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-219

PREPARED REBUTTAL TESTIMONY OF

DEBBIE S. ROBINSON

ON BEHALF OF SOUTHERN CALIFORNIA GAS COMPANY

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

OCTOBER 2011

SCG Doc# 260324

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PREPARED REBUTTAL TESTIMONY OF
DEBBIE S. ROBINSON
ON BEHALF OF SOUTHERN CALIFORNIA GAS COMPANY

I. INTRODUCTION

The following rebuttal testimony regarding compensation and benefits addresses the intervenor testimony dated September 2011 of:

- Division of Ratepayer Advocates (DRA), Exhibits D-28 and D-29;
- The Utility Reform Network (TURN);
- Utility Consumers Action Network (UCAN) and
- Joint Parties on behalf of the National Asian American Coalition, Latino Business Chamber of Greater Los Angeles, and the Black Economic Council (Joint Parties).

II. COMPENSATION

A. Introduction

SCG's proposed request for compensation cost recovery is reasonable, consistent with past Commission decisions, will benefit customers and should be approved. As in past rate cases, SCG has requested incentive compensation cost recovery that is but one piece of a total compensation package. Use of a combined variable incentive and base pay compensation package instead of a compensation package completely consisting of base pay is reasonable, consistent with industry standards, and within utility management discretion. The Commission has declined to "micromanage" utilities by dictating the ratio of base and incentive-based pay within a recoverable compensation package, as long as total compensation packages are shown to be at market.

As shown in my prepared direct testimony, SCG's target total compensation is within 3.2 percent of market.[1] This falls within the Commission's previous determination that compensation levels that fall between plus or minus five percent of the relevant market are considered to be "*at market*" and reasonable.[2]

My prepared direct testimony also explains that SCG is requesting incentive compensation plan (ICP) cost recovery based on *target* total compensation, not *actual* total compensation. Thus, any ICP compensation above target *is paid for by shareholders*, as I stated in my direct testimony and as reiterated to DRA in discovery.[3] Because actual payouts have exceeded target in recent years, shareholders *already* pay for a portion of the ICP plan.

Despite this knowledge, DRA's testimony presents a distorted picture of SCG's reasonable, market-based compensation portfolio, arguing against SCG's *actual*, not *target*, ICP expenses.[4] Based on this and other faulty logic, DRA recommends a $29.046M, or 80 percent, disallowance of SDGE's request for rate recovery of its expenses for short-term and long-term incentive programs and special recognition programs. If adopted, this drastic cut would seriously impact SCG's ability to maintain a competitive compensation and benefits program. Maintaining a competitive, market-based compensation and benefits program is critical to attracting, retaining and motivating a skilled, high-performing workforce.

In addition to the DRA's testimony, the following intervenors also filed testimony related to compensation:

[1] Exhibit SCG 19 R, Prepared Direct Testimony of Debbie Robinson, DSR-4, Table DSR-2.
[2] D.95-12-055.
[3] DRA-SCG-116-DAO, Question 2 (*see* Attachment A).
[4] DRA's testimony related to short-term and long-term incentives is presented in Exhibit DRA-28. Testimony on the Employee Recognition program is presented in DRA-29. DRA did not present testimony related to the Spot Cash program.

- William B. Marcus of JBS Energy, Inc. on behalf of UCAN and TURN: Mr. Marcus' testimony relates to general executive compensation issues, long-term incentives and executive short-term incentives.
- Steven McClary and Laura Norin of MWR & Associates, LLC on behalf of UCAN. Mr. McClary's and Ms. Norin's testimony relates to short-term incentives and Spot Cash Awards.
- Garrick Jones of JBS Energy, Inc. on behalf of UCAN and TURN: Mr. Jones' testimony relates to benefits.
- Michael Phillips on behalf of Joint Parties. Mr. Phillips' testimony relates to executive compensation issues and the Total Compensation Study.
- Faith Bautista, Jorge Corralejo and Len Canty on behalf of Joint Parties. This testimony relates to executive compensation issues.

