Application No: ______________________
Exhibit No.: ______________________
Witness: Rodger R. Schwecke

In the Matter 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 RODGER R. SCHWECKE

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 RODGER R. SCHWECKE

A. WITNESS QUALIFICATIONS

My name is Rodger R. Schwecke. I am employed by the Southern California Gas Company as the Senior Pipeline Products Manager. My business address is 555 West Fifth Street, Los Angeles, California, 90013-1011.

I am currently responsible for the development, marketing and administration of pipeline capacity products designed to provide SDG&E/SoCalGas customers access to upstream pipelines, California instate gas production and the corresponding natural gas supplies. I am responsible for brokering of SoCalGas interstate pipeline capacity in excess of core needs, policies and procedures for scheduling and nominations on the SDG&E/SoCalGas systems, daily operation and enhancements to SoCalGas Electronic Bulletin Board (EBB), and negotiating and managing all aspects of SDG&E/SoCalGas' interconnect and operational balancing agreements with upstream pipelines delivering natural gas into our utility distribution system. I am also responsible for primary contact and negotiations with new pipeline or LNG suppliers as it relates to facility studies, development of interconnections and take-away capacity facility enhancements.

I have been employed by SoCalGas and its affiliates since June 1983 in numerous positions, including General Manager/Vice President – Bangor Gas Company, Vice President Marketing - Frontier Energy, Business Development Manager, Project Manager, Account Executive Supervisor, Market Planner Analyst, and Energy Systems Engineer. I assumed my current position in June 2001. During my employment I have been responsible for various aspects of utility development and operations, sales and marketing, regulatory matters, and customer relations. I graduated in 1983 from California State University, Long Beach, with a Bachelor of Science in Chemical Engineering.

I have previously testified before the California Public Utilities Commission, State of Maine Utilities Commission, and the North Carolina Utilities Commission.

B. PURPOSE OF TESTIMONY

The purpose of my testimony is as follows:

- To sponsor a set of exemplary tariff schedules implementing SDG&E/SoCalGas' operations related to proposals in this Application;
- To describe the implementation of various operational and structural changes associated with the Continental Forge and Edison Settlements entered into by SDG&E and SoCalGas; and
- To address implementation costs and implementation schedule for the various changes.

Specific sections of the Continental Forge and Edison Settlements being addressed are as follows:

Continental Forge Settlement: Per Attachment A, Structural Changes to Utility Operations, Section I.A.5 – 8, Section 1.B, items relating to implementing Section II.A.1-3, and items relating to implementing Section III.A & III.D.

Edison Settlement: Per Section 2 of the Settlement Agreement, the corresponding applicable tariffs of Exhibit A and Sections 1 – 4, 7 – 8, 11 – 13, and 17 of Exhibit B.

C. EXEMPLARY TARIFFS

In this Application, SDG&E and SoCalGas are including exemplary tariffs which include new tariffs and wording changes to existing tariffs required for implementing their proposals. SDG&E and SoCalGas request that the Commission adopt their proposals and the exemplary tariff schedules as submitted that would fully implement the operational and structural changes proposed.

D. SYSTEM OPERATIONAL CHANGES

1. Provider of System Reliability Supplies

The Edison Settlement Agreement provides that the SDG&E/SoCalGas System Operator shall assume the ongoing responsibility for ensuring that gas supplies are delivered at the required locations to maintain system reliability. An example of the requirement is on the southern portion of the SDG&E/SoCalGas system where a certain amount of daily supplies are required for physical delivery at the Blythe receipt point and in the future, the Otay Mesa receipt point. As Mr. Trinooson describes in his testimony, those supplies are required to maintain service to the southern part of the SDG&E/SoCalGas system.

Currently that responsibility lies solely with SoCalGas' Gas Acquisition Department with the cost accumulated in the Blythe Operational Flow Requirement Memorandum Account (BOFRMA). SDG&E/SoCalGas is proposing to terminate the BOFRMA upon implementation of the SDG&E/SoCalGas System Operator assuming the responsibility to ensure sufficient flowing supplies to maintain system reliability. The Utility Gas Procurement Department (department responsible for procuring core gas for the combined portfolio of SDG&E and SoCalGas per the testimony of Paul Goldstein) will now be the supplier of last resort to the extent other tools put in place by the system operator fail to ensure system reliability. These changes are reflected in SoCalGas and SDG&E's respective Schedule G-IMB, which are attached as Appendices F and G.

