Application of San Diego Gas & Electric Company (U902M) for Authority, Among Other Things, to Increase Rates and Charges for Electric and Gas Service Effective on January 1, 2012.	A.10-12-005 (Filed December 15, 2010)
Application of Southern California Gas Company (U904G) for authority to update its gas revenue requirement and base rates effective on January 1, 2012.	A.10-12-006 (Filed December 15, 2010)

Application: A.10-12-006
Exhibit No.: SCG-210

PREPARED REBUTTAL TESTIMONY OF KAREN L. SEDGWICK ON BEHALF OF SOUTHERN CALIFORNIA GAS COMPANY

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

OCTOBER 2011

The Gas Company

SCG Doc#260162

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PREPARED REBUTTAL TESTIMONY OF
KAREN L. SEDGWICK
ON BEHALF OF SOUTHERN CALIFORNIA GAS COMPANY

I. INTRODUCTION

The following rebuttal testimony regarding Supply Services & Diverse Business Enterprises (SSDBE) addresses the intervener testimony dated September 2011 of:

- Division of Ratepayer Advocates (DRA), Exh. DRA-19, Witness Maricela Sierra; and
- Joint Parties' Experts Len Canty, Jorge Corralejo, and Faith Bautista Relating to the Sempra General Rate Case (Joint Parties), Exh. JP-1, Witnesses Canty, Corralejo and Bautista.

As described in my direct testimony, SSDBE departments at SCG consists of over 150 employees, four non-shared cost groups and six shared cost groups that have requested a total of $19.52 million dollars for TY 2012. The SSDBE department is considered a support organization and its workload is driven primarily by the levels of distribution and customer services field work. The forecasting basis for most of the workpaper categories was a 5-year average. For example, major programs and initiatives, such as the Pipeline Integrity Project and the Distribution Integrity Management Program come and go over the years. For this reason, a five-year average was selected by SCG as the most appropriate method to ensure sufficient resource needs. SCG's 5-year averaging methodology resulted in an escalation of approximately $1 million (5.5%) over 2009 spend. SCG's only request for additional funding was to pay for increases as a result of fixed contractual escalations in office services and postage rates set by the USPS.

Contrary to SCG's reasonable forecasting methodology, DRA did not consider any fluctuations in the business, using simple mathematical calculations without offering any real business support, and without considering the merits of any particular activity. As shown in more detail below, DRA's approach is flawed and should be rejected. Specifically, my testimony rebuts the following DRA errors: (1) DRA treated the entire submittal as an exercise in arithmetic; (2) DRA used only three-year averages and 2010 actuals, which do not accurately reflect the resource requirements of the department; and (3) downward trends, as stated by DRA, will not continue.

With respect to Joint Parties, as explained in more detail below, they have raised a number of DBE issues that are out of scope in this proceeding. Even if the Commission were to consider the Joint Parties' requests, they are inconsistent with General Order 156, unnecessary or would do little to further SCG's current DBE efforts and achievements.

My testimony is organized as follows:

- **Section II – Supply Services & Business Enterprises Non-Shared Services Rebuttal**
- **Section III – Supply Services & Business Enterprises Shared Services Rebuttal**
- **Section IV – Rebuttal to Joint Parties Regarding DBE Policies**
- **Section IV – Summary and Conclusion**

Due to the relatively short timeframe available to respond to DRA and intervener testimony, I may not address each and every DRA and intervener proposal related to my direct testimony. However, it should not be assumed that failure to address any individual issue implies any agreement by SDG&E/SoCalGas with the DRA or intervener proposals.

II. SUPPLY SERVICES & BUSINESS ENTERPRISES NON-SHARED SERVICES REBUTTAL

SCG is requesting $12.56 million or an increase of $864,000 above 2009 recorded non-shared expenses. DRA has recommended a TY 2012 forecast of $11.23 million, a reduction of $1.327 million. DRA based its recommendation on a 3-year average, including 2010 actuals, stating that 5-year averages, "do not reflect appropriate expectations" based upon historical data. Below, I explain why a 5-year average is in fact the most appropriate methodology for forecasting costs in this area.

A. Logistics & Shops North – Pool Warehousing, 2SS001 and 2SS002

DRA's testimony does not clearly explain why a 3-year average is a more appropriate method for forecasting pool warehousing costs, only noting that a 5-year average "does not reflect appropriate expectations for these cost centers based on historical data."[1] Apparently, DRA has failed to consider the cyclical nature of our business and general fluctuations in the workflow. Indeed, the resource requirement increase outlined in the testimony of Gina Orozco-Mejia, Exh. SCG-02, in her discussion of capital expense requirements beginning (at page GOM-60), supports the increase in associated costs within the logistics and warehousing departments. According to DRA's approach, use of the 5-year average is only inappropriate where it would produce a higher value than some other method, such as the 3 year average proposed by DRA. That is, DRA's focus is not on what the most reasonable forecast is, but solely on what will produce lower rates, regardless of the accuracy of the forecast used.

