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-212

PREPARED REBUTTAL TESTIMONY OF
JEFFREY C. NICHOLS
ON BEHALF OF SOUTHERN CALIFORNIA GAS COMPANY

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

OCTOBER 2011

SCG Doc# 260230

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PREPARED REBUTTAL TESTIMONY OF

JEFFREY C. NICHOLS

ON BEHALF OF SOUTHERN CALIFORNIA GAS COMPANY

I. INTRODUCTION

The following rebuttal testimony regarding Information Technology (IT) addresses the intervener testimony dated September 1, 2011 of the Division of Ratepayer Advocates (DRA). Specifically, my testimony rebuts the following points:

- DRA recommends $51.0 million in Non-Shared Service (NSS) and Utility Shared Service (USS) IT O&M expenses for Test Year 2012 (TY2012). In contrast, Southern California Gas company (SCG) requested $52.4 million for TY2012. The difference of $1.4 million is based on DRA's proposed Global Insight inflation rate adjustment on USS inter-company billing of $1.3 million, and $0.1 million on customer care systems.

- DRA recommends $251.3 million for three years of capital expenditures for 2010-2012. SCG requested $252.5 million for three years of capital expenditures for 2010-2012. The difference of $1.2 million is from DRA proposed Full-Time Equivalent (FTE) changes for projects related to software code security, and SCG meter quality handheld system replacement.

There are no additional parties who have opposed SCG's IT testimony.

II. SCG INFORMATION TECHNOLOGY OPERATIONS & MAINTENANCE (O&M)

A. SCG rebuttal to DRA – O&M expenses

DRA recommends a $1.4 million reduction to SCG's TY 2012 incremental request of $52.4 million (labor and non-labor combined). DRA based its proposed recommendation on Global Insight inflation rate adjustments of USS inter-company billing of $1.3 million, and $0.1 million on customer care systems.[1] DRA also recommends a disallowance of $44,000 for NSS expenses.

1. IT O&M Shared Services Expenses

[1] DRA Exhibit-21,

For SCG TY2012 Shared Services expenses, DRA recommends recovery of $50.73 million, a $1.3 million decrease compared to SCG's request of $52.03 million. DRA did not explain how it chose programs to which it applied its proposed disallowances. The projects targeted by DRA appear to have been selected at random, as no explanation or justification was offered in testimony or workpapers.

As a starting point, DRA used 2010 actual costs and de-escalated figures to 2009 dollars and then further escalated dollars using the Global Insight inflation rate for 2012 (1.0822% for labor, 1.0707% for non-labor from 2009 to 2012). Because these are ongoing projects, DRA believes that the 2010 actual costs are a good base to use in projecting the 2012 estimate.[2]

However, DRA's proposed methodology does not account for the actual drivers impacting future costs nor does it allow for changes in activity levels related to the project lifecycle. DRA's forecasting methods are not better suited to estimate SCG's expected IT O&M expenses and do not produce forecasts that are more accurate or indicative of projected funding needs and therefore should be rejected by the Commission.

SCG developed forecasted amounts for 2010-2012 based on the identification and calculation of incremental changes from the drivers of growth, changing technology, and business and customer requirements. SCG incorporated the effects of upward pressures related to the support needs of new systems once implemented. As described in my prepared direct testimony, utility operations are increasingly dependent on IT products and services. DRA did not comment on the appropriateness of specific forecast adjustments or specify reasoning to change the SCG methodology. DRA thus did not identify unreasonable assumptions in SCG IT forecast and otherwise provided no analysis of SCG's forecasts.

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[2] DRA data response to DR SEU DRA-018, QA.1 (Attachment A)

SCG spent significant time and effort in preparation of its IT testimony and workpapers to identify the key drivers that influence increases or reductions to specific costs. A discussion of these cost changes and impacts can be found in my Prepared Direct testimony,[3] beginning on page JCN-1. More detailed calculations categorized by cost center can be reviewed in my supporting work papers.[4] SCG's thorough approach best identifies and forecasts specific costs necessary to continue providing a high-level of customer service, as opposed to DRA's unsupported methodology to escalate figures that do not provide a true picture of future cost requirements. The Commission should adopt SCG's TY2012 forecast of $52.03 million.