2. System Reliability Tools

In order to perform the additional functions of maintaining system reliability such as the Blythe minimum flow requirements, various tools could be used. The SDG&E/SoCalGas System Operator may elect to contract for and hold firm interstate capacity, install physical facilities on the SDG&E or SoCalGas system, negotiate pipeline to pipeline operational agreements, institute operational flow orders on shippers or firm rights holders, place additional restriction on changes to schedule deliveries from interstate pipelines, purchase gas commodity on a spot market basis, or negotiate voluntary curtailment both on the SDG&E/SoCalGas system and off the system. The actual tools have not been fully developed at this time, but would have to be put in place prior to transferring the function to the SDG&E/SoCalGas System Operator. The complete solution could be a combination of a variety of different tools and not limited to one exclusively. SDG&E/SoCalGas estimate between 3 and 6 months would be needed to put in place initial tools to manage the system reliability requirements.

3. System Reliability Approval Procedures

SDG&E/SoCalGas is proposing that they be given the latitude to directly negotiate with potential suppliers of these tools or ask for Request for Proposals from the market place to provide the necessary tools. Some choices to support the system reliability may require quick action. A long regulatory approval process for SDG&E/SoCalGas could jeopardize service reliability or could foreclose some of the more desirable options. The proposed System Reliability Approval Procedures are intended to strike a balance between maintaining operation integrity, costs, and regulatory oversight by providing a framework for Commission oversight that can authorize timely decisions on different kinds of commitments.

SDG&E/SoCalGas' System Operator will consult with the CPUC's Energy Division on an as-needed basis to discuss and evaluate the options being considered, and will provide an in-depth briefing at least quarterly. This will include, at a minimum, system operational conditions, use of prior contracted tools, and recommendations for acquisition of additional tools needed to maintain system reliability. The Energy Division would have certain authority to authorize SDG&E/SoCalGas to enter into required short-term agreements or take required actions needed on an immediate basis to support system reliability. After consultation with the Energy Division and their concurrence, actions by the SDG&E/SoCalGas System Operator to utilize the discussed tools in place or proceed with acquiring other tools shall be deemed reasonable and fully recoverable in rates through the System Reliability Memorandum Account (SRMA).

Commitments for system operator tools that require payments regardless of actual use by the System Operator will be discussed with the Energy Division prior to the time of an agreement becomes effective. SDG&E/SoCalGas will file an Expedited Advice Letter (EAL) for approval of contractual commitments that require fixed payments regardless of usage. The EAL would allow ten days for protests and comments and three days for replies, and would seek Commission approval within 21 days. If the Commission does not act on an EAL within 21 days, it shall be deemed rejected without prejudice.

SDG&E/SoCalGas may elect to file an Advice Letter, pursuant to the Commission's standard procedure for Advice Letters, for approval of any system reliability agreement that the

Energy Division does not approve under either the System Reliability Approval Procedures or EAL process. SDG&E/SoCalGas will also provide a summary and accounting of its Energy Division-approved system operator tools in its BCAPs to provide market participants an opportunity to comment on the continued use of such tools.

4. System Reliability Cost Recovery

SDG&E/SoCalGas are proposing to establish the SRMA (attached as Appendix II to the testimony of Reginald Austria) to track those costs incurred by the SDG&E/SoCalGas System Operator in maintaining system reliability. In addition, any cost associated with that backup emergency service provided by the Utility Gas Procurement Department will be billed to the SDG&E/SoCalGas System Operator and recorded in the SRMA. Costs included in the SRMA will be allocated on a cold-year throughput basis to all customers.

5. Hub Service Transfer (G-PAL)

One provision of the Edison Settlement separates utility hub services from the current SoCalGas Gas Acquisition Department and its function of buying gas for core customers. To facilitate this provision, the current Hub (aka. California Energy Hub) function will be transferred to the SDG&E/SoCalGas System Operator. The “Operations Hub” will provide park and loan hub services using any uncontracted for or unused storage capacity and any operational system flexibility. Those services will be provided and priced according to SoCalGas Rate Schedule G-PAL, which is attached to this testimony as Appendix H. The offering of hub services will be done on a low priority, interruptible basis, and will not limit customers from accessing their firm capacity rights. This Operations Hub would be completely separated from the Utility Gas Procurement Department and any related secondary market transactions performed by the SDG&E/SoCalGas’ Gas Procurement Department. This pipeline hub service would operate similar to the PG&E Market Center.

Along with transferring these Hub activities and approval of the new G-PAL Rate Schedule, SoCalGas will be terminating existing Rates Schedules G-WHL, G-PARK, and G-LOAN and Rule 37.

6. Rule 39 Changes

SDG&E/SoCalGas are proposing minor modifications to both Utilities' Rule 39 (Special Conditions 5 and 7), which are attached as Appendices I and J. Those changes reflect clarification of some provisions to be consistent with the provision and intent of the Edison Settlement. The first change only addresses a clarification that take-away capacity expansion is addressed in SoCalGas' G-RPA tariffs filed in A.04-12-004. The second clarification is to ensure that third-party storage providers are treated the same as other potential suppliers.

