

1 Application No: _____
2 Exhibit No.: _____
3 Witness: Donna Hadley

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 DONNA HADLEY**

15 **SAN DIEGO GAS & ELECTRIC COMPANY**

16
17 **AND**

18 **SOUTHERN CALIFORNIA GAS COMPANY**

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

TABLE OF CONTENTS

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28

Page

A. QUALIFICATIONS AND PURPOSE 1
B. TERMINATION OF THE SDG&E GAS PROCUREMENT PBR 1
C. SEPARATION OF ELECTRIC AND GAS PROCUREMENT FUNCTIONS 2

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
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27
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**PREPARED DIRECT TESTIMONY
OF DONNA HADLEY**

A. QUALIFICATIONS AND PURPOSE

My name is Donna Hadley and I am employed by San Diego Gas & Electric (“SDG&E”). My business address is 8315 Century Park Court, CP21J, San Diego, California, 92123-1550. My present position, which was assumed in March 2003, is Manager, Gas Procurement in the Electric & Gas Procurement Department of SDG&E. My responsibilities in gas procurement include managing the procurement of natural gas, pipeline capacity, storage and related services for SDG&E’s core customers. In addition, it incorporates oversight of all financial hedging activity on their behalf.

During my 31 years of employment in the energy arena, I have held positions of responsibility in natural gas procurement, pipeline capacity sales and acquisition, portfolio management of fuels for power and local distribution company natural gas portfolio management.

I received a Bachelor of Science Degree in Social Rehabilitation and Social Services from Sam Houston State University.

The purpose of my testimony is to explain how SDG&E's Gas Procurement Performance-Based Ratemaking ("PBR") mechanism will be phased out. I discuss issues relating to the gas portfolio consolidation and its relationship to SDG&E's electricity procurement function. Finally I discuss the historical and incremental future costs of SDG&E’s core gas procurement function.

B. TERMINATION OF THE SDG&E GAS PROCUREMENT PBR

Gas procurement for SDG&E's utility procurement customers has been covered by an incentive mechanism known as the SDG&E Gas Procurement PBR since August 1993¹. The application of this mechanism to SDG&E's gas procurement costs is described in Section VII of SDG&E Gas Tariffs Preliminary Statement. Subject to the provisions of D.03-07-037², SDG&E

¹ D.93-06-092.

² D.03-07-037 permanently continued the Gas PBR mechanism previously adopted for a five-year term in D.98-08-038.

1 calculates the annual gas cost savings that have been achieved and files a report on or about
2 November 1 of each year with the Division of Ratepayer Advocates (DRA) detailing the basis
3 for recovery of any reward or imposition of any penalty. PBR Year Twelve concluded July 31,
4 2005. SDG&E filed its Year Twelve report on October 31, 2005.

5 Assuming this Commission approves the proposed consolidation of the SDG&E and
6 SoCalGas gas portfolios, SDG&E intends to file a stub-year report on its gas cost savings for the
7 period starting August 1 of the PBR Year in which the proposed consolidation is approved and
8 ending on the last day of the month following the effective date of the consolidation. Because
9 the calculation of annual gas cost savings is determined by a comparison to a benchmark of
10 specific monthly gas price indices, a stub year calculation for any number of months can be
11 made in complete conformance to the PBR mechanism. SDG&E proposes to file its stub year
12 PBR report within 90 days of the consolidation of the SDG&E and SoCalGas portfolios. Upon
13 consolidation of the gas portfolios, the mechanism used to determine gas procurement savings
14 for SDG&E's utility customers will be incorporated in SoCalGas' GCIM as presented in the
15 testimony of Witness Paul Goldstein.

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17 **C. SEPARATION OF ELECTRIC AND GAS PROCUREMENT FUNCTIONS**

18 In 2005, when SDG&E began procuring gas for its own generation, SDG&E separated
19 core gas procurement traders and schedulers from the utility electric generation procurement
20 traders. At this time only traders and schedulers were separated while back office functions,
21 such as risk management, gas settlements, and contract administration remain combined. If the
22 SoCalGas and SDG&E consolidation is not approved, then SDG&E plans to further separate the
23 back office functions for core gas procurement from electric procurement for the back office
24 functions in order to continue to improve transparency between core and electric gas
25 procurement activities.³

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28 ³ Although SDG&E was exempted in Decision 90-09-089 and other related decisions from the separation rules established for the larger utilities, because of SDG&E's recent re-entry into the electric generation business, combined with recent events in the gas industry, SDG&E believes continued efforts to further separate its core and electric gas procurement, while not mandatory, is prudent at this time.

1 SDG&E currently needs eleven employees to perform gas procurement for its customers
2 at a cost of approximately \$1.5 million per year. In addition, if core gas consolidation is not
3 approved then SDG&E would make a complete separation of the back office functions. This
4 additional separation would result in a need for seven additional employees at an additional cost
5 of approximately \$1 million.

6 This concludes my prepared testimony.

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