2. IT O&M Non-Shared Services Expenses

For SCG TY2012 Non Shared Services expenses, DRA recommends recovery of $333,000, a $44,000 decrease compared to SCG's forecast of $377,000. DRA recommends that $44,000 should be disallowed from the Education, Training & Communication work group. DRA calculated its recommendation by starting with 2010 actual spending and used the same forecasting methodology as described above for shared services.[5]

The proposed reduction would inappropriately reduce funding for the Education, Training & Communication work group, which provides support to project teams to enhance end-user engagement and productivity. This group ensures quality execution and adequate coverage on all change-related activities across multiple company programs. The projected costs are higher in TY2012, as it was a newly created cost center in the 4th quarter 2009. The requested forecast of $377,000 reflects a full year of labor costs for 4 FTEs and associated

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[3] Exhibit SCG-12, page JCN 1
[4] Exhibit SCG-12-WP
[5] DRA data response to DR SEU DRA-018, QA.1 (Attachment A).

employee expenses.[6] SCG has shown that the FTEs are reasonable, necessary, and will support useful services that will benefit customers.

B. SCG IT Capital

DRA recommends recovery of $251.3 million capital expenditures during 2010-2012, a $1.2 million reduction compared to SCG request of $252.5 million for the same period. The decrease is based on DRA's proposed FTE changes for projects related to software code security, and SCG meter quality handheld system replacement. Specifically, reductions are recommended as follows: $0.1 million for the projects of Forecasting & Scheduling, $0.1 million for SCG Meter Reading Handheld/System Replacement, $0.2 million for Battery Plant Replacement, and $0.8 million for Software Code Security.[7] DRA calculated its proposal by computing the average cost per FTE for each project using the most recently recorded year (2010) and then escalated that rate to 2011 and 2012. DRA multiplied that rate by the projected number of FTEs for each project.[8] DRA took no issue with projected non-labor costs for these projects.

DRA presented no objections to SCG's specific IT project economics or justification of its TY2012 capital forecasts. As described in my prepared direct testimony, SCG is entering a cycle of upgrading aging software and hardware infrastructure.[9] Many large replacements are cyclical in nature, thereby driving lower capital expenditures in some years while driving higher expenditures in others.[10]

DRA methodology used in its proposed disallowance is flawed as it does not allow for fluctuations in labor from year to year, depending on the life of the project. Specific and known

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[6] Exhibit SCG-12-R, page JCN 23.
[7] DRA Exhibit-21.
[8] DRA revised its use of a three-year weighted average method to forecasted FTEs (DRA-21, p. 7, line 18-19). DRA's methodology was revised via a data response to SDG&E (DR SEU DRA-018 QA.1, capital), where DRA indicated that it would correct this statement in its errata. No errata testimony had been received from DRA related to this matter during the time SCG prepared this rebuttal testimony.
[9] Exhibit SCG-12-R, page JCN 3.
[10] Exhibit SCG-12-R, page JCN 13.

IT project salaries were not taken into consideration, also resulting in an inaccurate forecast amount. DRA's methodology only allows for growth based on escalation rates and does not take into consideration the change in activities, the change in employee salaries, or the change in skill sets required of a project team that occur throughout the life cycle of a project. SCG's forecast methodology takes these items into account over the life of a project. The SCG methodology for calculating FTEs more accurately reflects and produces a reasonable estimate of its forecasted capital expenses. Also, the specific projects identified by DRA for reductions appear to have been selected at random. DRA has failed to describe how it determines which projects were selected for reduction.

DRA's proposed methodology does not produce forecasts that are more reasonable or indicative of SCG's projected funding needs and therefore should be rejected by the Commission.