E. CHANGES TO UTILITY BALANCING SERVICES

1. Balancing Requirement Changes for Utility/Core Procurement

Currently, SoCalGas typically has monthly balancing tolerances for it noncore customers, except during the winter balancing period and on daily overnomination events (OFOs). Winter balancing rules limit customers to specific tolerances over a five-day period based on storage inventories being at specified levels and to daily balancing tolerances if storage inventory is below a specific level. On days other than OFOs and during the winter balancing period, there are no limits on how much customers may be over delivered on a given day; all gas supplies delivered are credited to the customer's account where monthly imbalance limits apply. When OFO events are called or the winter balancing period is in effect, they apply across the entire system and to all market segments.

Currently, as a wholesale customer of SoCalGas, SDG&E is balanced on the SoCalGas system in the aggregate. SDG&E's transportation-only customers are subject to SDG&E's Rule 30 tariff provisions that mirror current SoCalGas balancing tolerances. When SoCalGas OFO events are called or winter balancing rules apply, SDG&E transportation-only customers are required to balance to the same limits SoCalGas imposes on its transportation customers.

The Edison Settlement Agreement provides that noncore (including wholesale) and core (including both retail core and CAT core) classes be balanced under the same rules and tariffs on the SDG&E/SoCalGas system. This change takes effect once the core procurement portfolios of the two Utilities are combined into a single gas procurement portfolio managed by the Utility

Gas Procurement Department, as explained in the testimony of Mr. Goldstein. The new combined Utility Gas Procurement Department will be expressly subject to the same rules and imbalance charge assessments as other balancing entities. However, since there is not sufficient data to track actual daily and monthly usage for core customers, the Utility Gas Procurement Department will use a Daily Forecast Quantity as a proxy for core procurement meter usage and other system load factors including lost and unaccounted for (LUAF) gas and company use fuel not recovered through in-kind fuel charges. Immediately each month when actual meter usage information becomes available, an adjustment to the Utility Gas Procurement Department's imbalance account will be made to account for any differences between actual consumption of the core customers and the Daily Forecast Quantity, Company use and LUAF.

The Daily Forecast Quantity will be a forecast of core procurement customer daily usage as provided by the Utility's Demand Forecasting Group (in the Regulatory Affairs Department) using a consistent daily load forecast equation, and will be developed no sooner than two hours before the start of flow day. Weather forecasts input into the equation will be from an independent third party, and will be the most current forecast available at 5:00 am on flow day. The forecast of daily usage will total the core procurement customer loads of both SDG&E and SoCalGas.

When calculating monthly or daily imbalances for the Utility Gas Procurement Department, the Daily Forecast Quantity will be compared to the scheduled receipts for the core. Any Standby Procurement Charge or purchases at the Buy-Back Rate of core imbalances created by the Utility Gas Procurement Department will be managed within the Utility System Operator's Operational Hub Services. Such core imbalances will be disposed of, with the net revenues from the core imbalance charges flowing back through the Noncore Fixed Cost Account (NFCA), as described in the testimony of Reginald Austria. Unlike noncore customers, authorized franchise fees and uncollectible accounts expenses (F&U) will not be added to any daily stand-by balancing charge for the Utility Gas Procurement Department to the extent it is collected elsewhere.

The Utility Gas Procurement Department will not be assessed any imbalance charges that result from its obligation to maintain system reliability when called upon by the SDG&E/SoCalGas System Operator; as described previously, the Utility Gas Procurement Department can be called upon in an emergency to increase flowing supply when supply is insufficient to meet expected end-use demand.

2. Nomination Changes for Utility/Core Procurement

The Utility Gas Procurement Department will be required to nominate all activities on the SDG&E/SoCalGas system just like any other noncore customer. That will include any nomination for deliveries into the system and withdrawal from or injection into storage. On a daily basis the Utility Gas Procurement Department's balance in its storage account, transportation deliveries for calculation of all imbalances quantities, winter delivery requirements, usage of available firm rights for injection and storage will be determined by those nominated and scheduled quantities of gas. Any imbalance trades that the Utility Gas Procurement Department performs will be processed through the SDG&E/SoCalGas EBB the same as all noncore customers.

