Application No: ______________________
Exhibit No.: ______________________
Witness: Johannes Van Lierop

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 JOHANNES VAN LIEROP

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
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A. QUALIFICATIONS AND PURPOSE

My name is Johannes Van Lierop. My business address is 555 West Fifth Street, Los Angeles, California 90013-1011. I am employed by Southern California Gas Company (SoCalGas) as its Director of Gas Acquisition.

I received a PhD in Economics from the University of Toronto in 1981. From 1981 to 1983, I was employed by California State University at Fullerton as Assistant Professor Economics, where I lectured on econometrics and microeconomics. I joined SoCalGas in 1984 as a Market Forecasting Analyst. Subsequently I have held positions in Demand Forecasting, Gas Supply, and Regulatory Affairs. In October of 2005 I assumed my present position.

My responsibilities include the management of risk, financial trading, and gas acquisition planning and analysis. In addition, I have the responsibility of analyzing and developing regulatory policies and proposals related to gas acquisition in proceedings before the California Public Utilities Commission (Commission). I have previously testified before the Commission.

The purpose of this testimony is to explain certain provisions and proposals from the Continental Forge (CF) and Edison settlements that directly impact SoCalGas' Gas Acquisition (GA) group. Specifically, this testimony will address:

- Core storage inventory targets
- New core balancing rules
- Treatment of "winter hedging" costs
- Treatment of Firm Access Right charges

B. STORAGE INVENTORY TARGETS

1. Background

GA serves approximately 380 Bcf/year of core load, just over one Bcf/d. This represents about 99.5 % of total SoCalGas' core load, the remaining 0.5% being served under SoCalGas' Core Aggregation Transportation (CAT) program. Figure 1 shows average daily load volumes for each month assuming normal weather. Note that during Nov-March period loads exceed the annual average, during May-Oct loads are below the annual average, and during April loads are approximately equal to the annual average.

SoCalGas core is currently authorized to hold between 1,049 MMcf/d and 1,258 MMcf/d of interstate pipeline capacity on an annual average basis.[1] In addition SoCalGas' core has been assigned the following storage capacities, of which GA is assigned a pro rata share:

- Inventory: 70 Bcf[2]
- Injection: 327 MMcf/d plus as-available
- Peak Winter Withdrawal: 1935 MMcf/d

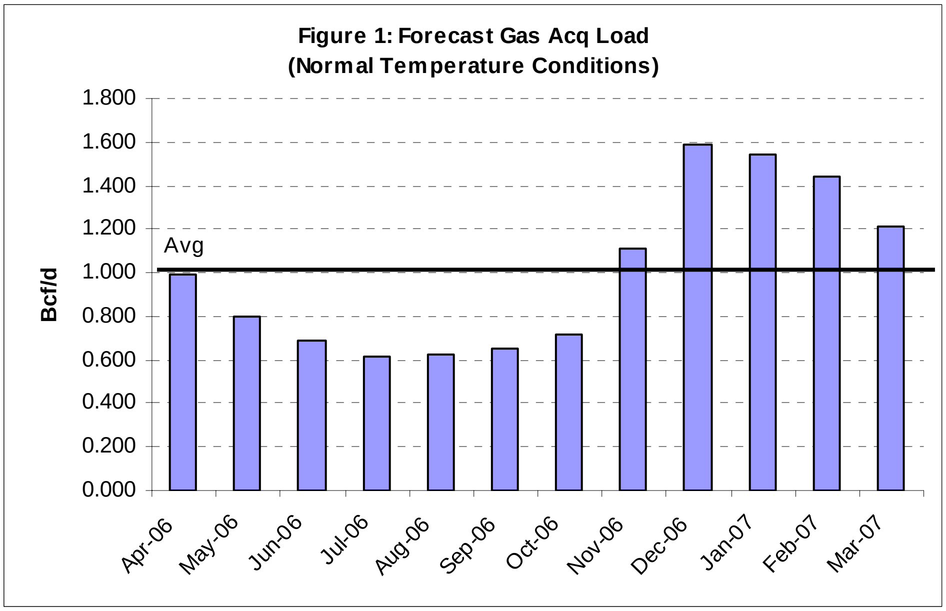
While actual core storage operations vary with the core's weather-dependent loads as well as market prices, Nov-March normally constitutes the core's storage withdrawal period, May-Oct the core's storage injection period, while the month of April on average is a shoulder month during which the core can be injecting or withdrawing depending on weather conditions.

