environmental and energy policies involving diversion of organic waste and landfill methane
18 reduction level mandates.

19 **Voluntary Renewable Natural Gas (RNG) Procurement Pilot – Transportation**
20 **Load:** On July 5, 2018, the CPUC authorized SoCalGas's Voluntary RNG Procurement Pilot
21 (Pilot) effective June 17, 2018. The purpose of the Pilot is to encourage further development of
22 RNG sources, reduce GHG emissions relative to traditional natural gas, and advance state
23 policies to reduce short-lived climate pollutants (SLCPs) and to promote RNG production. The
24 RNG Pilot program is dedicated for use by customers refueling natural gas motor vehicles at
25 SoCalGas and SDG&E-owned compressed natural gas (CNG) stations and for use in SoCalGas
26 and SDG&E fleet vehicles. As of year-end 2021, there were 38 CNG refueling stations in the
27 combined SoCalGas and SDG&E territories. Environmental credits⁵ that are generated from the

⁴ RSG is also referred to as Certified Natural Gas.

⁵ Environmental credits include Renewable Identification Numbers (RINs) generated under the Environmental Protection Agency's (EPA) Renewable Fuel Standard (RFS), and Low Carbon Fuel Standard (LCFS) credits generated under CARB's LCFS program.

1 matching of RNG supplies with CNG station offtake are monetized and the financial proceeds
2 shared with SoCalGas and SDG&E. The shared financial proceeds are returned to Natural Gas
3 Vehicle (NGV) customers in the form of lower CNG prices⁶ at SoCalGas and SDG&E CNG fill
4 stations. The Gas Acquisition Department conducts procurement activities related to the Pilot. It
5 strives to match 100% of CNG station offtake with RNG and has done so since October 2019.
6 For the period April 2019 through December 2021, RNG totaling approximately 1.5 billion cubic
7 feet (Bcf) was dispensed at SoCalGas and SDG&E CNG stations.

8 **Cost-Effective GHG Emissions Compliance Instruments:** Gas Acquisition Department
9 priorities include the procurement of cost-effective Cap-and-Trade GHG emissions compliance
10 instruments for SoCalGas's covered end-use customers and transmission and storage facilities.
11 The California Air Resources Board (CARB) allows California Carbon Offsets (CCO) to be
12 surrendered to cover a portion of SoCalGas's GHG emissions compliance obligation. The Gas
13 Acquisition Department strives to purchase lower-cost⁷ CCOs to reduce customer emissions
14 expense and to support California forestry offset projects, as well as other CARB approved offset
15 protocols.

16 **RNG Goals and Voluntary Pilot RNG Tariff Program:** In order to advance
17 California's 2045 carbon neutrality goals, SoCalGas is working towards providing 5% RNG as a
18 percent of total retail core load to retail core customers by 2022 and 20% RNG as a percent of
19 total retail core load to retail core customers by 2030. Core service is defined in SoCalGas's
20 Tariff Rule No. 23 and includes all residential and some small commercial customers. Gas
21 Acquisition Department contributions to this effort include procurement activities under the
22 Voluntary RNG Procurement Pilot targeting SoCalGas and SDG&E CNG station transportation
23 load described above. Additionally, future RNG volumes that may be procured to support these

⁶ The financial proceeds are used to reduce the compression charge in SoCalGas's G-NGV Tariff, "Natural Gas Service for Motor Vehicles" and SDG&E's G-NGV Tariff, "Sale of Natural Gas for Motor-Vehicle Fuel."

⁷ For the period January 2020 through November 2021, golden CCOs (*i.e.*, CARB-issued CCO that is bundled with a bilateral agreement stipulating replacement if invalidation occurs) traded at a discount of approximately \$5.00 per MTCO₂e compared to the near vintage month CCA futures contract. Source: broker quotes from Evolution Markets, North American Carbon Report, BGC Carbon Market Daily, OPIS Carbon Market Report golden CCO daily settlements, and Intercontinental Exchange (ICE) daily settlements for the near CCA vintage futures contract.

1 goals include purchases for SoCalGas’s Voluntary Pilot RNG Tariff Program⁸ and RNG
2 purchases to meet biomethane procurement mandates adopted in D.22-02-025, also discussed
3 above.

4 **Natural Gas Purchases from Diverse Business Enterprises (DBE):** The CPUC
5 requires SoCalGas to submit a detailed and verifiable annual plan for increasing procurement
6 with women-owned, minority-owned, disabled veteran-owned and lesbian, gay, bisexual and
7 transgender-owned business enterprises (WMDVLGBTBEs).⁹ Additionally, each utility may
8 establish a separate fuel procurement base for reporting progress and establishing goals for
9 procurement of fuels from WMDVLGBTBEs including at a minimum, all purchases of natural
10 gas from domestic on-shore natural gas markets.¹⁰ The Gas Acquisition Department seeks to
11 purchase natural gas from qualified diverse firms in order to increase total natural gas
12 procurement with WMDVLGBTBEs. In 2021, the Gas Acquisition Department purchased
13 approximately 77 Bcf of natural gas totaling approximately \$320 million from
14 WMDVLGBTBEs, which was 17% of total natural gas purchases for the year.¹¹

15 **Gas Supply Reliability and Cost-Effective Energy Procurement:** The Gas Acquisition
16 Department conducts its procurement activities to achieve the primary priorities of supply
17 security and service reliability at reasonable, cost-effective rates. The Gas Acquisition
18 Department seeks to efficiently use retail core’s available interstate and intrastate pipeline and
19 storage rights to deliver reliable, cost-effective gas supplies to its retail core customers. To
20 achieve reliability, the Gas Acquisition Department constructs a portfolio of gas supplies that is
21 diversified by contract type, geographic region and supplier. The Gas Acquisition Department
22 maintains a gas supply portfolio comprised of long-term supply agreements and month-to-month
23 baseload agreements, as well as daily purchases and sales transactions. The Gas Acquisition
24 Department also uses CPUC-approved tools available to a typical trading organization, including

⁸ D.20-12-022 authorized SoCalGas to purchase RNG for retail core customers that volunteer to take service under the tariff. RNG purchases are for retail core customer non-transportation stationary load as part of their fossil-based natural gas services.

⁹ See CPUC General Order (GO) 156.