3. SDG&E Noncore Balancing Service

Currently, SDG&E as a wholesale customer service under Rate Schedule GW-SD is billed for gas consumption at meters located at Rainbow Station and Dana Point and for any accumulated monthly imbalance. Since the meter consumption at these redelivery points includes the metered consumption of all SDG&E customers, the metered volumes and imbalance billed to SDG&E is inclusive of any consumption and underlying imbalance accumulated by their noncore and EG customers. SDG&E separately bills its noncore customer for their respective metered volumes and imbalances.

Since the merger of SoCalGas and SDG&E's parent companies in 1998, SoCalGas' Gas Control Department has operated the SoCalGas and SDG&E gas transmission systems as an integrated, common system. Beginning in April 2002, SoCalGas also assumed the planning responsibility for the SDG&E gas transmission system. SDG&E has the operating flexibility of a SoCalGas wholesale customer and benefits from the efficiencies achieved by operating the transmission system on an integrated basis. With the approval of the System Integration Decision (D. 06-04-033), it is no longer necessary to maintain a functional separation for noncore balancing between the two utilities since the transmission system is integrated both on a economic and operational basis.

SoCalGas and SDG&E customers schedule natural gas deliveries through interstate pipeline and California production receipt points exclusively through SDG&E/SoCalGas' EBB. Any customer on the SDG&E/SoCalGas system is able to nominate and schedule gas deliveries at any receipt point on the SoCalGas /SDG&E system. The gas nominated and received at any receipt point is consumed in either the SDG&E or SoCalGas local market centers or injected into a storage account. The market delivery point is specified in the customer's nomination transaction.

The tariffs of both SDG&E and SoCalGas contain nearly identical language that defines the various requirements of transportation services on the utilities. SDG&E and SoCalGas' Tariff Rule 30 regulates the customer transported gas programs for the respective utilities. SoCalGas and SDG&E transportation customers are required by these Rules to deliver gas commodity to within 10% their metered gas consumption on a monthly basis. Any gas deliveries over or under 10% of metered consumption are subject to buyback or standby charges by their respective utilities as prescribed in SDG&E and SoCalGas' Rate Schedule G-IMB, which also contain nearly identical language for both utilities. SoCalGas and SDG&E's proposed changes to its Rule 30 tariffs are attached as Appendices K and L.

Additionally most noncore end use customers are represented by natural gas energy suppliers in both SoCalGas and SDG&E's service territory under the respective Tariff Rule 35, Contracted Marketer. There are a handful of core aggregators or ESPs serving an aggregation of core load on a similar basis as Contracted Marketers under the utilities respective CAT programs governed by SDG&E and SoCalGas' respective Tariff Rule 32, Core Aggregation Transportation, which are attached as Appendices M and N.

As a result of implementing a combined gas procurement portfolio for SoCalGas and SDG&E and the balancing requirements of the portfolio, some minor changes need to be made to balancing by noncore customers on the SDG&E system. SDG&E/SoCalGas proposes the creation of separate imbalance accounts on SoCalGas' system for the SDG&E's Electric Generation (EG) customers and SDG&E noncore transportation customers. The SDG&E core procurement load will be balanced within the combined Daily Forecast Quantity for the Utility Gas Procurement Department.

This change would remove SDG&E core from being the default balancer for SDG&E customers and create complete operational separation from the SDG&E core procurement and their EG and other noncore transportation customers. The change in the balancing rule proposed would also allow SoCalGas and SDG&E customers or their designated marketers to trade imbalances with each other during the imbalance trading period since all customers imbalances would be on one integrated utility pipeline system.

4. Core Aggregation Transportation Changes

SDG&E/SoCalGas is proposing minor changes to Rule 32, Core Aggregation Transportation, and as a corollary, to SDG&E's Rule 14 and SoCalGas' Rule 23 (attached as Appendices O and P), to address the implementation changes in this proposal. Also, SDG&E's Rule 26 can be eliminated due to the inclusion of the ESP allocation of storage into the SDG&E's Rule 32. These changes will allow Energy Service Providers (ESP) to nominate into storage, imbalance trade and receive billing in a like manner with other noncore customers and similar to the Utility Gas Procurement Department. On a daily basis the ESP's balance in its storage account, transportation deliveries for calculation of all imbalances quantities, winter delivery requirements, usage of available firm rights for injection and storage will be determined by those nominated and scheduled quantities of gas. On a monthly basis, an adjustment to the ESP's imbalance balance account will be made to account for any differences between actual consumption of the ESP's core customers and the Daily Contract Quantity (DCQ).

a) Storage

Currently, the ESP injects or withdraws from their core storage account through monthly imbalance trading of their over deliveries. SDG&E/SoCalGas proposes to allow ESPs to manage their storage in the same manner as the Utility Gas Procurement Department and other noncore customers. ESPs will be allowed to nominate storage injections and withdrawals, along with using imbalance trading to manage their supplies deliveries and storage balances. ESP storage balances will be managed by themselves through nominations and imbalance trades made on SDG&E/SoCalGas' EBB.