B. Short-term Incentives

1. DRA's Position

DRA disregarded SCG's headcount forecast and, instead, assumed that the number of employees would remain at 2010 levels.[5] Using the 2010 target Incentive Compensation Plan (ICP) as a starting point, DRA recommends zero ratepayer funding of ICP for executives and ratepayer funding of 30 percent of ICP for non-executives.

DRA did not provide workpapers in support of its testimony. Consequently, the analysis below relies solely on DRA's testimony.

[5] DRA-28, p. 8.

2. SCG's Rebuttal to DRA

Short-term incentives have been a part of SCG's total compensation program since 1997. SCG's short-term incentive compensation program, or ICP, rewards employee contributions to meeting key safety, diversity, customer service, financial and strategic project goals. The program measures individual and company performance. Virtually all non-represented employees participate in the ICP and a portion of their total compensation is at risk based on meeting performance goals.

SCG is requesting ratepayer funding of ICP based on <u>target</u> performance. If actual performance exceeds target performance, the amount of ICP above target is funded by shareholders. The Total Compensation Study, which was jointly sponsored by SCG and the DRA, found that total compensation was "at market." SCG's total compensation is within 3.2 percent of market, which is within the guideline of plus or minus 5 percent established by the Commission. Compensation professionals, including Towers Watson, consider a range of plus or minus 10 percent of the average of the external market data to be competitive and wider ranges are common for long-term incentives and benefits.[6]

Compensation costs are reasonable and full recovery of SCG's forecasted revenue requirement for ICP is justified. Incentive compensation is an important part of a competitive compensation package. As such, it should be treated no differently than base pay for cost recovery purposes. The Commission held in D.03-02-035 that "the utility is entitled to all of its reasonable costs and expenses, as well as an opportunity to earn a rate of return on the utilities rate base." Certainly, compensation is just such a cost.

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[6] SCG 19 R, Appendix 1 Total Compensation Study, page 6.

Indeed, in past decisions (e.g., D.92-12-057),[7] the Commission concluded that "... incentive pay is part and parcel of the overall compensation scheme,"[8] that "…the Commission should not attempt to micromanage utility incentive compensation programs" and "…the allocation of total cash compensation between salaries and incentives should be left to each utility's discretion."[9]

D.04-07-022 supported this result, quoting D.92-12-057 for the conclusion that it is "clear how the issue of incentive compensation programs should be handled."[10] This point is further illustrated in D.04-07-022 for Southern California Edison:

> We also note that it would be within SCE's managerial discretion to offer all cash compensation to employees in the form of base pay instead of a mix of base pay and incentive pay. In the event SCE were to do so, we would not take issue with ratepayer funding of the resulting compensation as long as total compensation is reasonable. If total compensation does not exceed market levels, a disallowance of reasonable expenses for the Results Sharing program would in effect be a substitution of our judgment for that of SCE managers regarding the appropriate mix of base and incentive pay. That is the sort of micromanagement that the Commission rejected in D.92-12-057, and that we reject here.[11]

DRA's misleading argument that the language of D.08-07-046 was nullified by a later decision[12] in no way affected the Commission's finding in D.08-07-046:[13]

> Because total compensation is reasonable, (defined as prevailing market rates for comparable skills) the ratepayers should reasonably fund a revenue requirement that includes the full market-based employee compensation for the adopted levels of staff. Thus, there is no basis to exclude the incentive component and force shareholders to assume a portion of the reasonable cost

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[7] *See also* D.04-07-022 and D.93-12-043.
[8] D.92-12-057, p. 38.
[9] D.92-12-057, Cal. PUC LEXIS 971 at *126 (quoting consensus report of workshops conducted by Commission staff).
[10] D.04-07-022, p. 206 (quoting D.92-12-057, 1992 Cal. PUC LEXIS 971 at *126).
[11] D.04-07-022, p. 217.
[12] DRA-28, pp. 9, 10.
[13] The Commission did modify the decision to clear up confusion regarding whether the "guidance [was] intended to be controlling for future proceedings," in D.09-06-052, but did not negate D.08-07-046.

