Application No: _______________________
Exhibit No.: _______________________
Witness: Reginald M. Austria

In the Matter of the Application of the Application of Southern California Gas Company (U 904 G), San Diego Gas & Electric Company (U 902 M) and Southern California Edison Company (U 338 E) for Approval of Changes to Natural Gas Operations and Service Offerings	A.06-07-___ (Filed August 28, 2006)

PREPARED DIRECT TESTIMONY

OF REGINALD M. AUSTRIA

SAN DIEGO GAS & ELECTRIC COMPANY

AND

SOUTHERN CALIFORNIA GAS COMPANY

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

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PREPARED DIRECT TESTIMONY
OF REGINALD M. AUSTRIA

A. QUALIFICATIONS

My name is Reginald M. Austria. I am employed by San Diego Gas & Electric Company (SDG&E). My business address is 555 W. 5th Street, Los Angeles, California. I am the Regulatory Accounts Manager in the Regulatory Affairs department which supports the regulatory activities for both SDG&E and SoCalGas. I have held my current position since April 1, 2002. I am responsible for managing SoCalGas' authorized regulatory balancing, tracking and memorandum accounts. My responsibilities include: implementation of regulatory accounting procedures for compliance with Commission decisions; quantifying and recording the monthly entries and adjustments to the Commission-authorized balancing, tracking and memorandum accounts; and managing the general administration of SoCalGas' authorized regulatory accounts. Prior to April 1, 2002, I was the Utility Accounting Manager for SoCalGas, in which I had responsibilities similar to my current duties.

I received a Bachelor of Science degree in Accounting from California State University, Long Beach in 1982. I am a Certified Public Accountant and a member of the American Institute of Certified Public Accountants and the California Society of Certified Public Accountants. I began my employment at SoCalGas in 1983 in the Accounting and Finance Department. I have held various positions of increasing responsibility in Internal Audit, Cost Accounting, General Accounting, and Utility Regulatory Accounting before assuming my current position.

B. PURPOSE AND SCOPE OF TESTIMONY

The purpose of my testimony is to describe the changes to the regulatory account mechanisms associated with the structural changes to utility operations as prescribed in the Continental Forge and Southern California Edison Settlement Agreements (Settlements) and propose incorporation of these changes into SoCalGas and SDG&E's Preliminary Statements where appropriate. Exemplary tariffs are attached to my testimony reflecting the specific changes in SoCalGas' and SDG&E's Preliminary Statements presented below.

C. OVERVIEW OF REGULATORY ACCOUNT CHANGES

Under the Settlements, structural changes associated with utility operations will require changes to existing regulatory account mechanisms as well as the establishment of new regulatory account mechanisms. Specifically, the changes associated with imbalance service under Schedule G-IMB (see testimony of Witness Rodger Schwecke) will require modification of SoCalGas' existing Purchased Gas Account (PGA) and Noncore Fixed Cost Account (NFCA) mechanisms. The PGA mechanism will also be further modified with the implementation of a Single Gas Portfolio (see testimony of Witness Paul Goldstein). SoCalGas' Noncore Storage Balancing Account (NSBA) will also require modification to reflect the establishment of a shareholder earnings cap for the at-risk portion of the SoCalGas' Unbundled Storage Program (see testimony of Witness Steve Watson). New regulatory accounts will also be needed for hub services and firm access rights (see testimony of Allison Smith in Application 04-12-004) and system reliability as well as a new memorandum account to track the implementation costs associated with establishing a secondary market structure for tradable storage rights (see testimony of Witness Schwecke). Section D provides further detail on the changes to the regulatory account mechanisms as a result of the Settlements. Section E describes how a consolidated Single Gas Portfolio for SoCalGas and SDG&E will be calculated and the necessary changes to the regulatory accounting procedures for maintaining a consolidated PGA mechanism with the implementation of the Single Gas Portfolio.