¹⁰ *Id.*

¹¹ See SoCalGas, Supplier Diversity, Advancing Inclusion as a Pathway to a Clean Energy Future (2021 Annual Report | 2022 Annual Plan) at 29, available at https://www.socalgas.com/sites/default/files/2021-02/SupplierDiversity_AnnualReport.pdf.

1 purchases, sales, loans, parks, wheels, financial derivatives, and transportation contracts. These
2 tools enhance the Gas Acquisition Department’s ability to economically optimize its use of retail
3 core assets, when not directly needed for reliability, to lower overall gas costs for its retail core
4 customers. The Gas Acquisition Department’s management of retail core’s commodity gas costs
5 contributed to SoCalGas’s achievement of the top quartile of the lowest average monthly
6 residential gas bill as compared to SoCalGas’s top 50 peers nationwide.¹²

7 **Safety:** The Gas Acquisition Department demonstrates its commitment to employee
8 safety by requiring compliance with all applicable federal, state and local safety laws, rules and
9 regulations, as well as SoCalGas safety standards. More broadly, SoCalGas’s safety culture
10 encourages an open two-way communication environment designed to quickly identify and
11 resolve safety issues and to emphasize safety in the workplace. SoCalGas’s Environmental and
12 Safety Compliance Management Program establishes processes that foster compliance with
13 SoCalGas’s Injury and Illness Prevention Program and other applicable safety requirements.
14 SoCalGas’s Environmental Safety Compliance Management Program is administered to Gas
15 Acquisition personnel via periodic mandatory training.

16 **III. NON-SHARED COSTS**

17 “Non-shared services” are activities that are performed by a utility solely for its own
18 benefit. Sempra Energy (Sempra) provides certain services to the utilities and to other
19 subsidiaries. For purposes of this general rate case (GRC), SoCalGas treats costs for services
20 received from Sempra as non-shared services costs, consistent with any other outside vendor
21 costs incurred by the utility. Table MFL-2 summarizes the total non-shared O&M forecasts for
22 the listed cost categories.

¹² Based upon the American Gas Association’s (AGA) Annual Report of Volumes, Revenues, and Customers by Company available at <https://www.aga.org/research/data/annual-report-of-volumes-revenues-and-customers-by-company-2002-2016/>.

TABLE MFL-2
Non-Shared O&M Summary of Costs

SoCalGas Gas Acquisition (In 2021 \$)			
Categories of Management Gas Acquisition	2021 Adjusted-Recorded (000s)	TY2024 Estimated (000s)	Change (000s)
Total Labor	4,604	4,780	176
Total Non-Labor	477	467	(10)
Total Non-Shared Services	5,081	5,247	166

A. Description of Costs and Underlying Activities

The Gas Acquisition Department consists of four functional groups reporting to the Vice President-Gas Acquisition: 1) Origination, Energy Trading and Transportation (“front office”- physical gas trading, financial trading, energy and carbon trading, gas scheduling), 2) Governance, Risk & IT (“middle office”- risk management governance and oversight, Information Technology [IT] support) 3) Finance (“back office”- gas accounting, settlements, finance), and 4) Energy Economics & Planning (energy markets forecasting and analysis). Primary roles and responsibilities for the Vice President-Gas Acquisition and each functional group are described below.

Vice President-Gas Acquisition: The Vice President-Gas Acquisition provides direction and officer oversight for the Gas Acquisition Department, overseeing approximately 45 employees that comprise the functional groups described below. The Vice President-Gas Acquisition is responsible for providing strategic direction consistent with SoCalGas’s mission to build the cleanest, safest, most innovative energy company in America, and developing policies that optimize department procurement priorities. The Vice President-Gas Acquisition is also responsible for the department’s overall compliance with SoCalGas’s internal policies, including trading and risk management policies, and all other applicable state and federal regulatory requirements and policies.

Front Office: Front office primary responsibilities include deal origination and trading, deal execution, deal capture and other transaction support roles such as gas scheduling and nominations. Physical gas traders purchase and sell gas on a daily, monthly and long-term basis and perform SMS gas parks, wheels and loans to optimize core asset utilization and provide reliable and cost-effective gas supplies. Financial traders manage price and basis risk for the core portfolio and develop and implement financial hedging strategies to mitigate price volatility

1 for customers. Energy and carbon traders procure Cap-and-Trade emissions compliance
2 instruments including California Carbon Allowances (CCA) and lower-cost CCOs for
3 SoCalGas's covered end-use customers and facilities, and also execute deals to source RNG for
4 consumption at SoCalGas and SDG&E's CNG fill stations. Gas schedulers nominate and
5 schedule gas to meet retail core load seven days a week and for six scheduling cycles each day
6 managing both pipeline constraints and capacity cuts.

7 **Middle Office:** Middle office primary responsibilities include risk administration and
8 governance and oversight for front office trading activities, and IT support for the Gas
9 Acquisition Department. The risk administration responsibilities include identifying market,
10 credit, financial and operational portfolio risks, risk valuation and risk reporting. Middle office
11 responsibilities also include verifying data integrity through deal validation and confirmations,
12 validating forward price curves, and executing all risk monitoring requirements (*e.g.*, position
13 limit and credit exposure monitoring). Additionally, the middle office negotiates and administers
14 contracts to facilitate physical gas, RNG, financial and carbon trading with a diverse pool of
15 counterparties, compiles financial and regulatory reports, and maintains a system of robust
16 internal business controls to ensure compliance with rules and regulations as well as internal
17 market activity policies. IT manages and supports Gas Acquisition's Pinnacle system, trading
18 and accounting application interfaces, desk-top computing and hardware.

19 **Back Office:** Back office primary responsibilities include natural gas and Cap-and-Trade
20 portfolio accounting, retail core commodity price calculation and settlements. The back office
21 accounts for and reports the cost of gas, RNG, LCFS, RINs, storage and Cap-and-Trade
22 activities. The back office also processes settlements for all transactions executed by the front
23 office, including natural gas purchases and sales, SMS parks, loans and wheels, environmental
24 attributes, and compiles financial and regulatory reports. The back office oversees the financial
25 control structure for all procurement activities and facilitates periodic testing of Gas Acquisition
26 Department internal controls for operational and design effectiveness.