b) DCQ and Imbalance Trading

Each ESP will use a proxy for their customer's usage similar to the Daily Forecast Quantity being used for SDG&E/SoCalGas' Utility Gas Procurement Department as a proxy for core procurement meter usage. ESP daily usage proxy will be calculated on a monthly basis as defined in Rule 32. That proxy will be the DCQ as defined based on their contracted load as SDG&E/SoCalGas does not plan on preparing a daily forecast for each ESP. All balancing requirements placed on the noncore customers and Utility Gas Procurement Department will also be required of the ESP. That includes monthly imbalances, daily balancing during OFO days and the winter balancing requirements.

c) Billing

ESPs are currently billed and imbalances are accounted for with a two month lag. SDG&E/SoCalGas proposes to move up the billing and imbalance management requirement one month so that ESPs will be billed and are required to balance similar to as other noncore customers and the Utility Gas Procurement Department. The quantities which an ESP is accounting for during monthly imbalance trading will be moved up one month as well to coincide with noncore customer imbalance trading. ESPs will receive their monthly imbalance statement based on their DCQ and scheduled deliveries on their next month's bill.

5. Additional Imbalance Trading Service

The Continental Forge and Edison Settlements provide for SDG&E/SoCalGas to establish on their EBB an imbalance trading program for those customers with imbalance or storage accounts (i.e., those who have either over-delivered or under-delivered for the month). SDG&E/SoCalGas currently provide for an "Ad Board" and electronic confirmation of trades of imbalance gas between two parties. Currently, trading parties negotiate their buys and sells outside of the EBB in private and then post their transactions on the EBB. However, the intent of the Settlement is to provide a more interactive trading platform for customers to post offers for sale and offers to purchase imbalance gas. In addition, information should be available regarding the imbalance gas transactions completed. That should increase the transparency of the secondary market for buying and selling of imbalance gas on the SDG&E/SoCalGas system. As such SDG&E/SoCalGas is proposing to establish an Imbalance Trading Market platform for buying and selling of imbalance gas on their EBB (see Schedule G-IMB attached here as Appendices F and G).

The Imbalance Trading Market will allow authorized EBB users with monthly imbalance accounts on the SDG&E/SoCalGas system to post offers to buy or sell monthly imbalance quantities, review the terms of completed transactions and view the results of trades and prices for imbalance transactions. Using SDG&E/SoCalGas' EBB, qualified customers can place bids on posted monthly imbalance offers for sale or purchase of such monthly imbalance gas.

An Imbalance Trading Market will provide qualified customers with a means to manage their gas supplies delivered to their imbalance accounts and will assure them greater control over their business and supplies on the SDG&E/SoCalGas pipeline system.

a) Offering of Imbalances

To post an offer to sell or purchase imbalance gas, a customer will need to provide:

- The SDG&E/SoCalGas' Order Control Code (OCC) or Marketer Code with the imbalance quantity
- Expiration date of the offer (or open season timeframe)
- The quantity of imbalance gas in therms being offered
- Minimum acceptable bid – price/therm
- Bid evaluated methodology – 1) first come, first serve basis, 2) highest price
- Tie-breaker methodology –1) first-come, first served 2) pro-rata allocation

When an applicable open season timeframe is over, SDG&E/SoCalGas' EBB will evaluate the bids and award the purchase of imbalance quantities to the bidding party(ies). The bids and offers are binding once submitted on the EBB.

b) Pre- Arranged Deals

The Imbalance Trading Market will also accommodate pre-arranged imbalance transactions. In a pre-arranged transaction an agreement is reached between the selling party and a prospective buyer. The seller will post the terms of the deal on the EBB and the buyer will confirm the transaction.

Pre-arranged transactions may also be posted with a competitive bid option. If the seller wants to post the pre-arranged sale with the competitive bid option, the selling party must include the same Open Season terms as with a general offer. In addition, such transaction could include a Right of First Refusal for the pre-arranged buying party. Under that scenario, if a higher bid is made on the posted transaction, the pre-arranged imbalance buyer can retain the right to acquire the imbalance by matching the higher bid's price. If a matching bid is made then the purchase of the imbalance gas will be awarded to the pre-arranged buyer. If the bid is not matched, then the imbalance is awarded to the customer with the highest bid.

c) Other Terms and Conditions

All pricing and quantities for imbalance trades will be public information and posted on SDG&E/SoCalGas' EBB. SDG&E/SoCalGas will not act as an intermediary to transfer payments to either the buying or selling party. Transfer of funds shall be arranged between the two trading parties.