> of employee compensation. *We find no merit in DRA's argument that shareholders should fund any portion of the incentive portion of market-based employee compensation.* We do not agree that incentives solely benefit the company: if employees work harder or smarter to earn incentives (even just to achieve the target incentives) then ratepayers should benefit too.[14]

Further:

> Finding of Fact 23: The incentive compensation of certain employees is an integral part of employee total compensation. Total compensation studies show both SDG&E and SoCalGas are at-market. Incentive compensation is reasonably included in the test year forecast.[15]

Thus, SCG sees no basis for DRA's arbitrary recommendation of a 30/70 split of non-executive ICP, with shareholders funding 70 percent. Shareholders *already* fund a portion of ICP to the extent that performance exceeds target. ICP is part of a reasonable, market-based total compensation package and SCG should receive full cost recovery for this program, consistent with past Commission decisions.

SCG also disagrees with specific points cited by DRA concerning the ICP performance measures:

- DRA asserts that the financial performance measures, which are based on SCG's operational income and corporate earnings, benefit only shareholders, and therefore, should be funded solely by shareholders. SCG disputes the claim that a financially strong utility does not benefit ratepayers – as financial goals encourage employees to control costs and maintain the financial strength of the company. Financially strong companies typically have lower financing costs, helping to

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[14] D.08-07-046, p. 22 (emphasis added).
[15] D.08-07-046, p. 92, FOF 23.

reduce the cost of utility projects, which benefit ratepayers. Financial measures were weighted at 30 percent of total ICP in the 2011 non-executive ICP plans.

- DRA recommends 50/50 ratepayer and shareholder funding of the plan's operational measures based on the rationale that ratepayers and shareholders benefit equally. SCG disagrees. The operational goals include metrics related to customer satisfaction, safety, supplier diversity and completion of major projects. These measures clearly benefit ratepayers. Operational measures were weighted at 20 percent of total ICP in the 2011 non-executive ICP plans.
- DRA recommends 55/45 sharing of the plan's individual performance metric, with shareholders paying 55 percent. SCG disagrees. The individual performance measure is based on the employee's contribution to the achievement of individual, departmental and company goals. Individual performance measures were weighted at 50 percent of total ICP in the 2011 non-executive ICP plans.

DRA also proposes denying any ratepayer funding of ICP for executives on the grounds that their base salaries "already reflect a high level of compensation" and that they receive broad-based and executive benefits. The executive benefit programs that DRA uses as an excuse to recommend denial of ICP cost recovery are programs for which DRA is also recommending zero ratepayer funding. These programs include long-term incentives, nonqualified deferred compensation and nonqualified pension plans.

As evidenced by the Total Compensation Study, SCG's compensation and benefits program is reasonable and "at market." ICP is an integral component of this competitive total compensation program and SCG requests that the Commission continue its historical practice of approving full cost recovery for this program.

3. TURN's position – Marcus Testimony

TURN argues that SDG&E and SCG deliberately under spent funds awarded in the 2008 GRC in order to increase EBIT and ICP bonuses.[16] This is incorrect. TURN's rationale is flawed and should be rejected by the Commission.

4. SDG&E & SCG Rebuttal

TURN disregards two important factors that are part of the ICP payout. First, as stated in my testimony, the utilities are only asking for cost recovery of ICP at target.[17] And, as the Compensation Study has demonstrated,[18] compensation at the utilities is within market goals as established and approved by the Commission.[19] Second, any ICP payouts above target are incurred by the shareholders, not the ratepayers.[20] Although increases in EBIT may result in higher ICP payouts, they are not paid for by ratepayers. Therefore, the conclusion reached by UCAN is incorrect and is not reflective of the purpose or goals of ICP.