27 **Energy Economics and Planning:** The Energy Economics and Planning group's
28 primary responsibilities include forecasting and analysis of market conditions that impact gas
29 supply and demand. The Energy Economics and Planning group continuously monitors energy
30 market conditions and their impact on supply and demand fundamentals, performs various

1 analyses and forecasts, tracks core storage levels and analyzes total system storage operations¹³
2 and conditions, analyzes factors impacting gas prices and price interactions among various
3 natural gas production regions and markets, and evaluates and recommends trading strategies.

4 To illustrate the magnitude of the Gas Acquisition Department's transactional activities,
5 for the period April 1, 2020 through March 31, 2021, the Gas Acquisition Department executed
6 approximately 8,200 gas purchases and sales transactions totaling approximately 369 million
7 MMBtus at a net total cost of approximately \$743 million.¹⁴ As a result of the Gas Acquisition
8 Department procurement activities, customer gas commodity cost savings over the same period
9 totaled approximately \$174 million below market cost. Since the inception of Gas Acquisition's
10 Gas Cost Incentive Mechanism (GCIM),¹⁵ total customer gas commodity cost savings have been
11 approximately \$1.36 billion¹⁶ below market cost. Additionally, the Gas Scheduling group
12 generated approximately 544,000 scheduling flow records (nominations) to transport natural gas
13 supplies into SoCalGas's service territory. In addition, Gas Acquisition executed over 342
14 financial derivatives transactions totaling approximately 27 Bcf. During BY 2021, the Gas
15 Acquisition Department purchased Cap-and-Trade emissions compliance instruments totaling
16 approximately \$349 million.

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

22 **B. Forecast Method**

23 A base year recorded cost methodology was developed to forecast Gas Acquisition
24 Department labor costs. Reliance on the base year recorded cost forecasting methodology
25 adjusted for vacancies that occurred in 2021 is appropriate as it represents the most recent

¹³ Analyses are based on publicly-available information in compliance with the information sharing restrictions contained in D.98-03-073, Attachment B and D.06-12-029, Appendix A-3.

¹⁴ See SoCalGas GCIM Year 27 Application (A.) 21-06-010, Attachment A, Table 1 at A-3.

¹⁵ See D.94-03-076, Ordering Paragraph 1 at 18.

¹⁶ See Application (A.) 21-06-010, Application of SoCalGas Regarding Year 27 (2020-2021) of Its Gas Cost Incentive Mechanism (June 15, 2021), Attachment A, Table 1 at A-3.

1 recorded Gas Acquisition Department labor costs at a full staffing level. The base year labor
2 costs are also adjusted for incremental labor costs anticipated in TY 2024 which are discussed in
3 the Cost Driver section below. Additionally, the base year labor forecast includes labor cost
4 reduction adjustments due to retirements and the elimination of a full-time equivalent (FTE)
5 management position. Adjustments for COVID-19 related costs were not necessary as no labor
6 costs related to COVID-19 were recorded for the Gas Acquisition Department. Base year
7 recorded cost adjusted for vacancies and incremental labor cost requirements represents a
8 reasonable baseline forecast supporting full staffing for the Gas Acquisition Department to
9 enable execution of its procurement responsibilities.

10 A five-year average forecast methodology was used to forecast Gas Acquisition
11 Department non-labor costs. The five-year average forecast methodology reduces variances by
12 leveling costs attributable to routine employee attrition and unusual operating conditions such as
13 the COVID-19 pandemic outbreak that began in March 2020. Additionally, the recorded costs
14 for 2017-2021 were adjusted to remove expenses associated with one-time events such as the
15 COVID-19 pandemic, as described below in the Cost Driver section of my testimony (see Item
16 5, "COVID-19 Pandemic Costs"). The results of this adjustment process were used to calculate
17 three, four, and five-year linear-trend, and three, four, and five-year annual-averaging cost
18 results. Comparative analysis of the results produced by each of the methodologies disclosed
19 that the five-year average yielded the most conservative result. The COVID-19 pandemic
20 significantly impaired employee normal course of business travel for industry-related
21 conferences, events, trading counterparty outreach and training in 2020 (observed decrease of
22 \$34,000 compared to 2019). The resulting travel and training cost decrease eliminates both base
23 year recorded cost or trends as an appropriate forecasting methodology for Gas Acquisition
24 Department non-labor expenses. The five-year average baseline forecast was further adjusted,
25 where needed, to account for incremental costs not reflected in historical cost data. These
26 incremental costs are discussed in the Cost Driver section of my testimony Item 4, "Gas
27 Acquisition Department Non-Labor Costs." Use of the five-year average is the most appropriate
28 forecast methodology as it provides a reasonable basis for developing a forecast of TY 2024 non-
29 labor costs for the Gas Acquisition Department.

1 **C. Cost Drivers**

2 The cost drivers taken into consideration in preparing Gas Acquisition’s historic and
3 forecasted costs include the following:

4 **Gas Acquisition Department Vacancies:** To maintain and pursue Gas Acquisition
5 Department priorities and responsibilities discussed in Section I.A, the Gas Acquisition
6 Department must fill existing department vacancies and sustain a qualified workforce capable of
7 effectively executing department priorities. Historically, Gas Acquisition Department turnover
8 has been low; however, employee retirements, resignations, transfers and movement due to
9 promotions have recently increased. Gas Acquisition Department employee average years of
10 service with SoCalGas¹⁷ is approximately 19 years, with one fifth of the department workforce
11 exceeding 30 years of service. Six employees have either retired or filed for retirement in the
12 near-term as of January 1, 2020.¹⁸ Additionally, as of December 26, 2020, four employees
13 transferred out of the Gas Acquisition Department and/or resigned to pursue other opportunities.

14 SoCalGas is requesting an incremental \$12,000 to account for positions that incurred
15 partial year recorded expenses in BY 2021 as a result of partial year vacancies. All but two of
16 the vacancies were filled during BY 2021 and SoCalGas expect the remaining vacancies to be
17 filled in 2022. Regarding the remaining open vacancies, an adjustment was made to reflect the
18 partial filling of the positions in 2022 up to a full staffing level in 2023 and 2024. Additionally,
19 adjustments were made to 2022, 2023 and 2024 forecasts to decrease direct labor ask related to
20 three employee retirements that will occur in 2022 and for one FTE position that was eliminated
21 in September 2021. Although the department is capable of functioning with partial vacancies on
22 a temporary basis, the department cannot sustain a reduced staffing level in the long-term and
23 still successfully meet its priorities and responsibilities. As such, the \$12,000 adjustment to
24 account for partial year vacancies is reasonable and prudent.