D. REGULATORY ACCOUNTS

MODIFICATION OF EXISTING REGULATORY ACCOUNTS

1. PURCHASED GAS ACCOUNT (PGA)

The purpose of this account is to balance the recorded cost of gas purchased for the Utility portfolio with revenue from the sale of that gas. Under the Settlements, the costs associated with the Utility System Operator providing transportation imbalance services under Schedule No. G-IMB to the Utility Gas Procurement Department will be recorded to the PGA for recovery from SoCalGas' core procurement customers through its core monthly pricing mechanism. The associated revenues received by the Utility System Operator from the Utility Gas Procurement Department for this imbalance service shall be recorded in the Noncore Fixed Cost Account as described in Section D.2. Section E also provides further changes of the PGA for the implementation of a Single Gas Portfolio. SoCalGas' exemplary PGA tariff is attached as Appendix AA.

2. NONCORE FIXED COST ACCOUNT (NFCA)

The purpose of this account is to balance the difference between noncore costs (i.e., authorized margin, transition, and actual non-gas fixed costs) and corresponding noncore revenues. The NFCA provides for 100% balancing account protection effective January 1, 2003 until the date the new BCAP rates go into effect[1]. Under the Settlement, the revenues received by the Utility System Operator for providing transportation imbalance services under Schedule No. G-IMB to the Utility Gas Procurement Department will be recorded to the NFCA as a credit

[1] D.02-12-017

to SoCalGas' noncore transportation customers. The associated costs charged to the Utility Gas Procurement Department will be recorded in the PGA as described in Section D.1. SoCalGas' proposes changes to the NFCA are provided in the exemplary tariff attached as Appendix BB.

3. NONCORE STORAGE BALANCING ACCOUNT (NSBA)

The purpose of this account is to (1) balance 50% of the authorized at-risk costs for unbundled storage service as authorized in Decision (D.) 00-04-060 and the reservation revenues collected from customers who contract for these unbundled storage services, and (2) record 100% of the unallocated fully scaled unbundled noncore storage revenue requirement. Under the Settlement, the shareholder's 50% share of noncore storage revenues in excess of the cost allocation assigned to the at-risk portion of the unbundled storage program (i.e., storage earnings) is capped at $20 million annually, prorated as necessary if the storage earnings cap is implemented after January 1.

The storage earnings cap will also change proportionately due to changes in cost allocation to the at-risk unbundled storage revenue requirement resulting from any future regulatory proceeding. For example, the storage earnings cap will be adjusted for regulatory proceedings involving a change in the revenue requirement associated with an attrition adjustment, unbundled storage expansion investment, and change in the allocation of the at-risk costs allocated to the Unbundled Storage Program. The storage earnings cap shall be adjusted in accordance with the formulas described in Preliminary Statement, Part III, Cost Allocation and Revenue Requirement, Section B.8.

Appendix CC and DD provide the associated tariff changes to the NSBA.

ESTABLISHMENT OF NEW REGULATORY ACCOUNTS

1. INTEGRATED TRANSMISSION BALANCING ACCOUNT (ITBA)

The ITBA is established for both SoCalGas and SDG&E (attached as Appendices EE and FF. The ITBA consists of two subaccounts: System Integration (SI) Subaccount and the Firm Access Rights (FAR) Subaccount.[2] The purpose of the SI Subaccount is to record the difference between the authorized transmission system revenue requirements and the corresponding transmission revenues. The FAR Subaccount will record the difference between authorized and actual firm/interruptible access charges. Pursuant to the Edison Settlement, interruptible access charges shall be 100% balanced to the extent of eliminating any undercollection in each utility's ITBA by the end of the calendar year and 90% balanced for any remaining interruptible access revenues. The remaining 10% shall be allocated to utility shareholders subject to a $5 million annual cap which is applicable to the combined interruptible access revenues from SoCalGas and SDG&E.

The balance in the ITBAs shall be combined and re-allocated between the utilities based on cold year throughput. Each utility's allocation of the combined ITBA balances shall then be amortized in the following year's transportation rates as proposed in their respective October regulatory account balance update filing. The 10% shareholder incentive of interruptible access revenues shall be an exclusion in determining sharable earnings under each utility's PBR sharing mechanism.

