TURN DATA REQUEST
TURN-SCG-DR-22
SOCALGAS 2012 GRC – A.10-12-006
SOCALGAS RESPONSE
DATE RECEIVED: JULY 20, 2011
DATE RESPONDED: AUGUST 2, 2011

<u>Corporate Center and 2010 Reorganization (SCG-1, SCG-17)</u>

1. Referencing the graphic and table on p. BAF-7 of SCG-17,
    a. Please provide all electronic workpapers with working cells and statistical manipulations that support the historical and forecasted multi-factor basic allocation percentages presented in the graphic and table.
    b. Provide the recorded multi-factor data (revenue, gross plant assets and investments, operating expenses, and FTEs) in such a form that one can replicate the graphic that results from applying a least-squares regression, as Sempra has done on p. BAF-7 of both SCG-17.
    c. Please identify any assumptions and describe the method Sempra used to make the forecasts for 2011 and 2012 present in the graphic and table, and provide any underlying forecasts needed to replicate the 2011 and 2012 forecasts.
    d. In addition to the historical data and underlying forecast assumptions that is provided in response to parts B and C of this request, please provide annual historical data series comprising *total assets* for SCG, SDG&E, and Global (non-SCG and non-SDG&E) for 2006-2010.
    e. Please provide all statistical and financial reports that Sempra (or the Utilities) may have used in developing its historical and forecasted multi-factor basic allocation percentages.

SoCalGas Response:

a. Attached is the Multi-Factor model as used for the GRC forecast. The tab "Historical Factors" has been updated as well to display 2010 Actual data, though the calculation of the forecast for 2011-2012 is still based on 2005-2009 Actuals. The 2012 forecast rates are 41.5% for SDG&E and 41.5% for SoCalGas.

Multifactor Basic for
GRC wUpdate 19a.xls

b. The attached PDF contains marked pages from Sempra's 2010 5-Year Statistical Report which displays the financial data in five comparable years, and an Excel file showing the internal Headcount Reports (FTE's) for each of the years.

20110714150142.pd
f

Headcount Data
2005-2010.xlsx

c. The Multi-Factor Basic method is described in testimony, starting at BAF-5, and all the assumptions and adjustments are explained in the model worksheets, attached in (a) above.

Response to Question 1 (Continued)

d. The PDF provided in (b) above shows Total Assets as part of each year's financial statements.

e. These reports are submitted in the response to (b) above.

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2. Referencing the table on p. BAF-9 of SCG-17, please identify the annual, recorded 2004-2008 and 2010 costs in real 2009 dollars with the same categories and format provided in the original table.

SoCalGas Response:

The table on testimony page BAF-9 is a summary showing a comparison from the Base Year 2009 to Test Year 2012 for division-level totals. Annual recorded amounts for the GRC historic years 2005-2009 are shown in the Summary of Results workpapers throughout Bruce Folkmann's testimony, for division levels as well as department and cost center levels. Please refer to the index starting on BAF-WP-1 to view the pages and department references.

An electronic version of the Summary of Results workpapers is also attached, with the 2010 recorded Actuals inserted for each level.

Summary of Results
Workpapers w-2010

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3. Sempra states (at AS-7, lines 10-11, of SCG-1), "In total, SDG&E, SoCal Gas, and corporate center were able to complete this reorganization with a net decrease in costs." Please

   a. Explain in detail what Sempra means by this statement. i.e., does Sempra intend for this statement to mean that *its overall expenses* incurred by the Utilities will decline as a result of the change. Or does it mean that the overall expenses incurred by the Utilities will be less than they otherwise would have been without the reorganization, but that, notwithstanding the latter hypothetical situation, the 2012 expenses incurred by the Utilities will still be larger than they were in 2009, regardless of whether or not the forecasted expenses are forecasted to be smaller than they might otherwise have been without the 2010 Reorganization. Thus please clarify your assertion to be clearer about the nature of the "net decrease" in costs.
   b. Identify the amount and source of the expenses that used to be included in the overall Corporate Center and Global expense items would have been higher than they will be going forward, now that they have been partially reassigned to the individual business units.
   c. Provide a narrative explanation detailing how shifting expense-generating employees and functions from the Corporate Center and Global to the Utilities decreases Utility expenses. Please include in, but do not necessarily limit, your discussion to where the efficiencies arise.
   d. The expressed goal of the reorganization was to "give the business entities more control and accountability for their respective businesses," per SCG-17 at p. BAF-10. Is it SCG's contention that it can give Utilities more control and accountability at less cost than it did when it was shared with Corporate Center and Global?