¹⁷ Years of service also includes employment with Sempra Energy Corporate Center, SDG&E and/or other non-utility affiliates.

¹⁸ Three of the six retirements will be effective in 2022.

1 **Strengthen Middle Office Risk Management Governance and Oversight Role:**

2 Recently disclosed trading losses within the public utility sector¹⁹ prompted SoCalGas
3 management review of existing governance and oversight, risk management practices, policies
4 and internal controls encompassing Gas Acquisition Department trading activities. As a result of
5 the review, the Gas Acquisition Department restructured its organization to create a fully
6 delineated and independent front, middle and back office structure. This three-office structure is
7 implemented as an industry best practice typically employed by commodity trading enterprises
8 and is designed to ensure appropriate checks and balances, maintain data integrity, and minimize
9 operational risks, including conflicts of interest, by aligning accountability. Within this three-
10 office structure, the middle office is primarily responsible for identifying market, credit, financial
11 and operational portfolio risks, risk valuation and risk reporting. Risk valuation entails
12 maintaining risk models to quantify portfolio risk metrics and risk reporting involves the
13 independent preparation and distribution of a daily position report to management. These
14 governance and oversight functions require highly educated and specially trained staff and
15 sophisticated models and systems to conduct quantitative analysis for portfolio risks.
16 Additionally, the middle office is responsible for maintaining the overall control environment
17 and assessing compliance with Gas Acquisition Department risk policies. Controls executed by
18 the middle office include, but are not limited to, deal validation and confirmation, monitoring
19 trader authority limits, monitoring compliance with policy risk limits, monitoring counterparty
20 credit exposure, and review of daily market pricing data and forward price curves.

21 In order to strengthen and expand its middle office risk management and governance
22 controls and to mitigate the occurrence of errant trading activity, SoCalGas is requesting
23 \$51,000²⁰ for an incremental Senior Risk Analyst position in the Gas Acquisition Department
24 middle office. The position was newly created and filled in June 2021; therefore, an adjustment

¹⁹ Portland General Electric (PGE) reported realized trading losses totaling \$127 million due to “ill-conceived” energy trades executed in 2020. PGE determined that the energy trading positions that led to the losses were outside the Company’s acceptable risk tolerances. Additionally, the PGE Board of Directors formed a Special Committee to review the energy trading that led to the losses arriving at recommendations to add additional experienced risk management personnel and to strengthen trading policies. *See* PGE 2020 Annual Report, pp. 32-33, available at, <https://investors.portlandgeneral.com/financial-information/annual-reports>.

²⁰ \$51,000 represents approximately one half of the required funding as the position was filled in June 2021; therefore, labor costs for July – December 2021 are included in BY 2021 actuals.

1 was made to the 2022, 2023 and 2024 forecasts to increase labor costs to achieve a full staffing
2 level for the position. Since this position is new and incremental and funding for the position
3 was not included in SoCalGas's request in prior GRC cycles, this position was excluded from the
4 vacancy costs proposed above under Cost Driver item 1, "Gas Acquisition Department
5 Vacancies." Job responsibilities for the Senior Risk Analyst position will consist primarily of 1)
6 daily risk metrics valuation, 2) maintaining existing risk valuation models, and 3) daily position
7 report preparation and distribution. Incremental responsibilities will include analysis of Gas
8 Acquisition's trading portfolios for additional risks, review of existing risk models to determine
9 if the models are fit-for-purpose, development of new risk models and position report
10 enhancements. SoCalGas's request for incremental funding for the Senior Risk Analyst position
11 is reasonable and prudent as adding this position will directly support increased risk governance
12 and oversight over Gas Acquisition Department trading portfolios, which will mitigate the
13 possibility of ratepayer losses due to errant trading activity. Functions performed by middle
14 office personnel are critical to protect the interests of ratepayers and the Company. A fully-
15 staffed middle office function including risk manager and risk analyst positions is a standard
16 business practice observed in other utility commodity trading departments as well as non-
17 regulated trading-for-profit firms.

18 **Increase Interstate / Intrastate Gas Scheduling Support:** SoCalGas is requesting an
19 incremental \$113,000 for 1 FTE to add an Interstate Transportation Analyst to the front office
20 Gas Scheduling group to provide necessary support for incremental gas scheduling workload.
21 The front office Gas Scheduling group's primary responsibilities include nominating and
22 allocating physical gas transactions on more than 15 interstate/intrastate pipelines, managing
23 upstream supply cuts that commonly occur throughout the gas day, monitoring pipeline
24 maintenance events, re-routing gas, if necessary, through constraints in order to optimize
25 supplies flowing into SoCalGas's system, and scheduling off-system and on-system gas park,
26 loan and wheel transactions. Gas Scheduling group personnel are responsible to nominate gas
27 seven days a week across five gas scheduling cycles per day within the North American Energy
28 Standards Board (NAESB) / Federal Energy Regulatory Commission's (FERC) adopted
29 scheduling deadlines. SoCalGas has an additional gas scheduling cycle on its own pipeline. As
30 explained below, the need for additional support within the Gas Scheduling function is the result
31 of incremental workload primarily related to 1) supply and demand impacts, 2) more receipt

1 points to nominate, 3) pipeline constraints, 4) increased follow-up with pipelines and
2 counterparties and additional scheduling support for weekends and after hours, 5) reduced
3 efficiency due to Gas Scheduling group personnel turnover and loss of institutional knowledge,
4 and 6) upstream pipeline decarbonization efforts.

5 **Supply and Demand Impacts:** As the natural gas supply and demand situation tightens
6 in the west due to production declines, increases in demand, and pipeline maintenance, it is
7 increasingly necessary to look beyond the production areas that have historically been relied
8 upon by Gas Acquisition for reliable and cost-effective supplies. Tighter supply and demand
9 fundamentals result in more frequent operational flow orders²¹ (OFO) issued by SoCalGas's Gas
10 Control Department and strained operating conditions (SOC) called by the other pipelines with
11 which Gas Acquisition contracts capacity. Tighter natural gas supply and demand and the
12 increase in OFO and SOC events impacts natural gas supply, planning, and scheduling
13 requirements.