In D.02-06-023, the Commission approved a settlement between the Office of Ratepayer Advocates (now the Division of Ratepayer Advocates, or "DRA"), The Utility Reform Network (TURN), and SoCalGas which established a physical core storage inventory target for the beginning of the withdrawal season on November 1 of 70 Bcf plus or minus 5 Bcf. This is the target in effect today. In February of 2006, DRA, TURN, and SoCalGas submitted a joint recommendation in SoCalGas' GCIM year 11 application under which the November 1 storage target would change from 70 +5/- 5 Bcf to 70 +5/-2 Bcf. In addition, the joint recommendation established a minimum purchased inventory target of 49 Bcf for July 31, 2006. No mid-season targets are established for future years. Although these revised targets have not yet been adopted by the Commission, SoCalGas expects that they will be adopted and is adhering to the targets in its current operations.

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

[2] Not including 2.75 Bcf of inventory capacity that is temporarily held by GA to store banked gas for CARE customers.

In the CF settlement, SoCalGas agreed to propose physical core storage targets for each month of the April-October injection season. The next section presents these monthly storage targets proposed jointly by SoCalGas, SDG&E, and Edison.



2. Proposed Monthly Targets

As with most settlement issues, the proposal is a compromise between opposing views or interests. From the perspective of the core the storage targets should be flexible enough to provide GA the opportunity to plan storage injections in a way that minimizes the core's expected gas costs under a wide range of market conditions including weather. On the other side, concerns have been expressed that too much flexibility with storage injections may give GA the ability under certain circumstances to unduly impact gas prices at the California border. SoCalGas, SDG&E and Edison believe that the proposal below constitutes a reasonable compromise between these two points of view.

As explained by witness Paul Goldstein, SoCalGas and SDG&E propose to combine their gas procurement functions for core service. Therefore, the proposed monthly targets are for the combined core portfolio. The proposed targets represent month-end minimum physical core storage levels for the April-October period.

The minimum targets would be determined as follows:

- Assume core storage equals zero on March 31
- Assume uniform monthly purchases over April-October equal to average April-October cold year forecasted core throughput plus company use and LUAF plus storage injections necessary to achieve the minimum November 1 storage target (currently assumed to be 67.5 Bcf)
- Minimum month-end storage targets equal the cumulative differences between uniform monthly purchases and the forecasted cold-year throughput levels

Table 2 shows the monthly minimums using forecasts from the 2006 California Gas Report. Monthly storage targets would be updated each year and included in the Annual Gas Plan filings. (See Prepared Direct Testimony of Paul Goldstein.) The forecasts used in the calculations will be from the California Gas Report or from the BCAP decision, whichever is most recent.

Table 2: Core Storage Inventory Targets; Combined Portfolio

Month	Levelized Purchases (Bcf/d)	Throughput (Bcf/d)	Minimum Storage Target (Bcf)
March			0.0
April	1.165	1.232	0.0
May	1.165	0.956	4.5
June	1.165	0.793	15.6
July	1.165	0.705	29.9
August	1.165	0.704	44.2
September	1.165	0.745	57.2
October	1.165	0.832	67.5
Average	1.165	0.852	

C. CORE BALANCING RULES

One of the provisions of the Edison settlement is that the core should be subject to the same balancing rules including imbalance charges for exceeding imbalance tolerances as the noncore, with the core having the same balancing tolerance (currently 10%) as the noncore. Since core throughput measurements are made on a monthly cycle basis and therefore are not available on a daily basis, the core will be required to balance to forecasted daily load instead of actual daily usage. Forecasted daily usage will be provided to GA by the Demand Forecast Group in SoCalGas' Regulatory Affairs department no later than 6:00 A.M. of flow day. (Note: flow day commences at 7:00 A.M.) The forecast will reflect the latest weather forecast available at 5:00 A.M. of the flow day and will include Company Use and LUAF.[3] As this provision requires the core to operate in the same manner as the noncore, it was agreed that this balancing requirement would be linked to the core being relieved of its obligation to support the system's minimum flow requirements since noncore customers do not have this obligation. As discussed by Mr. Schwecke, SoCalGas proposes that the system operator will assume the obligation to provide minimum flows on SoCalGas' system. SoCalGas proposes that the revised core balancing rules and the System Operator's assumption of responsibility for minimum system flows be implemented simultaneously.