F. GENERAL TRANSPORTATION/STORAGE SERVICE CHANGES

1. Additional Nomination Cycle

As a supplement to assist customers in managing their gas supplies and potential imbalances on the SDG&E/SoCalGas system, the Edison Settlement provides for an additional intraday nomination cycle for gas from storage. This 5th nomination cycle will be deemed the Intraday 3 or ID3 cycle.

Intraday 3 nominations are available only for firm nominations relating to the injection of existing flowing supplies into a storage account or for firm nominations relating to the withdrawal of gas in storage to meet an identified customer's usage. A customer may also make

Intraday 3 nominations from a third-party storage provider that is directly connected to the SDG&E/SoCalGas system or from SDG&E/SoCalGas' storage system, subject to the storage provider or the SDG&E/SoCalGas System Operator being able to deliver or accept the daily quantity nominated for Intraday 3 within the remaining hours of the flow day and the Utility System Operator having the ability to deliver or accept the required hourly equivalent flow rate during the remaining hours of the flow day. Third-party storage providers will be treated on a comparable basis with the SDG&E/SoCalGas storage facilities to the extent that it can provide the equivalent service and operations.

Nominations for the Intraday 3 that are submitted via EBB must be received by the SDG&E/SoCalGas by 9:00 p.m. Pacific Clock Time on the flow date. Nominations submitted via fax must be received by the SDG&E/SoCalGas by 8:00 p.m. Pacific Clock Time on the flow date. Physical flow is deemed to begin at 11:00 p.m. Pacific Clock Time.

2. Changes to Storage Nominations and Scheduling Priorities

Changes are being proposed to how storage nominations are made and scheduled on the SDG&E/SoCalGas system (see respective tariffs for Rule 30, which are attached as Appendices K and L). The commonly referred to "as-available" storage injection capability will now have a designation of being an interruptible service. Each day, storage injection and withdrawal capacities will be set at their physical operating maximums under the operating conditions for that day and posted on the SDG&E/SoCalGas EBB. SDG&E/SoCalGas System Operator through its EBB functionality will use the following rules to limit the nominations to the storage operating maximums.

- Nominations using Firm rights will have first priority.
- All other nominations using Interruptible rights will have second priority, pro-rated if over-nominated based on the daily volumetric price paid.
- Firm rights can "bump" interruptible scheduled quantities through the Intraday 2 cycle.
- Interruptible scheduled quantities will not be bumped in Intraday 3 cycle.

- Firm storage nominations made during Intraday 3, in accordance with SoCalGas' Rule 30, Section D.3., will be accepted.

Scheduling of storage capacity will be pro rata within each scheduling cycle, except for the Intraday 3 cycle, whenever the available capacity is less than the total nominations for each of the respective services and in the priority order established. Notice to bumped parties will be provided via the Transactions module in EBB. Bumping is subject to the North American Energy Standards Board (NAESB) elapsed pro rata rules.

G. POSTING REQUIREMENTS

1. SDG&E/SOCALGAS' EBB (ENVOY)

Both Settlements defined specific functionality and posting requirements of SDG&E/SoCalGas that are either currently displayed on their EBB or will require modifications and additions.

SDG&E/SoCalGas' EBB, like the interstate pipelines' EBBs, is the primary system that manages gas flow at a customer level on the SDG&E/SoCalGas pipeline system. It facilitates gas system operations, planning and regulatory compliance. SDG&E/SoCalGas' EBB enables the nomination of gas transportation and storage volumes, electronic confirmation of nominations, electronic allocation of volumes, the viewing of daily balances and consumption by customer, imbalance trading and the viewing of current operational information. The EBB is an essential tool in the efficient operation of the SDG&E/SoCalGas pipeline system and allows for SDG&E/SoCalGas to be NAESB compliant and consistent with applicable sections of the Federal Energy Regulatory Commission's (FERC) Part 284. Specifically, the EBB provides or will provide the following as provided in SoCalGas' Rule 33 tariff, attached as Appendix Q:

a) Overall Functions

- Receive requests for gas supply deliveries from transportation, off-system deliveries and storage customers (nominations) and process nominations;
- Provide an interface for confirmation of nominations with the interconnecting pipelines electronically;

- Compare system capacity versus nomination requests in order to balance supply and demand and schedule system flows;
- Declare a curtailment, if necessary, and notify shippers of the curtailment event;
- Declare Operational Flow Orders (OFOs) when requested deliveries exceed system capacity and reduce transportation and interruptible storage injection nominations;
- Declare winter daily balancing and reduce interruptible storage withdrawals as storage inventory declines through the winter; and
- Enable individual end-use customers to view their gas usage generated from electronic meter reading devices.