5. UCAN's position – McClary/Norin Testimony

Although UCAN's testimony focuses on SDG&E's ICP (not SCG's), Mr. McClary and Ms. Norin recommend zero ratepayer funding for SCG's ICP unless SCG redesigns its ICP in a manner similar to UCAN's recommended structure and performance metrics for SDG&E.[21]

6. SDG&E's Rebuttal to UCAN – McClary/Norin Testimony

As discussed above in SCG's rebuttal to the DRA, the Total Compensation Study, which was jointly sponsored by SCG and the DRA, found that SCG's total compensation is reasonable. Cost recovery for incentive compensation should be treated no differently than base pay. The

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[16] Policy and Joint Testimony for Southern California Gas Company an San Diego Gas and Electric Company General Rate Cases, Prepared testimony of William B. Marcus, pp. 5-7.
[17] Exhibit No. SDG&E -25-R, page DSR-7, line 7-9. Exhibit No. SCG-19-R, page DSR-7, line 3-5.
[18] Exhibit No. SDG&E-25-R, page DSR-7, line 15-18. Exhibit No. SCG-19-R, page DSR-7, line 12-16.
[19] Exhibit No. SDG&E -25-R, page DSR-4, line 1-2. Exhibit No. SCG-19-R, page DSR-4, line 1-2.
[20] Exhibit No. SDG&E -25, page DSR-7, line 7-9. Exhibit No. SCG-19-R, page DSR-7, line 3-5.
[21] UCAN McClary/Norin, pp. 4, 28, and 33.

allocation of total compensation between base pay and incentive compensation and the design of the incentive plans should be based on the company's discretion and not micromanaged by UCAN or any other party.

Compensation incentives require very careful consideration and development, a task best left to utility management and not external agents. For these reasons the Commission should reject UCAN's recommended structure for its ICP.

C. Long-Term Incentives

1. DRA's Position

DRA recommends disallowing 100% of Long-Term Incentive Plan expenses. DRA argues that costs for the plan were excluded from rates prior to a 2006 accounting rule change that required expensing of stock options. Providing ratepayer funding for long-term incentives would "saddle ratepayers with a new expense while producing no commensurate value."[22]

2. SCG's Rebuttal to DRA

Long-term incentives are a critical component of a competitive compensation and benefits package needed to attract, motivate and retain key management employees. According to Aon Hewitt, 89% of U.S. companies provide at least one long-term incentive program.[23]

Long-term incentives are provided in the form of performance-based restricted stock units. The actual compensation realized by participants is dependent on Sempra Energy's four-year financial performance relative to the companies in the S&P Utilities Index and the overall market. The four-year performance period for long-term incentives makes them a particularly powerful retention tool.

[22] DRA-28, page 15.
[23] Hewitt Associates 2009 Total Compensation Database.

The Total Compensation Study, jointly sponsored by SCG and the DRA, found SCG's total compensation to be competitive. Long-term incentives were a component of the compensation and benefits package analyzed in the Total Compensation Study. Given that SCG's total compensation is competitive, the DRA should not be able to selectively exclude specific components of compensation from the revenue requirement. If long-term incentives were reduced or eliminated, base pay would need to increase in order to maintain a competitive compensation package. In contrast to base pay, long-term incentives encourage retention and provide a direct linkage to sustained, long-term company performance.

DRA classifies long-term incentives as a "new" expense resulting from the 2006 implementation of FAS123R, which required companies to recognize expense for stock options. Long-term incentives are not a "new" expense for SCG. DRA misstates the impact of FAS123R on SCG's financial statements. Since 2003, SCG has delivered 70% to 80% of its long-term incentive awards (based on the grant date value) in the form of performance-based restricted stock and performance-based restricted stock units. SCG was required to recognize expense for these awards during this entire period, including the years prior to the 2006 implementation of FAS123R.

SCG requests that the Commission approve funding for long-term incentives as submitted.

3. TURN's Position

In the testimony submitted by William B. Marcus of JBS Energy, Inc., TURN recommends zero ratepayer funding for long-term incentives.

4. SCG's Rebuttal to TURN

SCG's rationale for including long-term incentives in the revenue requirement is outlined above in its rebuttal to the DRA. In addition, SCG takes issue with specific points raised in Mr. Marcus' testimony:

- Mr. Marcus characterizes all long-term incentives as executive compensation. SCG notes that participation in the long-term incentive plan extends below the executive level. In 2011, over 140 SDG&E and SCG employees participated in the long-term incentive plan.
- Mr. Marcus also misstates the accounting treatment for Sempra Energy's long-term incentives:

> Moreover, if stock prices drop, shareholders will be cushioned by the provision of cash from ratepayers to cover the cost of performance stock or options that might expire with little or no value. Long-term incentive compensation also fluctuates dramatically in value over time depending on the performance of the stock market. Any decline in Sempra's valuation in the rate-effective period will result in a reversal of its income statement entry and a liability on its balance sheet being reduced even though the amount ratepayers are paying for such stock would have been set in general rates.[24]

This is incorrect. Accounting for long-term incentive awards is regulated under ASC 718 (formerly FAS123R). The accounting for the performance-based restricted stock and restricted stock unit awards fixes the value of the award as of the grant date if the awards contain a market condition. The grant date value of the awards is the fair market value of Sempra Energy common stock less a discount to reflect the risk associated with the performance measures. The

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[24] Policy and Joint Testimony for Southern California Gas Company and San Diego Gas and Electric Company General Rate Cases, Prepared testimony of William B. Marcus, p. 24.

income statement expense remains unchanged regardless of any subsequent changes in the value of Sempra Energy's stock or its performance compared to the peer indices.

D. Special Recognition Awards

1. DRA's Position

DRA recommends disallowance of the entire $579 thousand proposed by SCG for the Employee Recognition program. DRA argues that this program is supererogatory and does not provide a clear benefit to ratepayers.[25]

DRA's testimony is silent concerning the $830,000 proposed by SCG for the Spot Cash Program. DRA's Compensation and Incentives testimony states that "DRA's discussion and analysis of the Special Recognition program is discussed in Exhibit DRA-30."[26] Exhibit DRA-30 relates to Pensions and PBOPs and does not contain any reference to spot cash or special recognition programs. Exhibit DRA-29, Health and Welfare Expenses, addresses the Employee Recognition program but does not address the Spot Cash program.

2. SCG's Rebuttal to DRA

Special recognition awards are a common and cost-effective way used by most companies to recognize employees or teams. According to "Creating an Effective Reward and Recognition Program" from the Corporate Leadership Council, approximately 90 percent of companies maintain some type of reward and recognition program. SCG uses special recognition awards to recognize outstanding achievements, exceptional customer service and process improvements and innovations.

SCG maintains two special recognition programs, the Spot Cash Award program and the Employee Recognition program. Spot Cash awards are cash awards ranging from $250 to

[25] DRA-29, page 17.
[26] DRA-28, page 4.

$10,000, while Employee Recognition awards are nominal non-cash awards, typically valued at $100 or less. Both programs have a common objective to provide individual or team recognition awards for significant achievements or contributions that go beyond normal job duties and include all employees below the executive level.

DRA contends that such programs are supererogatory with no clear and identifiable benefit to ratepayers. SCG disagrees. Ratepayers directly benefit from the awards given to employees through improved customer services, increased reliability and a safer work environment.

3. TURN's Position – Employee Recognition Awards

TURN's testimony related to Employee Recognition Awards is included in the testimony of Garrick Jones of JBS Energy. TURN supports the DRA's assertion that employee recognition programs should be disallowed on the basis that they do not provide a clear ratepayer benefit. In the event the Commission decides to fund the program, TURN recommends using an average of the 2008 and 2009 actual expense of $31 multiplied by the 2010 headcount of 7,067. This results in a forecast of $0.242M, a reduction of $0.225M from SCG's forecast of $0.422M.[27]

4. SCG's Rebuttal to TURN – Employee Recognition Awards

SCG disagrees with TURN's contention that employee recognition programs, such as the Employee Recognition Award program, do not benefit ratepayers.[28] SCG also disagrees with TURN's recommendation in its alternative forecast to arbitrarily exclude 2010 recorded expense of $48 per employee because it was higher than 2008 or 2009. Furthermore, there is no reason

[27] ErrataTestimony on Pensions, Compensation, HR and External Affairs for Southern California Gas Company's 2012 Test Year General Rate Case, Prepared testimony of Garrick Jones, p. 30.
[28] ErrataTestimony on Pensions, Compensation, HR and External Affairs for Southern California Company's 2012 Test Year General Rate Case, Prepared testimony of Garrick Jones, p. 29-30.

that the 2010 employee count should be used as the basis for the TY 2012 forecast. SCG recommends approval of the TY 2012 forecast as submitted.