14 The Gas Acquisition Department relies on purchasing significant supplies to meet retail
15 core demand from the San Juan and Rockies natural gas production basins. Generally speaking,
16 these basins are mature and are experiencing declining production.²² Production may continue to
17 decline unless adequate supplier capital investments are made to increase production. Permian,
18 Haynesville, and Marcellus production basin gas offers greater competitive returns compared to
19 the San Juan and Rockies production basins; therefore, production declines for San Juan and
20 Rockies are expected to continue.

21 Increases in Permian production offers the west the best source of increasing supplies;
22 however, over the past few years three major pipeline projects have gone into service that
23 transport Permian supplies to the east: Gulf Coast Express, Permian Highway, and Whistler
24 pipeline projects, respectively.²³ There have been no recent pipeline infrastructure projects that
25 will increase the capability for making additional Permian supplies available to Gas Acquisition.
26 The result is that competition for Permian gas supplies going west has increased because of the

²¹ OFOs are described in SoCalGas's Tariff Rule No. 41, "Utility System Operation."

²² *E.g.*, San Juan basin gas supplies peaked in 1999 and have been declining at an annual rate of 2 percent. See 2020 California Gas Report (CGR) at 111, available at <https://www.socalgas.com/regulatory/cgr>.

²³ See U.S. Energy Information Administration (EIA), U.S. Natural Gas Pipeline Projects, available at <https://www.eia.gov/naturalgas/pipelines/EIA-NaturalGasPipelineProjects.xlsx>.

1 additional Permian pipeline takeaway capacity that is transporting supplies to the east.
2 Additionally, the Russia/Ukraine conflict may potentially impact supplies available for the west.
3 European demand for liquefied natural gas (LNG) cargoes has increased as the result of actions
4 by the European Union aimed at reducing reliance on Russian natural gas imports.

5 From a demand perspective, the largest factor impacting domestic natural gas demand is
6 increased reliance on gas-fired electric generation (EG) resources due to coal plant retirements.
7 There has been a significant number of coal plant retirements with more scheduled to retire in the
8 near future,²⁴ and gas-fired EG often replaces retired coal generation facilities.²⁵ Additionally,
9 the Diablo Canyon nuclear facility located in California is expected to be decommissioned in
10 2024/2025,²⁶ which could mean that even more generation from gas-fired resources will be
11 required to ensure electric system reliability. Likewise, increasing electric vehicle load is
12 expected to translate into greater requirements for gas-fired generation. For these reasons,
13 demand for natural gas is becoming increasingly complicated in the west and complexity to
14 manage is expected to continue to increase in the near future.

15 Increased supply and demand tightness leads to a greater probability of increased OFOs
16 impacting natural gas supply and scheduling requirements. These are periods where supply and
17 demand becomes unbalanced and pipelines must declare an OFO or SOC condition to
18 incentivize participants to reduce or increase deliveries relative to their consumption. This
19 increasing instability and the need to navigate complex conditions to determine how best to
20 optimize reliability of supply and cost-effective gas creates additional scheduling workload.

21 **More Receipt Points to Nominate:** Market changes have resulted in diversification of
22 the nomination locations/points and the need to nominate more points. As gas supplies from the
23 San Juan and Rockies production basins become tighter for the western markets and the need to
24 maintain competitive pricing becomes increasingly more difficult, the Gas Acquisition
25 Department must procure supplies located beyond the receipt points historically relied upon to
26 optimize reliability of supply and cost-effective gas. The increase in supply diversity introduces

²⁴ Examples include the following coal-fired plants residing in the indicated states: Boardman, Oregon, Centralia, Washington, Valmy, Nevada, Intermountain, Utah, Comanche, Texas, Four Corners, New Mexico and Colstrip, Montana.

²⁵ *E.g.*, the coal-fired Intermountain Power Plant in Utah is scheduled to be replaced by an 840 megawatt natural gas and RNG-fired plant by 2025.

²⁶ The license for unit 1 will expire in November 2024 and unit 2 will expire in August 2025.

1 new complexity, requiring schedulers to access more pipeline electronic bulletin boards (EBB) in
2 order to schedule gas.

3 **Pipeline Constraints:** Over the past few years, pipeline flexibility has been decreasing
4 due to tighter supply/demand balances and increased maintenance because of safety
5 considerations. This has resulted in an increase in the frequency of supply cuts, pipeline
6 transportation cuts, OFOs and SOCs, and pipeline over-nomination volume reductions. These
7 more frequent events have, in turn, increased the workload of gas scheduling personnel who
8 must follow-up with transportation service providers and counterparties in order to optimize the
9 flow of gas and seek to ensure reliability of supply on each pipeline.

10 **Increased Follow-up with Pipelines and Counterparties and Scheduling Support for**
11 **Weekends and After Hours:** Currently, the lack of gas scheduling personnel redundancy does
12 not allow for any slack to handle additional workload. Schedulers have been increasingly
13 required to follow-up with pipelines and counterparties to resolve various types of nomination
14 interruptions by re-nominating or replacing cut gas. Additional work hours are being allocated
15 to meet the increased requirements during weekends and after hours (4 pm to 10 pm). The
16 increase of additional work hours outside of standard business hours supports the need for
17 additional scheduling personnel to ensure the reliability of gas deliveries.

18 **Gas Scheduling Group Personnel Turnover:** SoCalGas requires one additional
19 scheduling FTE not only for increased scheduling support, but also for cross-training,
20 institutional knowledge transfer and continuity purposes. SoCalGas anticipates personnel
21 retirements in the near-term, which will result in the loss of significant institutional knowledge
22 and expertise and will reduce efficiencies. For example, the front office Gas Scheduling group
23 recently lost an Interstate Transportation Advisor with 44 years of service due to retirement.
24 Additionally, existing scheduling personnel includes three individuals with over 38, 23 and 21
25 years of service, respectively. The incremental FTE, who likely will not offer the same level of
26 job skill or efficiency as retiring staff, is necessary to enable cross-training and institutional
27 knowledge transfer in order to ensure functional continuity.