Using DRA's methodology ignores any incremental growth. A more reasonable approach to forecasting the 2012 test year is the 5-year average. As a support organization, SSDBE workload is impacted by distribution, transmission and customer services field work.

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[1] Exh. DRA-19, page 5.

Accordingly, SSDBE uses a 5-year average as the base, projecting that the recent downward trends would not be sustained. In fact, workload, materials and tool requirements have increased and are anticipated to be sustained as a result of field programs such as Pipeline Integrity Program (PIP) and Distribution Integrity Management Program (DIMP). Examples include all the new system-wide tools that have come off long-term maintenance agreements and must now be serviced by this department.

Accordingly, the Commission should adopt a test year amount of $9.80 million for Logistics & Shops North.

B. Office Services, 2SS003

DRA's approach in this area is identical to the approach it took with respect to pool warehousing, described above. That is, DRA used the exact same language to support a 3-year average, and does not clearly explain why a 3-year average is the more appropriate method for forecasting office services costs. DRA again states that a 5-year average "does not reflect appropriate expectations for these cost centers based on historical data" and does not consider the cyclical nature of our business and general fluctuations in the workflow. Again, DRA appears to be solely focused on rate impacts, without regard to the accuracy of the forecast.

As stated in my direct testimony (KLS-7, line 19), the document and courier services entered into a new contract agreement with a new supplier which resulted in an increase of $581,000 in 2010. This increase was a significant reduction over what was offered by the current supplier (which would have increased going forward), avoiding an additional cost increase of $475,000. An annual document services contract escalator of 3.5% makes up the difference of the request. Strategic sourcing efforts resulted in significant cost avoidance savings within these contracts. Thus, the increase of $631k in this area is reasonable and should be adopted by the Commission.

III. SUPPLY SERVICES & BUSINESS ENTERPRISES SHARED SERVICES REBUTTAL

DRA has recommended that SCG's request of $6.97 million (labor and non-labor combined) be reduced by $479k. DRA based its recommendation on 2010 actuals, stating that 5-year averages "do not reflect the current downward trend for these cost centers."[2] Below, I explain why a 5-year average is in fact the most appropriate methodology for forecasting costs in this area.

A. Shared service cost center 2200-0798 – Meter Shop & Records

The meter shop and records department is considered a support organization and thus its workload is impacted primarily by field operations work. A 5-year average was used as the basis for the forecast in this area, projecting that the downward trends might not be sustained. The meter installation history outlined in the testimony of Gina Orozco-Mejia, Exh. SCG-02, regarding her discussion of new business and meters (at GOM-63), supports the increase in associated costs within the meter shop and records department. Funding requirements assume that all positions are staffed, equipment is maintained, and spare parts are procured. This enables the Meter Shop to support the management of the meter inventory. The meter shop is responsible for the maintenance of the entire inventory of customer meters, not simply those that have been recently added. Aging meters, newly installed several years ago, will require testing, adjustments and repairs for many years to come. Thus the meter shop workload is driven not only by recently added meters, but by the long-term historical trend as well.

DRA takes issue with SCG's forecasting methodology in this area by stating that the forecast does not represent the "downward trend" for this cost center. Trending costs for this department, however, would not incorporate the fluctuations in workflow, including the demand from other organizations. The ability to support critical departments, such as the Meter Shop &

[2] Exh. DRA-19, page 8.

Records group, is essential to SCG's overall operations. In this case, using a 5-year average to forecast costs for this group is the most accurate. Accordingly, the request of $2.28 million in this area is reasonable and should be adopted by the Commission.

B. Shared service cost center 2200-0620 – Gas Portfolio Manager

The Gas Portfolio team currently consists of 9 employees who support the operational sourcing requirements of the Gas Company. This team develops and executes supply management strategies, including operational, financial, and legal risk management. One of the major initiatives is the Pipeline Integrity Project, which will demand significant resources, including both training and the implementation of new processes.

This major initiative and other gas projects were the primary basis for requesting a 5-year average in this area. In lieu of identifying specific incremental estimates for this new project, SCG determined that a 5-year average cost would suffice to cover most anticipated needs. DRA's use of 2010 actuals for its forecast does not reflect any resource requirements to support the Pipeline Integrity Project or any other business-unit driven demand and could expose SCG to significant risk through limited resources. Additionally, DRA used the incurred cost of $774,000 instead of the net book expense of $657,000 for this cost center. Accordingly, the request of $724,000 in this area is reasonable and should be adopted by the Commission.