5. Intervenor Testimony – Spot Cash Awards

While UCAN presented testimony related to Spot Cash Awards in the testimony of Steven McClary and Laura Norin of MRW & Associate, LLC, no intervenor took issue with SCG's spot cash award program.

E. General Issues Related to Executive Compensation

Testimony addressing executive compensation was submitted by William Marcus on behalf of UCAN and TURN, by Michael Phillips on behalf of the Joint Parties and by Faith Bautista, Jorge Corralejo and Len Canty on behalf of the Joint Parties.

SCG disagrees with the intervenors' overall claims that executive compensation is excessive. In addition, specific aspects of Mr. Marcus' and Joint Parties' testimony are discussed below. Additional rebuttal to the Joint Parties' testimony is provided in the testimony of Mr. Lane Ringlee.[29]

F. SCG's Rebuttal to UCAN/TURN – Marcus Testimony

Much of Mr. Marcus' analysis focuses on the compensation of Donald Felsinger, Sempra Energy's Executive Chairman and former Chief Executive Officer.[30] SCG is not seeking rate recovery for the Sempra Energy Chief Executive Officer or Chief Operating Officer positions. No portion of compensation for Sempra Energy's Chief Executive Officer or Chief Operating Officer is included in SCG's TY 2012 revenue requirement.

SCG also strongly refutes Mr. Marcus' assertion that executive compensation is not linked to company performance. The majority of SCG executives' pay is delivered through

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[29] Exhibits SDGE-255/ SCG-245.
[30] Policy and Joint Testimony for Southern California Gas Company and San Diego Gas and Electric Company General Rate Cases, Prepared testimony of William B. Marcus, pp. 17, 21, Attachment 4.

performance-based variable compensation. This is consistent with SCG's philosophy of placing a greater proportion of pay "at risk" at higher levels within the organization. For example, only 29 percent of Mr. Allman's target pay is delivered in the form of base salary. Of the remaining 71 percent, 18% is delivered through performance-based short-term incentives and 53% is delivered through performance-based long-term incentives with a four-year performance period.

With regard to external market compensation benchmarking, SCG disputes Mr. Marcus' opinion that SCG should not benchmark pay to general industry companies, specifically Fortune 500 companies. SCG and Sempra Energy recruit executive talent from companies across different industries and geographic locations. It is, therefore, appropriate to use a nationwide, broad cross-section of companies in various industries as one competitive benchmark in evaluating executive compensation. SCG also benchmarks executive compensation against the companies in the S&P Utilities Index.

G. SCG's Rebuttal to Joint Parties

SCG disputes Mr. Phillips contention that the results of the Total Compensation Study should be called into question because he does not consider Towers Watson to be independent.[31] Consistent with prior General Rate Cases, the Total Compensation Study consultant was jointly selected by the Division of Ratepayer Advocates (DRA) and SCG following a competitive selection process.

The DRA was actively involved in all aspects of the study, including selection of the consultant and review and approval of the Study methodology, the results and the Total Compensation Study report. As evidenced in the study team meeting notes, which were included

[31] Testimony of Michael Phillips on Behalf of Black Economic Council, Latino Business Chamber of Greater Los Angeles, and National Asian American Coalition (Joint Parties), page 4, question 7.

as pages F-1 through F-38 of my direct testimony (SDG&E-25 and SCG-19), the DRA made numerous suggestions that were adopted by the team.

Rebuttal testimony as to the availability and relevance of LADWP executive compensation data is provided by Mr. Ringlee.[32]

H. Conclusion

Pay for SCG's executives is reasonable and at the competitive levels necessary to attract, motivate and retain key executive talent and promote strong, sustainable long-term performance. Incentive compensation, both short-term and long-term, is a critical component of a competitive pay package.

If SCG were to eliminate incentives, the value of the incentives would have to be replaced by an increase in base salary in order to continue to maintain a competitive compensation package. If incentives were removed without a corresponding increase in base pay, total compensation would be significantly below competitive market levels and key leadership talent would likely be lost.