III. CONCLUSION

This concludes my prepared rebuttal testimony.

IV. WITNESS QUALIFICATIONS

Jeff Nichols is Senior Director of IT Infrastructure for the Sempra Energy Utilities. The Utilities serve over 20 million customers in a 24,000 square mile southern California service area. Mr. Nichols' organization provides data networks, telephone service, email, instant messaging, radio communications, voice communications, collaboration systems, grid/SCADA communications, communications field service and remote access for the utilities' 12,000 employees. As of Q1 2010, his organization is beginning a two-year project to build a new Smart Grid-ready wireless communication system throughout southern CA.

Mr. Nichols has 30 years' experience in digital systems technology and management. He was previously the Executive Director of IT Infrastructure at Kaiser Permanente, where he was responsible for IT security, enterprise systems management, disaster recovery, networks, and telephony. Previously, he was an independent consultant, a divisional VP and CTO at Science Applications International Corporation and VP/General Manager at International Research Institute, a private software development firm.

Mr. Nichols is a member of the IEEE, a Board member of the Utilities telecom Council (UTC) and is Vice Chairman of the UTC's Smart Networks Council. He holds a bachelor's degree in electrical engineering from the University of Kentucky and a master's degree in business administration from Kent State University. He has not previously testified before the Commission.

ATTACHMENT A

DRA

Division of Ratepayer Advocates
California Public Utilities Commission
State of California

DRA DATA REQUEST RESPONSE

San Diego Gas & Electric Company
Southern California Gas Company
Test Year 2012 GRC
A.10-12-005/006

Origination Date: September 19, 2011
Due Date: October 3, 2011
Response Date: September 30, 2011

To: Ronald van der Leeden
RvanderLeeden@semprautilities.com
(213) 244-2009

From: James R. Wuehler, Project Coordinator SDG&E
Truman Burns, Project Coordinator SCG
Donna-Fay Bower, Assistant Project Coordinator
Division of Ratepayer Advocates
505 Van Ness Avenue, Room 4205
San Francisco, CA 94102

Response by: Joyce Lee
Phone: 415-703-5790
Email: joyce.lee@cpuc.ca.gov

Data Request No: **DR SEU DRA-018**

Exhibit Reference: DRA-21

Subject:

The following is DRA's response to SEMPRA's data request. If you have any questions, please contact the responder at the phone number and/or email address shown above.

CAPITAL

Q.1: Please provide any analysis and documents that support the following statement from Exhibit Number DRA-21 at Page 7, Line 18-19:
"The remaining $1.8 million difference is based on DRA's use of a three-year weighted average method to forecasted FTEs."

A. 1: DRA did not use a three-year weighted average for FTE's because the projects were very new and did not have three years of recorded information. DRA will correct this statement in its errata. DRA calculated its recommendation by calculating the average cost per FTE for that project in the most recent recorded year 2010 and escalated that rate to 2011 and 2012. Then DRA multiplied that rate by the projected number of FTEs for each project. This resulted in the differences listed on the chart. DRA took no issue with projected non-labor costs for these projects.

Please see the attached Capital Budget Narrative Analysis spreadsheet (First Tab).

Q.2: Please provide an explanation of how the average was calculated and distributed to the Capital projects.

A. 2: See response to Question 1 above

O&M

Q.1: Please provide a narrative description and supporting documentation of the disallowances that were derived by department as shown in Exhibit Number DRA-21 table 21-3 & 21-4 listed (highlighted) below.