2. G-PAL BALANCING ACCOUNT (GPBA)

The purpose of the GPBA, attached as Appendix GG, is to record the ratepayers' 50% allocation of net revenues under SoCalGas' G-PAL (Operational Hub Services) tariff. The costs

[2] The system integration component of the ITBA was approved in Decision 06-04-033. Both SoCalGas and SDG&E have not modified their Preliminary Statements to establish the ITBA since integrated transmission rates will not be established until the date that LNG is expected to flow through Otay Mesa, which is anticipated to occur in 2008.

charged against revenues include those associated with establishing and operating the Operational Hub Service. The balance in the GPBA shall be recovered from (or distributed to) all customers on an equal cents per therm basis as filed in SoCalGas' October regulatory account balance update filing. The shareholders' 50% share of net hub revenues shall be an exclusion in determining sharable earnings under SoCalGas' Performance Based Ratemaking (PBR) sharing mechanism.

3. FIRM ACCESS AND STORAGE RIGHTS MEMORANDUM ACCOUNT (FASRMA)

As proposed in SoCalGas/SDG&E's FAR OFF Application (A.) 04-12-004, the initial purpose of the Firm Access Rights Memorandum Account (FARMA) is to record the costs incurred by SoCalGas to implement a firm, tradable access rights structure to provide customers with an opportunity to obtain firm access into the utility system at a specific receipt point throughout the year. Consistent with the Settlements, SoCalGas proposes to expand the FARMA (i.e., rename as FASRMA) to record the implementation costs associated with a tradable storage rights structure to provide customers an opportunity to obtain storage capacity throughout the year. The disposition of the balance in the FASRMA will be reviewed in SoCalGas/SDG&E's next Biennial Cost Allocation Proceeding (BCAP) or other appropriate proceeding. The FASRMA exemplary tariff is attached as Appendix HH.

4. SYSTEM RELIABILITY MEMORANDUM ACCOUNT (SRMA)

Currently, SoCalGas maintains the Blythe Operations Flow Requirement Memorandum Account (BOFRMA) to track system reliability costs only at the Blythe receipt point. SoCalGas plans to establish the SRMA, attached as Appendix II, to record certain costs associated with the Utility System Operator's purchase and delivery of gas to sustain operational flows on the entire SoCalGas/SDG&E system. These costs will be offset with any revenues received from the sale of gas that was originally purchased for system reliability purposes which is no longer necessary for such purposes and therefore made available for sale in the marketplace. With the establishment of this new mechanism, SoCalGas plans to record future system reliability costs and applicable revenues in the SRMA and cease recording activity in the BOFRMA.[3] The balance in the SRMA will be allocated on a cold-year throughput basis to all customers in connection with SoCalGas annual regulatory account balance filing.

E. PORTFOLIO CONSOLIDATION

1. SINGLE GAS PORTFOLIO

The Single Gas Portfolio will be comprised of all gas purchases necessary to serve the combined needs of SoCalGas and SDG&E, including gas for deliveries to core sales customers, company-use fuel, unaccounted-for gas, gas injected and withdrawn from underground storage, and noncore imbalances. A Single Gas Portfolio weighted average cost of gas (WACOG) will be calculated monthly and used to assign purchased gas costs to a single PGA regulatory balancing account.

The commodity costs included in the Single Gas Portfolio WACOG will be calculated incorporating the following components:

a. Commodity component consisting of “blended” California Border, Basin, Canadian, and California-source gas;
b. Variable transportation component applicable to production Basin and Canadian gas purchases;
c. Interstate/intrastate transportation pipeline demand charges;
d. Gas storage injections and withdrawals;
e. Carrying costs for storage inventory;
f. Core parking and loaning revenue and expense;

[3] As of June 30, 2006, the BOFRMA reflects a minimal balance of $112,982. Pursuant to Advice Letter 3286, the disposition of the balance is deferred to SoCalGas’ next Biennial Cost Allocation Proceeding (BCAP).

g. Net proceeds received from off-system sales and capacity release transactions; and

h. Gains and losses from financial derivative transactions.