SoCalGas Response:

a. The statement means the 2010 reorganization alone did not create higher expenses for SDG&E, SoCalGas or Sempra Energy Corporate Center. The statement was not intended to apply to overall expenses as presented in this GRC.
b. SoCalGas objects to this request as overbroad, unduly burdensome, ambiguous and calling for speculation. Subject to and without waiving these objections, SoCalGas responds as follows:
   Please refer to SoCalGas' response to Question 6, below.
c. Shifting some functions from Corporate Center (none came from Global) to the Utilities did not necessarily decrease utility expenses or provide efficiencies. For some functions, there may have been a decrease, for others an increase. The intent was to achieve all transferred functions with a minimal net impact on costs. Please also see attachments in response to the following Question 4.

Response to Question 3 (Continued)

d. SoCalGas favored the reorganization because, for certain functions, it wanted its own dedicated staff, reporting to SoCalGas officers and focusing on utility priorities, rather than relying on a shared service group from Corporate Center. The benefit would be the direct control and accountability mentioned in testimony, not an expectation of lower costs. Many functions remain at Corporate Center and provide a high level of efficiency operating as shared services.

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4. Referencing BAF-10 through -12 of SCG-17, the Utilities reference the 2010 Reorganization of many of the Corporate Center and Global shared functions into the business units. Please:
   a. Provide any business cases, or other documentation, that supported this overall decision.
   b. Provide an Excel spreadsheet with a table that contains for each Corporate Center and Global shared and non-shared function the recorded i.) labor and non-labor expenses on an annual basis and ii.) FTE employees at year's end from 2005-2010, by Cost Center.

      In the spreadsheet, by Cost Center and divided into labor and non-labor, please also include the amount allocated (separately) to each of the Utilities for each year, 2005-2010, and the amount that would otherwise have been allocated to each of the separate Utilities in 2010, were the 2010 Reorganization not undertaken. To the extent that the 2010 Reorganization affected Cost Centers that SCG justified in exhibits other than SCG-17, please do the same for those Cost Centers (e.g., but not limited to SCG-21).

SoCalGas Response:

SoCalGas objects to this request as overbroad, unduly burdensome, ambiguous and calling for speculation. Subject to and without waiving these objections, SoCalGas responds as follows:

a. **RESPONSE AND ATTACHMENTS REMOVED DUE TO CONFIDENTIALITY**
b. No such Excel spreadsheet exists.

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5. On p. BAF-11 (lines 7-9) SCG states, "It's important to note that…the transferred functions did not result in net growth in costs to the Utilities." Please provide an apples-to-apples comparison between the forecasted labor and non-labor expenses and the historical labor and non-labor in order to assess the reasonableness of SDG&E's forecasts. In other words, for ratemaking purposes, a comparison between the forecasted expenses and the recorded expenses for the functions, regardless of what corporate structure houses the function.
In so doing, please provide a table that will allow such a comparison, which should include recorded labor and non-labor annual expenses for 2005-2009 and corresponding 2010, 2011,and 2012 forecasts on the same basis, <u>as if the annual 2010-2012 forecasted expenses were included in their original cost centers</u>.
With this request, please do not undo any of the actual organizational changes (e.g., adding or removing FTEs, moving FTEs between business units, etc.), but, instead use the currently-forecasted FTEs and expenses, but place the expenses back into the correct pre-2010-Reorganization Cost Centers so that a direct apples-to-apples comparison can be made between recorded and forecasted expenses. To the extent that the 2010 Reorganization affected Cost Centers that SCG justified in exhibits other than SCG-17, please do the same for those Cost Centers (e.g., but not limited to SCG-21).

SoCalGas Response:

SoCalGas objects to this request as overbroad, unduly burdensome, ambiguous and calling for speculation. Subject to and without waiving these objections, SoCalGas responds as follows:

Please refer to SoCalGas' response to Question 4a. above. No other analysis exists. Please also refer to SoCalGas's response to Question 6, below.