Table 21 – 3 SDG&E Information Technology 2012 Expenses by Department (SS & NSS) - In Thousands										
DRA 2012 Recommendation				SEMPRA 2012 Estimate			SDG&E > DRA			
Description	NSS	SS	Total	NSS	SS	Total	NSS	SS	Total	%
SVP & CITO	-	-	-	-	-	-	-	-	-	0%
VP Information Technology	-	310	310	-	394	394	-	84	84	27%
Infrastructure Eng & Ops Director	-	21,573	21,573	-	16,013	16,013	-	(1,560)	(1,560)	-9%
Client Services & Enterprise Support Dira	3,241	4,818	8,059	3,241	5,131	8,372	-	313	313	4%
Network Communication Services Director	-	7,276	7,276	-	7,258	7,258	-	(18)	(18)	0%
Utility Ops Software Develop Services Director	-	5,931	5,931	-	7,140	7,140	-	1,209	1,209	20%
Customer Care Systems Director	8,577	1,303	9,880	11,248	1,633	12,881	2,671	330	3,001	30%
Director-Information Security	-	2,047	2,047	-	2,255	2,255	-	208	208	10%
Business Planning & Budgets Manager	103	177	280	348	162	510	245	(15)	230	82%
USS Billed-in from SCG	-	716	716	-	716	716	-	-	-	0%
SDG&E Incurred Expenses Total	**11,921**	**40,152**	**52,073**	**14,837**	**40,702**	**55,539**	**2,916**	**550**	**3,466**	**7%**

Table 21 – 4 SCG Information Technology 2012 Expenses by Department (SS & NSS) - In Thousands										
DRA 2012 Recommendation				SEMPRA 2012 Estimate			SCG > DRA			
Description	NSS	SS	Total	NSS	SS	Total	NSS	SS	Total	%
SVP & CITO	-	-	-	-	-	-	-	-	-	0%
VP Information Technology	-	95	95	-	95	95	-	-	-	0%
Infrastructure Eng & Ops Director	-	-	-	-	-	-	-	-	-	0%
Client Services & Enterprise Support Dira	-	165	165	-	165	165	-	-	-	0%
Network Communication Services Director	-	1,751	1,751	-	1,751	1,751	-	-	-	0%
Utility Ops Software Develop Services Director	-	-	-	-	-	-	-	-	-	0%
Customer Care Systems Director	333	-	333	377	-	377	44	-	44	13%
Director-Information Security	-	-	-	-	-	-	-	-	-	0%
Business Planning & Budgets Manager	-	-	-	-	-	-	-	-	-	0%
USS Billed-in from SDG&E	-	48,722	48,722	-	50,018	50,018	-	1,296	1,296	3%
SCG Incurred Expenses Total	**333**	**50,733**	**51,065**	**377**	**52,029**	**52,406**	**44**	**1,296**	**1,341**	**3%**
Total Incurred Sempra IT Expenses	**12,254**	**90,885**	**103,138**	**15,214**	**92,731**	**107,945**	**2,960**	**1,846**	**4,807**	**5%**

A. 1: **For SDG&E Non-Shared Services Expenses:**
The difference of $2,916,000 consists of $1,850,000 in HAN's project management O&M expenses are unnecessary due to reductions in HAN capital expenditures discussed in DRA Exhibit-16, Table SDG&E-16-2. The remaining $1,066,000 adjustments are from the IT Cisco work group and the IT CC PMO SDGE for the work of maintenance and enhancement programming support, and customer system support. DRA calculated its recommendation by starting with the actual spending for year 2010. DRA de-escalated those amounts to 2009 numbers and then escalated those amounts using the Global Insight inflation rate for 2012 (1.0822% for labor, 1.0707 for non-labor from 2009 to 2012). Because these are ongoing projects, DRA believes that the 2010 actual costs are a good base to use in projecting the 2012 estimate.

For SCG Non-Shared Service Expenses:
DRA used the same projection as Sempra for FTEs for 2012. The difference of $44,000 comes because DRA used the Global Insight inflation rate to escalate the 2010 recorded costs to 2012 using the same methodology described for the SDGE-NSS variance described above.

For Shared Service Expenses:
DRA used the same forecasting methodology applied to Shared Services to arrive at the adjustments of $550,000 for SDG&E and $1,296,000 SCG.

Please see the attached O&M Budget Narrative Analysis spreadsheet (2nd Tab).