28 **Upstream Pipeline Decarbonization Efforts:** In an effort to decarbonize the oil and
29 natural gas energy sector, there is interest from natural gas pipeline transportation companies and
30 natural gas producers to pursue decarbonization goals that are supported by international, federal

1 and California state environmental mandates and guidance.²⁷ Decarbonization could potentially
2 be achieved through measures such as certifying methane leak abatement in upstream pipeline
3 and production infrastructure, creating scheduling pools specifically for RSG to allow for
4 prioritization of the flow of decarbonized supplies, and using tracking mechanisms such as the
5 Midwest Renewable Energy Tracking System (M-RETS)²⁸ to mitigate claims of green-
6 washing.²⁹ Implementation of these or other decarbonization measures will increase the
7 complexity of the scheduling function. Increased scheduling workload will also result from
8 continued efforts by SoCalGas to partner with interstate and intrastate pipeline transportation
9 service providers and natural gas producers to identify other means to decarbonize and reduce
10 GHG emissions.

11 In summary, the resources required to schedule and move gas to SoCalGas's and
12 SDG&E's load centers is increasing, which requires additional gas scheduling personnel. Given
13 market trends, the reduction in supply flexibility and other factors described above are not
14 expected to lessen. As a result, SoCalGas anticipates that the increase in required gas scheduling
15 personnel is necessary to maintain reliability of supply and cost-effective gas for retail core
16 customers.

17 **Gas Acquisition Department Non-Labor Costs:** Gas Acquisition Department non-labor
18 costs consist mainly of 1) industry publication subscription fees, 2) consultants and on-line

²⁷ *E.g.*, on September 18, 2021, the United States and the European Union announced the Global Methane Pledge, an initiative to reduce global methane emissions launched at the November 2021 UN Climate Change Conference in Glasgow, Scotland. Countries joining the Global Methane Pledge commit to a collective goal of reducing global methane emissions by at least 30 percent from 2020 levels by 2030 and moving towards using best available inventory methodologies to quantify methane emissions, with a particular focus on major sources of methane emissions including oil and natural gas, coal, agriculture and landfills. Additionally, the United States is pursuing significant methane reductions on multiple fronts. In response to an Executive Order issued by President Biden on January 20, 2021, the U.S. Environmental Protection Agency (EPA) is promulgating new regulations to curtail methane emissions from the oil and gas industry. *See* [Executive Order at https://www.whitehouse.gov/briefing-room/presidential-actions/2021/01/20/executive-order-protecting-public-health-and-environment-and-restoring-science-to-tackle-climate-crisis/](https://www.whitehouse.gov/briefing-room/presidential-actions/2021/01/20/executive-order-protecting-public-health-and-environment-and-restoring-science-to-tackle-climate-crisis/); *see also* SB 1440 and SB 1383.

²⁸ M-RETS is a proprietary web-based platform that tracks Renewable Energy Certificates (RECs) and Renewable Thermal Certificates (RTCs).

²⁹ *E.g.*, in D.22-02-025 Ordering Paragraph 10, the Commission indicated that the four large California natural gas IOUs "...shall require biomethane producers to track volumetric injections of biomethane into pipelines through the Midwest Renewable Energy Tracking System (M-RETS) platform...."

1 services, and 3) training and associated travel expenses. These expenses are incurred to provide
2 necessary information and market intelligence critical for the Gas Acquisition Department to
3 remain competitive in the marketplace, and to keep abreast of industry issues, trends and new
4 rules and regulations affecting Gas Acquisition operations for the ultimate benefit of SoCalGas
5 and SDG&E's ratepayers. Additionally, these tools contribute to the Gas Acquisition
6 Department's ability to execute its priorities, as discussed in Section I.A.

7 SoCalGas requests non-labor costs of \$467,000 for TY 2024, which includes an
8 incremental \$20,000 above the five-year average non-labor cost of \$447,000. The requested
9 \$467,000 in non-labor costs is a decrease of \$10,000 compared to BY 2021 actual recorded non-
10 labor costs. The \$20,000 increase is primarily due to office supplies and training and travel costs
11 targeting the incremental FTEs discussed in testimony above as well as subscription and on-line
12 services costs. SoCalGas's proposed modest increase in non-labor costs is reasonable as it will
13 enable continued access to the information and training necessary to allow the Gas Acquisition
14 Department to remain competitive in the marketplace for the benefit of retail core ratepayers.

15 **COVID-19 Pandemic Costs:** CPUC Resolution No. E-3238 authorized certain public
16 utilities as defined in Section 216 of the Public Utilities Code to establish a Catastrophic Event
17 Memorandum Account (CEMA)³⁰ to record costs of 1) restoring utility service to its customers,
18 2) repairing, replacing or restoring damaged utility facilities, and 3) complying with
19 governmental agency orders in connection with an event declared to be a disaster by a competent
20 state or federal authority. Resolution No. E-3238 indicates that should a disaster occur, each
21 affected utility that has previously established a CEMA shall inform the CPUC Executive
22 Director by letter within 30 days after the catastrophic event if the utility has started booking
23 costs in the CEMA. Additionally, the resolution directs that costs recorded in a utility's CEMA
24 may be recovered in rates only after a request by the affected utility, a showing that the recorded
25 costs are reasonable, and approval by the CPUC.

26 On March 4, 2020, California Governor Gavin Newsom proclaimed a state of emergency
27 in response to the outbreak of novel coronavirus, COVID-19.³¹ In addition, President Trump

³⁰ CPUC Resolution No. E-3238 at 5 and 6 (Ordering Paragraphs 1-3)

³¹ CA.Gov, Governor Newsom Declares State of Emergency to Help State Prepare for Broader Spread of COVID-19 (March 4, 2020), available at <https://www.gov.ca.gov/2020/03/04/governor-newsom-declares-state-of-emergency-to-help-state-prepare-for-broader-spread-of-covid-19/>.

1 signed an Emergency Declaration on March 13, 2020. In a letter to the CPUC Executive
2 Director dated March 17, 2020, SoCalGas provided notice in accordance with the provisions of
3 CPUC Resolution No. E-3238 that its CEMA was invoked to prepare for and respond to the
4 governmental authority declared state of emergency related to the COVID-19 outbreak.
5 SoCalGas indicated that in response to the outbreak, various measures were implemented to
6 protect its employees from the spread of the virus. These measures ultimately included allowing
7 SoCalGas employees whose job responsibilities could be performed remotely to work from
8 home. SoCalGas stated that costs recorded in the CEMA will be restricted to those incremental
9 costs incurred by SoCalGas in response to the disaster declared by the government authorities
10 and that future costs will be incurred to the extent required to protect public and employee safety,
11 and to ensure continuation of safe, reliable operations. SoCalGas also stated that before recovery in
12 jurisdictional rates of any costs recorded in the CEMA, SoCalGas will make a formal increase
13 request and recommendation by application to the CPUC.