6. Please provide a table that maps out the 2010 Reorganization, which shows at least, but is not necessarily limited to, the Cost Centers from and to which transfers were made, whether there were additional FTEs (beyond the transferred FTEs) included in the forecast of the Cost Center to which employees and activities were added (as a result of transfer from a pre-2010-Reorganization Cost Center).

SoCalGas Response:

Please refer to SoCalGas' response to Question 4a., above, providing tables that map the reorganization transfers. No other 2010 reorganization analysis exists. Furthermore, for Corporate Center, the Reconciliation workpapers for every department provide an itemization of reduction of allocations attributed to the transferred or eliminated positions. The attached worksheet summarizes and cross-references every one of those workpapers by function, and relates them to the transferred functions described by utility witnesses, which are also summarized in the table in Bruce Folkmann's testimony, BAF-11.

TURN DR-22 Q6
draft.xls

The worksheet shows that, for some functions, Corporate Center reduced its allocation to the utilities by more than the utilities added direct costs to their budget; for others, the new direct costs are greater than the reduced allocations. This summary does not consider how much will be re-allocated between SDG&E and SoCalGas, but should again demonstrate that there was no *overall* material increase to costs at the utilities as a result of the reorganization.

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7. Referencing exhibit SCG-17, there are various references to an allocation methodology that the Utilities call “Multi-Factor Split”, in which the allocation for “Global/Retained” is 50% and the other half of the expected expense is divided between SDG&E and SCG. In each instance of the use of the “Multi-Factor Split” allocation method, please provide the basis for its use and any supporting workpapers.

SoCalGas Response:

The workpaper BAF-WP-534 shows the calculation of the Multi-Factor Split – which is a variation of the Multi-Factor Basic methodology. The workpaper lists the cost centers that use this method – primarily three areas at Corporate Center: Corporate Planning (A-6), Corporate Communications (E-1.1) and FERC Relations (E-2.6). Multi-Factor Split is used for departments that would ordinarily use the Multi-Factor Basic, but recognize that their efforts are more equally divided between regulated and unregulated. For these three functions the utilities have more staff resources than Global business units do, so in management’s estimation, the proportion of support needed from Corporate Center does not warrant the heavier allocation of Multi-Factor Basic.

8. Referencing exhibit SCG-17, please identify the basis and provide workpapers for the development of the various allocation methods (“Avg-VPCFO”, “Multi-Factor Basic”, “SVP Controller”, “Tax Services”, “Economic Analysis”, “VP Treasury”, “Audit”, “Legal”, “HR-SVP”, “Executive FTE’s”, “MyInfo”, “FTE”, “VP Corporate Relations”, “Local Government”, “VP Political”, and “HQ Depreciation”.

SoCalGas Response:

All the allocation methodologies listed are supported by workpapers starting at BAF-WP-535.

9. Referencing SCG-17-WP, p. BAF-WP-27, SCG identifies $703,000 of increased external audit fees (paid to Deloitte), and "expanded" business operations" as the reason for the increased audit fees. Please
   a. Identify the historical costs (in 2009$) of such activities for each year from 2004-2009, and 2010 YTD, and the audit services provider for each year.
   b. Identify and explain the "expanded business operations" that SCG expects to lead to this increase.

SoCalGas Response:

a. The workpaper for External Audit Fees (A-2.14) is shown at BAF-WP-68. Also, in the attachment to Question 2 above, all the workpapers are provided in Excel with 2010 Actuals included. Deloitte has been the auditor in each of the years.

b. Growth at Sempra, particularly at the utilities, is a driver that was discussed in testimony at page BAF-10. The scope of audit work that Deloitte performs is based, in part, on an assessment of audit risk areas. We understand that, at SDG&E for example, increased capital investment in projects such as Sunrise Powerlink has increased the level of audit risk associated with new property, plant, and equipment additions. As a result, additional detailed audit work is required to support the external auditor's opinion. Also, at SDG&E for example, increased power purchase contracting related to compliance with the Renewable Portfolio Standard increases external audit work required to provide an opinion with regard to SDG&E's accounting for these contracts.