b) Informational Operational Postings

- Transmission Zone and Receipt Point capacities on a cycle-by-cycle basis;
- Storage capacities on a cycle-by-cycle basis;
- Derivation of system capacities;
- Estimated daily (and hourly, if available) pipeline operational and scheduling information;
- Actual daily (and hourly, if available) pipeline operational and scheduling information;
- Estimated daily storage operational and scheduling information;
- Actual daily storage operational and scheduling information;
- Daily total physical storage inventory levels;
- Weekly physical core storage inventory levels;
- Daily operational information depicted in graphical form to show storage inventory levels;
- Status of system balancing rules (daily, winter, monthly); and

- Planned and actual service pipeline and storage outages through its Maintenance Schedules.

c) Contractual Functions and Postings

- An index of firm rights holders for access and storage;
- Facilitate a venue for a secondary market for firm access and firm storage rights including posting of applicable terms and conditions regarding secondary market transactions;
- Facilitate a venue for trading gas supply imbalances;
- Provide the capability for customers to post other information for the marketplace;
- Tariffs and other regulatory filing information; and
- Affiliate transaction information.

In addition, as specified in SoCalGas' G-PAL rate schedule (see Appendix H) SDG&E/SoCalGas will post the following:

- Weekly net G-PAL position, weekly G-PAL volumes loaned, and weekly G-PAL volumes parked by its Operations Hub; and
- Withdrawal schedules for all G-PAL volumes parked and repayment schedules for all G-PAL volumes loaned.

SDG&E/SoCalGas' EBB functionality and required enhancements to support the primary transactions in association with the proposal in this application is similar to transactions processed and information provided by interstate pipeline EBBs.

H. SDG&E NONCORE PROCUREMENT/TRANSPORTATION CHANGES

1. Noncore Procurement Service Termination

SDG&E has a small portion of its noncore customers' loads that still have the ability to procure gas directly from SDG&E. The service is provided under SDG&E's GCORE and

GPNC-S Rate Schedules on a month-to-month basis. However, consistent with these currently approved rate schedules, SDG&E/SoCalGas has proposed in A.04-12-004 that these rate schedules shall be cancelled 90 days after SoCalGas' first open season for receipt point access capacity. Consistent with the Edison Settlement, SDG&E/SoCalGas are proposing to combine the core gas procurement activities of the two utilities. Therefore, as a result of combining the gas procurement portfolios there is the need to terminate these noncore procurement services upon the earlier of implementation of A.04-12-004 or the effective date when the gas procurement portfolios are combined. Prior to termination of these services as a result of combining the portfolios, noncore customers will be notified and made aware of their choices. Customers being served under this schedule who fail to provide written notification identifying their gas service provider one month prior to the termination of noncore procurement service, due to combining the portfolios, will be automatically transferred to core service under SDG&E Schedule GN-3 for a minimum of one year.

2. Noncore Transportation Service Termination

SoCalGas is proposing to terminate one rate schedule (GT-SD) that is provided for transportation customers on the SDG&E system that separates the cost of SoCalGas service from the wholesale transportation service provided to SDG&E. Typically, the costs to transport gas across the SoCalGas system are bundled in the rates charged by SDG&E to its customers. In addition, SDG&E is proposing to terminate three noncore transportation schedules applicable to customers which take service under SoCalGas GT-SD. Those scheduled are GTC-SD, GTNC-SD and EG-SD.

Schedule GT-SD provides for natural gas transportation service across SoCalGas' pipeline system to serve SDG&E's customers. SDG&E customers who take service separately under Schedule GT-SD for transportation across SoCalGas' pipeline system also receive transportation service across the SDG&E pipeline system under SDG&E's Schedules GTC-SD, GTNC-SD or EG-SD. SDG&E customers who do not take service separately from SDG&E and SoCalGas receive service under a bundled transportation rate, which includes the costs associated with service across both the SoCalGas and SDG&E pipeline systems.

SoCalGas established Schedule GT-SD in order to meet the following condition imposed by the FERC in its approval of the Pacific Enterprises-Enova Corporation merger application (FERC Docket Nos. EC97-12-000, EL97-15-001 and EL97-21-000) and adopted by the Commission in D.98-03-073.

FERC Remedial Measure 18 states:

"Any affiliate of SoCalGas (including SDG&E) shipping gas on the system of SoCalGas, SDG&E, or both for use in electric generation shall use GasSelect to nominate and schedule such volumes separately from any other volumes that it ships on either system. Such gas will be transported under rates and terms (including rate design) no more favorable than the rates and terms available to similarly-situated non-affiliated shippers for the transportation of gas used in electric generation."