14 In accordance with requirements specified in CPUC Resolution No. E-3238 upon
15 declaration of a disaster by a competent governmental authority, Gas Acquisition's BY 2021
16 recorded costs exclude approximately \$13,000 of non-labor costs related to incremental
17 purchases of primarily computer equipment (computer monitors, mouse devices, computer
18 keyboards), ergonomic equipment (foot stands, office chairs) and office equipment (printers)
19 provided to Gas Acquisition employees for use to perform their job responsibilities while
20 working from home. Additionally, approximately \$24,000 of historic COVID-19 related costs
21 (also comprised primarily of computer equipment, ergonomic equipment and office equipment)
22 were removed from 2020 historical recorded costs. These costs are recorded in SoCalGas's
23 CEMA. As a result of removing historical costs related to the COVID-19 pandemic event from
24 Gas Acquisition adjusted recorded data, and in tandem with the forecasting method(s) employed
25 and described herein, additional costs related to the COVID-19 pandemic event are not included
26 as a component of my TY 2024 funding request. Additionally, historical Gas Acquisition costs
27 related to the COVID-19 pandemic event are removed as adjustments in my work papers (Ex.
28 SCG-11-WP).

1 **Injection Enhancement Cost Memorandum Account:** The IECMA is an interest-
2 bearing memorandum account recorded on SoCalGas's financial statements.³² The
3 memorandum account was established upon Commission approval of SoCalGas AL 5140,³³
4 approved July 11, 2017 and effective May 8, 2017, to record all incremental costs associated
5 with the Injection Enhancement Plan and Injection Enhancement Memorandum³⁴ between
6 SoCalGas's System Operator and SoCalGas's Gas Acquisition Department.

7 As a result of Commission directives to use procurement capabilities of the SoCalGas
8 Gas Acquisition Department to support SoCalGas's storage requirement for system reliability for
9 both storage system reliability directive periods, the Gas Acquisition Department executed
10 incremental gas purchase and SMS gas park transactions to optimize storage injections for
11 reliability purposes and for the benefit of core and noncore customers. Incremental transaction
12 costs totaling approximately \$130,000 were recorded in the IECMA for 2017 and an incremental
13 credit³⁵ totaling approximately \$296,000 was recorded in the IECMA for 2018. After applying
14 interest to the IECMA account balance calculated in the manner described in SoCalGas's
15 Preliminary Statement Part I, Section J,³⁶ the net IECMA balance as of December 31, 2021 is a
16 credit totaling approximately \$167,000. Please see the IECMA balance disposition discussion in
17 the Regulatory Accounts testimony of Rae Marie Yu (Ex. SCG-38).

18 **Cap-and-Trade:** California's Cap-and-Trade Program was introduced pursuant to AB 32
19 (Núñez, 2006) which authorized CARB to develop a market-based mechanism to reduce GHG

³² See SoCalGas Preliminary Statement Part VI – Memorandum Accounts, Sheet No. 54886-G.

³³ AL 5140 was filed in response to a May 8, 2017 letter from the Commission Executive Director Tim Sullivan directing SoCalGas to file an AL seeking the establishment of a memorandum account to track costs resulting from the letter's requirement to maintain system reliability. The AL was approved by the Director, Energy Division on July 11, 2017.

³⁴ CPUC Resolution G-3529 at 9 (Ordering Paragraph 1) approved AL No. 5139 containing SoCalGas's proposed Injection Enhancement Plan and Injection Enhancement Memorandum between the System Operator and the Gas Acquisition Department for services to maintain summer reliability through and including September 30, 2017.

³⁵ The net incremental 2018 credit resulted primarily from fees charged to counterparties for SMS transactions (gas parks on SoCalGas's system), and below index incremental gas purchases primarily for the month of August 2018.

³⁶ Interest will accrue monthly to the Memorandum Accounts set forth in Preliminary Statement, Part VI. The calculation will be based on the average of the beginning and ending balance of such accounts at the rate of 1/12 of the most recent month's interest rate on Commercial Paper (prime, 3-month), published in the Federal Reserve Statistical Release, H.15.

1 emissions from certain polluting entities. California’s Cap-and-Trade program requires covered
2 entities to obtain and surrender a compliance instrument (CCA or CCO) for each ton of carbon
3 dioxide equivalent (CO₂e) emitted to the atmosphere. The Gas Acquisition Department is
4 responsible for the procurement of compliance instruments for SoCalGas’s covered transmission
5 and storage facilities, and end-use customers. The Gas Acquisition Department absorbed Cap-
6 and-Trade procurement and associated regulatory reporting responsibilities in April 2014 without
7 adding incremental FTEs and continues to manage the program to date. However, Gas
8 Acquisition Department Cap-and-Trade procurement volumes (MTCO₂e) and associated
9 compliance instrument transactions will increase on an annual basis as a result of Cap-and-Trade
10 regulatory requirements³⁷ where the number of allowances directly allocated to SoCalGas by the
11 CARB will decrease,³⁸ and the number of directly allocated allowances required to be consigned
12 back to CARB’s quarterly auctions will increase.³⁹ Consequently, Gas Acquisition will be
13 required to purchase increasingly more compliance instruments to meet program requirements in
14 a more competitive carbon marketplace because of supply and demand market fundamentals.
15 Additionally, beginning in 2021 for Cap-and-Trade compliance period four, CARB will decrease
16 from 8% to 4%⁴⁰ the amount of CCOs that can be surrendered to meet a covered entity’s
17 compliance obligation, which reduces a potential supply source to procure emissions compliance
18 instruments. These changes in supply and demand carbon market fundamentals will increase

³⁷ 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 9-5: “Percentage Consignment Requirements for Natural Gas Utilities by Year.”