10. Please provide all workpapers for SCG-17 in electronic, spreadsheet format. (If easier, you may provide a single table that includes the annual, adjusted-recorded data (2005-2009) and annual, adjusted-forecasted values (2010-2012).)

SoCalGas Response:

Electronic workpapers as filed in the GRC are included on an accompanying CD due to its large file size.

Please note, the Corporate Center GRC workpapers are produced as individual reports from Sempra's budget system database, so although they are in Excel format, there are no formulas or links in them.

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A&G - Controller, Regulatory Affairs, and Finance

11. Referencing p. KJD-7, SCG includes recorded 2005-2009 annual costs for the Controller Division. Please identify recorded 2010 costs in constant 2009$.

SoCalGas Response:

2010 incurred (adjusted-recorded) costs for the Controller Division, excluding claims, totaled $16.831 million.

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12. Referencing p. KJD-11, SCG indicates that the increase to Utility Accounting of $648,000 is a result of the addition of the bank reconciliation function after its transfer from SECC. Please identify the specific location that indicates a corresponding reduction to SECC forecasted spending as a result of the 2010 transfer.

SoCalGas Response:

Please refer to the prepared direct testimony of Bruce A. Folkman (Exhibit SCG-17), specifically the table on line 1 of page BAF-17. This table shows base-year 2009 Sempra Energy corporate center costs and also utility allocated costs for the Bank Reconciliation and Escheatment group (table item A-2.9). It also shows corresponding decreases, i.e., zero dollar forecasts for this group in 2012.

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13. Referencing p. KJD-21 in Table KD-12, SCG includes recorded 2005-2009 annual costs for the Regulatory Affairs Division. Please identify recorded 2010 costs in constant 2009$.

SoCalGas Response:

2010 incurred costs (adjusted-recorded) for the Regulatory Affairs Division, in constant 2009 dollars, totaled $11.175 million.

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14. Referencing pp. KJD-31 through KJD-40, SCG discusses the Finance Division. Please identify recorded annual costs in 2009$ for 2005-2010.

SoCalGas Response:

2005-2010 incurred (adjusted-recorded) costs for the Finance Division are presented in the following table:

2005-2010 Incurred Costs for the Finance Division

($2009 in thousands)

A&G	2005	2006	2007	2008	2009	2010
Controller						
Total Incurred	1,278	2,423	2,633	2,308	2,580	3,121

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HR

15. There are numerous instances in SCG-21 where the Utilities use what they call "Zero-Based" forecasting. Please provide a detailed explanation of the methodology SCG used to forecast 2012 labor and non-labor expenses for <u>each</u> account where "Zero-Based forecasting was used in SCG-21.

SoCalGas Response:

The zero-based forecasting methodology was used when it most accurately reflected anticipated costs in a particular area. The areas in which the zero-based methodology was applied are the following;

a. **VP of HR**– As a result of the 2010 reorganization, a Vice President of Human Resources, Diversity, & Inclusion position was created at SoCalGas. Since there was no history for this new position, the expenses for this area were forecast using the zero-based methodology. The 2012 forecast is based on the 2010 budgeted costs for the labor and non-labor of the VP of HR and the Executive Assistant to the VP of HR. Details can be found in work papers beginning on page 5 of 131 in SCG-21-WP.

b. **Diversity & Organizational Effectiveness (OE)** – The basis for the forecast was the actual expenses incurred historically when these activities were housed at Corporate Center. The difference between 2010 and 2012 forecast data is that 2010 reflects only nine (9) months of costs, whereas 2012 represents a full 12 months. Details can be found in work papers beginning on page 10 of 131 in SCG-21-WP.

c. **President & CEO and COO**– As a result of the 2010 reorganization, the President & CEO and COO positions were created at SoCalGas. The cost center assigned to record the costs associated with these new SoCalGas positions was previously used to record costs associated with different senior executive positions. Therefore, a zero-based methodology, rather than a historical-based methodology, was appropriate in forecasting test year costs for this cost center. The 2012 forecast is a combination of (1) the labor & non-labor costs of the President & CEO (based on budgeted 2010 costs), (2) the labor and non-labor costs associated with the COO and Executive Assistant to the COO, and (3) the non-standard escalation cost of American Gas Association dues. These forecasted costs are identified in a supplemental work paper on page 72 of 131 in SCG-21-WP.