IV. REBUTTAL TO JOINT PARTIES REGARDING DBE POLICIES

2010 marked the third year in a row SCG surpassed its own aspirational 30 percent goal for diverse enterprise spending, propelling SCG into new territory and making company history. SCG is extremely proud of its extraordinary results last year, achieving 37 percent spending with diverse suppliers. SCG purchased almost $230 million worth of products and services with DBEs, constituting more than 37 percent of total purchases, setting SCG records for both the dollar amount and percentage of overall spending. This astounding performance puts SCG 15 percentage points above the overall California Public Utilities Commission (CPUC) DBE spending goal.

The testimony of Joint Parties was presented in a Question-and-Answer format, as a series of numbered questions with one or more of the witnesses of Joint Parties responding, on pages without line numbers. Generally, the testimony raised the following four issues:

- Sempra is gaming the system by awarding DBE contracts to large DBEs and ignoring small firms (defined by Joint Parties as revenue under $1 million per year);
- Sempra should have a metric that demonstrates the dollar amount and percentage of contracts awarded by race, ethnicity¸ gender and disabled veterans status for all contracts with businesses with $1 million or less in revenue;
- Sempra should set aside 0.25% of the dollar amount of their procurement for CBO-oriented technical assistance; and
- Sempra should be required to justify in writing any contract above $1 million in size as to why it cannot be unbundled and to submit such a writing to the CPUC.

It should be noted that Sempra Energy's conduct with respect to DBEs (as opposed to the conduct of SCG) is not within the scope of this GRC proceeding. Accordingly, my rebuttal responds to each of these issues below on behalf of SCG. Moreover, failure to address any specific numbered question or answer in Joint Parties' testimony does not indicate agreement on the part of SCG.

A. SCG is not gaming the system.

The Joint Parties accuse Sempra Energy of "gaming" the system because Joint Parties don't agree with the Commission's state-wide definition of a diverse firm. Sempra Energy, through its utilities, tracks and reports diversity accomplishments as defined by the CPUC. The firms included in our results are those certified by the CPUC. The CPUC does not discriminate between large and small diverse firms. Moreover, this GRC is not the proper forum to address the Joint Parties desire to make changes to the Commission's definition of a diverse firm nor changes in the requirements under General Order 156.

B. SCG complies with the CPUC's required DBE reporting.

SCG outlines its diversity accomplishments annually in the Diverse Business Enterprises Annual Reports. In answering their own question, the Joint Parties assert that Sempra should be tracking and providing data that is not tracked nor requested by the Commission under GO156. This is not the proper forum for the Joint Parties to add new requirements under GO156.

C. SCG is currently funding Community-Based Organization (CBO)-oriented technical assistance at a reasonable level.

The Sempra companies spend approximately $2 million annually in diversity efforts. In SCG/SDG&E's recent agreement with Greenlining, the utilities committed to investing $650k annually over the term of the agreement in technical assistance and business development programs targeting diverse business enterprises. The Joint Parties request for additional funding to go directly to CBOs is self-serving and not in the best interest of ratepayers. Their logic is flawed in comparing the amount spent on technical assistance in comparison to all businesses in California. Not all businesses in California sell products or services the utilities require. Further, many members of the CBOs do not sell products or services that are relevant to the utilities. In fairness to ratepayers, the utilities' technical assistance funds must be directed to the firms that can provide goods and services the utilities procure.

D. Joint Parties' proposal to justify in writing any contract above $1 million in size is unreasonable and unnecessary.

The Joint Parties request to change the reporting requirements for GO156 is not relevant in this GRC proceeding. SCG tracks and reports the diversity achievements as directed by the Commission. The decision to not require the utilities to unbundle contracts was made in the GO156 proceedings. We applaud the Commission in understanding that unbundling of all contracts and/or adding onerous requirements to document and report on this issue would not be in the best interest of DBEs nor ratepayers.

V. SUMMARY AND CONCLUSION

SCG has shown that DRA's strong preference for a 3-year averaging technique ignores the cyclical needs of SSDBE, and does not provide meaningful analysis of the specific merits of any of the necessary programs or activities. DRA provided no substantiated reason for adopting a 3-year average, other than claiming that a 5 year average "do[es] not reflect appropriate expectations." Indeed, using that same logic, DRA could have suggested a 4-year average, a 2-year average, or a 10-year average. On the other hand, based on my foregoing rebuttal, direct testimony and workpapers, SCG has demonstrated how its forecast methodology for SSDBE is accurate and reasonable. Thus, SCG's forecasted escalation of approximately $1.5 million (5.5%) over 2009 spend should be approved.

With respect to Joint Parties' DBE issues, SCG tracks and reports its diversity achievements as directed by the Commission and General Order 156. The fact that the Joint Parties disagree with the Commission's policies and rules regarding DBE reporting is not justification to attack such rules in this GRC proceeding. That said, as explained above, each of the Joint Parties' recommendations are unnecessary or would do little to further SCG's current DBE efforts and achievements.

This concludes my prepared rebuttal testimony.