³⁸ CARB allocates free allowances annually to natural gas suppliers to benefit their ratepayers, consistent with the goals of AB 32. The number of allowances allocated to each natural gas supplier each year is calculated based on its 2011 natural gas sales (excluding sales to facilities directly covered by the Program) and the cap adjustment factor, which declines each year in proportion to the overall annual caps. See Cal. Code Regs., tit. 17, § 95891, Table 9-2: “Cap Adjustment Factors for Allowance Allocation.”

³⁹ For 2021, CARB regulations require SoCalGas to consign 55% of its free allowances back to the quarterly auctions. This percentage increases 5% per year reaching 100% in 2030. See Cal. Code Regs., tit. 17, § 95893, Table 9-5: “Percentage Consignment Requirements for Natural Gas Utilities by Year.”

⁴⁰ CCOs surrendered to meet a covered entity’s GHG emissions compliance obligation are capped at 4% for the fourth and fifth compliance periods and 6% for compliance period six and thereafter. See AB 32 (2005-2006 Reg. Sess.), “Air pollution: greenhouse gases: California Global Warming 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” § 95840(d) and § 95854(b).

1 Gas Acquisition Department FTE workload requirements related to procuring cost-effective
2 emission compliance instruments for SoCalGas customers and further corroborates SoCalGas's
3 need to fill vacant positions as discussed in Cost Drivers Item 1, "Gas Acquisition Department
4 Vacancies." Cap-and-Trade procurement and related ancillary activities performed by Gas
5 Acquisition personnel involve: (1) continued monitoring of carbon markets including
6 allowances, futures and offsets, (2) negotiating and administering contracts to support carbon
7 trading activities, (3) monitoring and review of regulation changes proposed by CARB and the
8 potential impact on carbon procurement planning and compliance, (4) compliance with
9 regulatory reporting requirements, and (5) carbon transaction settlements, general ledger
10 accounting and financial reporting.

11 **IV. CONCLUSION**

12 SoCalGas requests that the Commission adopt its proposal for \$5.247 million of O&M
13 expenses to allow the Gas Acquisition Department to continue to meet its natural gas, clean
14 fuels, RNG and Cap-and-Trade procurement priorities to deliver reliable, cost-effective natural
15 gas and emission compliance instruments and to continue sustainability efforts on behalf of
16 SoCalGas and SDG&E retail core customers.

17 This concludes my prepared direct testimony.

1 **V. WITNESS QUALIFICATIONS**

2 My name is Martin F. Lazarus. My business address is 555 West Fifth Street, Los
3 Angeles, California, 90013. I am currently employed by Southern California Gas Company as
4 the Manager of Governance, Risk and Administration in the Gas Acquisition Department. My
5 primary responsibilities consist of: (1) management of the risk governance and oversight
6 function for Gas Acquisition's natural gas and carbon trading portfolios including identification
7 of portfolio risks, development and implementation of risk metrics and controls, risk valuation
8 and risk reporting; (2) management of other middle office governance functions including deal
9 validation and confirmation, position and credit monitoring and contracts; and (3) management
10 of the Gas Acquisition IT support group which has responsibilities for all desktop and other IT
11 support for the department and Gas Acquisition's Energy Trade Risk Management System
12 (Pinnacle).

13 I have held the Manager of Governance, Risk and Administration position since June
14 2021. I have been employed by SoCalGas since July 2000 and held roles of increasing
15 responsibility in the Gas Acquisition Department including gas accounting, and finance and
16 administration. Prior to joining SoCalGas in 2000, I worked for various energy companies
17 including Sempra and Occidental Petroleum as an Internal Audit Supervisor. Prior to
18 employment in the private sector, I worked for a Public Accounting firm in Newport Beach,
19 California as an Audit Senior providing primarily attestation and tax compliance services.

20 I hold a Bachelor of Science Degree in Geological Sciences and a Bachelor of Arts
21 Degree in Business Administration (with an emphasis in accounting) from California State
22 University, Fullerton. I was formerly a Certified Public Accountant (inactive) and Certified
23 Internal Auditor (inactive) in the state of California.

24 I have previously testified before the California Public Utilities Commission.

APPENDIX A
GLOSSARY OF TERMS

Appendix A
GLOSSARY OF TERMS

ACRONYM	DEFINITION
AB	Assembly Bill
AL	Advice Letter
AGA	American Gas Association
CARB	California Air Resources Board
Bcf	Billion Cubic Feet
BY	Base Year
CAISO	California Independent System Operator
CCA	California Carbon Allowance
CCO	California Carbon Offset
CEC	California Energy Commission
CEMA	Catastrophic Event Memorandum Account
CGR	California Gas Report
CNG	Compressed Natural Gas
CO ₂ e	Carbon Dioxide Equivalent
CPUC	California Public Utilities Commission
DBE	Diverse Business Enterprise
EBB	Electronic Bulletin Board
EG	Electric Generation
EIA	U.S. Energy Information Administration
EPA	Environmental Protection Agency
FERC	Federal Energy Regulatory Commission
FTE	Full-Time Equivalent
GCIM	Gas Cost Incentive Mechanism
GHG	Greenhouse Gas
GO	General Order
GRC	General Rate Case
IECMA	Injection Enhancement Cost Memorandum Account
IT	Information Technology
IOU	Investor-Owned Utility
LCFS	Low Carbon Fuel Standard
LNG	Liquid Natural Gas
MILC	Memorandum in Lieu of Contract
MTCO ₂ e	Metric Ton Carbon Dioxide Equivalent
NAESB	North American Energy Standards Board
NGV	Natural Gas Vehicle
OFO	Operational Flow Order
OP	Ordering Paragraph
O&M	Operations and Maintenance
PGE	Portland General Electric
REC	Renewable Energy Certificate

RFS	Renewable Fuel Standard
RIN	Renewable Identification Number
RGS	Renewable Gas Standard
RNG	Renewable Natural Gas
RSG	Responsibly Sourced Gas
RTC	Renewable Thermal Certificate
SB	Senate Bill
SDG&E	San Diego Gas & Electric Company
SLCP	Short-Lived Climate Pollutant
SMS	Secondary Market Services
SOC	Strained Operation Condition
SoCalGas	Southern California Gas Company
TY	Test Year
WMDVLGBTBE	Women-Owned, Minority-Owned, Disabled Veteran-Owned and Lesbian, Gay, Bisexual, Transgender-Owned Business Enterprise