While a separate GT-SD tariff helped to demonstrate SoCalGas' compliance with FERC Remedial Measure 18, it is not essential. SoCalGas can maintain full compliance with the Remedial Measure through Schedule GW-SD. Nominations will continue to be made separately by the Utility Gas Procurement Department, noncore customers on the SDG&E system and any affiliates on the SDG&E/SoCalGas system. Transportation service will be provided under the same rates and terms available to similarly situate non-affiliated entities per the existing tariffs in place for service on the SDG&E/SoCalGas system.

This will be clearly set forth in Schedule GW-SD, attached as Appendix R by the addition of the following special condition:

"Any affiliate of the Utility, including SDG&E, shipping gas on the Utility's system for use in electric generation shall use the Electronic Bulletin Board (EBB), as defined in Rule 1, to nominate and schedule such volumes separately from any other volumes that it ships on the Utility's system. Such gas will be transported under rates and terms (including rate design) no more favorable than the rates and terms available to similarly situated non-affiliated shippers for the transportation of gas used in electric generation."

SDG&E and SoCalGas had requested that the Commission terminate the rate schedules GT-SD, GTC-SD, GTNC-SD, and EG-SD in separate Advice Letters (SoCalGas AL 3491 and

SDG&E AL 1521-G) on April 19, 2005. The Commission rejected the Advice Letters in Resolution G-3381. The Resolution Finding 13 stated:

> 13. The elimination of these tariff schedules is more appropriately done should the Commission give approval of system integration in Phase 1 of A.04-12-004.

Subsequently, the Commission issued Decision (D.) No. 06-04-033, which approved the SDG&E and SoCalGas proposal for system integration. In addition, with the combining of the core procurement portfolios and balancing changes on the SDG&E system which completely removes the SDG&E core procurement group from those tasks, now is an appropriate time to terminate these rate schedules on the SDG&E and SoCalGas system.

Also attached as Appendix S is SDG&E's Rule 25 tariff, which is being modified in accordance with the termination of GT-SD as discussed above.

I. OTHER TARIFF CHANGES

Consistent with the Edison Settlement, SoCalGas and SDG&E are also proposing minor changes to its Rule 1 and Rule 4 tariffs. The changes to Rule 1 (attached as Appendices T and U) amend some definitions, while the changes to Rule 4 (attached as Appendices V and W) add a provision to address the resolution of disputes regarding customer contracts.

J. OVERALL IMPLEMENTATION PLAN

It is estimated that it will take SDG&E/SoCalGas between 14 and 16 months to fully implement all the provisions included in this application along with the provisions of SDG&E/SoCalGas A.04-12-004. This estimated timeframe assumes all aspects of the proposals are implemented simultaneously. Implementation could occur for various portions of the proposal within this application and A. 04-12-004 on different timeframes, but the final completion of all the remaining proposals may have to be delayed slightly. Many portions of this application and A.04-12-04 are similar in the type of system modifications, such as a secondary market for firm access rights and storage firm rights, that would be best implemented at the same time. Other items, such as combining the gas procurement activities of both utilities, could more easily be implemented separately.

The implementation timeframe would not begin until the Commission has issued a final decision and approved all the tariff changes required by the decision. SDG&E/SoCalGas has experience that suggests even a final decision by the Commission does not ensure that all the details required in the tariffs won't be protested and result in a delay in implementation. That is why SDG&E/SoCalGas are filing proposed language changes to their Rules and Rate schedule so the Commission can adopt those changes along with any final decision on this application. Having those tariffs approved will allow SDG&E/SoCalGas to begin immediately with the system changes to implement the new structural changes proposed in this Application and A.04.12-004.

K. IT COSTS FOR IMPLEMENTATION

SDG&E/SoCalGas estimate that it will cost $3.0 million to implement the services outlined in this application. These expenditures are required to further enhance and modify SDG&E/SoCalGas' EBB, for the new scheduling procedures, new posting requirements and secondary market trading of firm storage rights, its Customer Contract System for management of the services and structural changes, and its Noncore Customer Billing System to allow for the billing of the new services and structural changes. Where possible SDG&E/SoCalGas will use software and IT processes developed to implement other Commission approved services or proposals. These costs are in addition to the implementation costs presented in SDG&E and SoCalGas' Application A.04-12-004. In addition, if an implementation schedule was adopted that would call for phasing the implementation of different portions of the application, the overall timeframe could be impacted along with the total cost of implementation. These costs are proposed to be recorded in the Firm Access and Storage Rights Memorandum Account (FASRMA) as proposed in Appendix HH attached to the testimony of Reginald Austria.

This concludes my prepared testimony.