2. REGULATORY ACCOUNTING

With the implementation of the Single Gas Portfolio, the accounting and regulatory procedures will need to be modified to ensure proper balancing of costs and revenues in the consolidated PGA and other regulatory account mechanisms maintained by SoCalGas and SDG&E.

a. Gas Costs - A single PGA regulatory balancing account will be maintained on the financial records of SoCalGas. The single PGA will balance the purchased gas costs and associated revenues for both SoCalGas and SDG&E core sales customers. The cost of gas charged to the PGA will be allocated to the regulatory balancing account using the Single Gas Portfolio WACOG. The cost of gas charged to the PGA will also be reduced for operations-related gas costs such as company-use fuel and unaccounted-for gas (UAF) as these costs are recovered through each utility's fixed cost balancing accounts. SDG&E's allocation of these operations-related gas costs will be billed through SoCalGas' intercompany account to ensure proper regulatory treatment in SDG&E's fixed cost balancing accounts.

b. Carrying Cost of Storage Inventory (CCSI) - As indicated in the Single Gas Portfolio Section above, the CCSI will be recovered through the single gas portfolio rate. Currently SDG&E recovers the CCSI through their procurement rate; however, the CCSI allocated to SoCalGas' core customers are currently balanced in SoCalGas' Core Fixed Cost Account (CFCA) and recovered through gas transportation rates. To align the regulatory treatment of CCSI, SoCalGas, with the implementation of the single gas portfolio, will remove the CCSI component allocated to core procurement customers from gas transportation rates, as these costs will be recovered through the single gas portfolio rate. Actual CCSI will be recorded to the consolidated PGA mechanism.

c. Procurement Revenues – Procurement revenues will be based on the monthly procurement rate established for each utility's core sales customers. The procurement rate will be calculated under current Commission approved methods and will be based upon an estimate of the Single Gas Portfolio WACOG and a common component for brokerage fees (see testimony of Kai Chen); therefore, the gas commodity rate for SoCalGas and SDG&E, before authorized franchise fees and uncollectible expenses, will be the same. The monthly procurement rate will also include a component for the amortization of the consolidated PGA balance as described in Section E.2.d below. To ensure the proper balancing of SDG&E's gas procurement revenues in the consolidated PGA mechanism, these revenues, net of the franchise fees and uncollectible cost (F&U) component, will be transferred to SoCalGas through an intercompany account. The F&U component associated with SDG&E's procurement revenues shall remain on SDG&E's financial records to offset actual franchise fees paid and provision or write-offs of uncollectible gas accounts.

d. PGA Amortization/Elimination of SDG&E's PGA - To ensure a common component for amortization is also reflected in the monthly procurement rate effective with the implementation of the portfolio consolidation, SDG&E's PGA balance at the time of consolidation will be transferred to SoCalGas' consolidated PGA mechanism and SDG&E's PGA mechanism will be eliminated. The balance in the consolidated PGA will be amortized consistent with SoCalGas' procedure adopted in D.98-07-068.

e. Other Tariff Changes - The proposed tariff language for the consolidated PGA includes the elimination of the subaccount structure that was previously authorized by the Commission.[4] There are currently six subaccounts within the PGA: Core Subaccount; Core Subscription Subaccount; Noncore Standby Service Subaccount;

[4] Pursuant to the approval of Advice Letter 2009 which was filed in connection with the new noncore procurement and transportation rules established in Decision 90-09-089 and Decision 90-12-100 and Advice Letter 2414 which was filed in connection with SoCalGas' 1993 BCAP (Decision 94-12-052).

Excess Core Supply Subaccount; Take-or-Pay Subaccount and the Core Brokerage Fee Subaccount. Since SoCalGas no longer provides core subscription service to its customers and plans to eliminate this service and noncore procurement service to SDG&E customers with the implementation of portfolio consolidation (see testimony of Witness Schwecke), the Core Subscription Subaccount is no longer necessary and will be eliminated. In addition, since there are no take-or-pay agreements, the Take-or-Pay Subaccount is no longer necessary and will be eliminated. Since the activity recorded in the remaining subaccounts are currently transferred to the Core Subaccount for PGA amortization purposes on a monthly basis, these subaccounts can also be eliminated as the cost and revenues previously recorded to these subaccounts can simply be recorded as separate line items in the consolidated PGA mechanism.

This concludes my testimony.