Under the proposed rules, the core will be subject to the same plus or minus 10% monthly imbalance tolerance as noncore customers. Like noncore customers, the core will have an imbalance account. The core will also have a storage account. Like noncore customers, the core will nominate storage injection and withdrawal volumes on a daily basis. Daily differences between scheduled deliveries – net of storage injections or withdrawals – and the daily core throughput forecasts are recorded in the core's imbalance account. If in a month the cumulative imbalance in the core's imbalance account exceeds the 10% monthly tolerance limit, the core has the option of offsetting the excess with its storage account (assuming the core has unused

[3] Currently Gas Acquisition is responsible for providing Company Use and LUAF for the entire system. In the Firm Access Rights Proceeding SDG&E/SoCalGas has proposed that Company Use fuel for transmission be provided in kind by all shippers. If that proposal is adopted Gas Acquisition will be responsible only for the core's share of Company Use. While there is currently no proposal in front of the Commission with respect to LUAF SoCalGas or other parties may propose that LUAF should also be provided in kind by all shippers and in that case only the core's share of Company Use and LUAF will be included in the daily forecast.

inventory capacity or excess storage gas available to offset the imbalance), or trading its imbalance with other customers. If any imbalances outside the 10% tolerance remain at the end of the imbalance trading period, the core will be subject to monthly imbalance charges, as explained by Mr. Schwecke. On a monthly basis when data becomes available, "true-ups" between the sum of daily forecasts and recorded core usage including Company Use and LUAF are recorded in the core's imbalance account. These true-up entries in a given month will not be included for the purpose of assessing imbalance charges.

On high-delivery OFO days, any core scheduled deliveries above core load plus 10% plus firm core storage injections will be subject to imbalance charges.

During winter months, the core will have the same minimum delivery requirements as noncore customers: scheduled deliveries plus firm core storage withdrawals must equal at least 50%, 70%, or 90% of forecasted load depending on the total level of storage inventory as described in Rule 30.

D. TREATMENT OF WINTER HEDGES

In October 2005, SoCalGas and SDG&E filed petitions to modify their gas cost incentive mechanisms. The requested modifications were similar to the ones requested by PG&E the previous month. In D. 05-10-043, the Commission approved the relief requested by SoCalGas and SDG&E: it approved the filed plan for the 2005-2006 Winter Hedge program and modified the gas procurement incentive mechanisms of SoCalGas and SDG&E by excluding costs and benefits of the Winter Hedge from their incentive mechanisms. These requests were made because the much higher levels of gas costs and increased price volatility had increased the costs of hedging to such a level that continued inclusion of the cost and benefits of Winter Hedges would have constituted a strong disincentive on the part of the utilities to hedge winter gas costs at an appropriate level. The Commission agreed stating: "It is critically important that the utilities have the flexibility, in the coming months, to make those hedging decisions quickly and that they not be constrained by disincentives to do so." (D.05-10-043, p. 11.)

On May 17 and 18, 2006, SDG&E and SoCalGas filed hedging plans for the 2006-2007 winter and requested again that cost and benefits of the proposed Winter Hedge plans be excluded from their gas cost incentive mechanisms. As SoCalGas and SDG&E stated in their petitions, the cost of providing Winter Hedge protection for their customers remains high, at approximately 5 times the level it would have cost to provide similar protection only a few years ago. Therefore, it remains in our customers' interests to align the interests of ratepayers and the utility with respect to Winter Hedges by excluding the Winter Hedge costs and benefits from the incentive mechanisms. The Commission has not yet ruled on these petitions.

SoCalGas and SDG&E believe that it will continue to be in our customers' interests to exclude Winter Hedges from the gas cost incentive mechanisms of the utilities. Therefore SoCalGas, SDG&E, and Edison agree that this exclusion should be in effect for the 5-year duration of the Edison Settlement.[4] As explained in the testimony of Mr. Goldstein, SoCalGas will include Winter Hedge plans in their annual gas plan filings. Once the Commission approves the plans, with or without changed provisions, all of the costs and benefits of Winter Hedges acquired in compliance with the approved plan would accrue to customers, and not be subject to hindsight reasonableness review.

Appendix C to my testimony is SoCalGas' GCIM Preliminary Statement with the revisions we are proposing in redline format.

E. OTHER GCIM ISSUES

In case the Commission adopts Firm Access Rights reservation or commodity charges, SoCalGas, SDG&E, and Edison have agreed that such charges to the core will be treated as "pass-through" costs in the GCIM, in the same manner as interstate transportation commodity and reservation charges are treated.

As explained in the testimony of Mr. Schwecke, SoCalGas' California Energy Hub operations will be transferred from gas Acquisition to Gas Operations. Gas Acquisition will be free to engage in the full range of secondary market transactions, including parks and loans, as long as it remains within the storage and transmission rights held by core customers.

This concludes my prepared testimony.

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4 The settlement defines Winter Hedges as all financial transactions used to hedge natural gas prices for any portion of the November through March period.