III. HEADCOUNT

A. DRA's Use of FTE's to Forecast Health & Welfare Expenses Produces an Inaccurate Forecast.

SCG's benefits expense forecast is based on the projected number of physical employees, or headcount, anticipated to receive these benefits. Headcount is a combination of full-time and part-time employees. DRA's benefits expense forecast is based on a derived forecast of "employee population" or Full Time Equivalents (FTEs).[33] FTEs are an accumulation labor hours made up of part-time, full-time, overtime and in some cases contract labor hours for only

[32] Exhibits SDGE-255/SCG-245.
[33] As described in response to DR SEU DRA-021 (A.1 through A.3). DRA confirms estimates of Full Time Equivalent (FTE) generated in the RO model using DRA's estimated labor dollars; they are not estimates of headcount (*see* Attachment C).

activities recovered in a GRC, which are then converted to 40-hour units.[34] Therefore, headcount and FTEs are fundamentally different and are not interchangeable.

As benefit costs are primarily based on the projected number of employees receiving the benefits, using headcount as a basis for projecting benefits expense is more appropriate than using FTEs. As such, DRA's methodology of using FTEs instead of headcount produces an inaccurate forecast for TY2012 benefits expenses. In order to be comparable, DRA would have had to convert its derived FTE forecast to a headcount number to be used specifically to forecast benefits expense for TY 2012. By skipping that step, DRA's TY2012 forecast is inaccurate and should be considered unreliable by the Commission.

It is important to recognize that DRA did not identify unreasonable assumptions in SCG's forecasts and otherwise provided no analysis of SCG's forecasted headcount amounts.

B. Headcount and FTEs Are Not Interchangeable and DRA's Use of FTEs to Forecast Benefits Expenses Produces an Unreliable Forecast.

Although labor forecasts for all other GRC witnesses areas are based on FTEs, SCG's health and welfare benefits expense forecast are primarily based on the number of employees, or headcount, as benefit costs are driven specifically by the number of employees receiving these benefits. As described above, a FTE position is a calculation of activity level and does not represent the actual number of employees performing the work. To explain this rationale, we provided the following definitions of headcount and FTE in a data response to DRA:

> "Headcount" does not equal "Full Time Equivalent (FTE)." An FTE position is an indication of activity level and not a specific headcount in any given year. In some cases, headcount may be less than the FTE count. For example, the activity level driving the forecasted incremental FTE in an operational area may ultimately be performed using internal labor, outside contractors, overtime or

[34] FTEs are calculated based on the quotient of accumulated part-time and full-time labor hours divided by 40-hour units.

> a mix of each. In other cases, headcount may be more than the FTE count if the positions are filled with part-time employees.
>
> In the 2012 GRC all positions are identified as FTE. The Witness and GRC Planner used management judgment to translate the incremental FTE that may result in an increase in headcount. SCG can provide a summary in table format of 2010-2012 estimated incremental headcount by witness area, which was used to determine certain pension and benefits forecasts which are headcount driven and are not based on activity levels. This summary is attached below.[35]

During the course of preparations of GRC testimony, SCG consulted with each operational witness area and worked with GRC planning teams to translate its FTE forecast to the headcount forecast used specifically for purposes of forecasting compensation and benefits expenses. In a testimony overview meeting with DRA, SCG verbally described the process that it used for converting FTE to headcount and also explained the rationale for doing so. This information, process and forecast of headcount were also provided to DRA via a SCG data response.[36] The process described here was identical for SDG&E and SCG.

In addition, even if FTEs were used as the basis to calculate these costs, labor dollars and their associated FTE forecasts included in this GRC are only a subset of all labor dollars and their associated FTE forecasts because certain labor dollars are recovered in other regulatory proceedings (e.g. FERC, other CPUC proceedings, etc.). However, all non-labor health & welfare benefits, for all labor dollars and their associated FTE forecasts for all employees, are requested in the GRC regardless which regulatory proceeding the labor dollars and their associated FTE forecast are recovered. Therefore DRA's proposed use of FTEs, based only on the FTE from this GRC, understates the revenue requirement for health and welfare benefits for the company. In other words, the result of using FTE as the basis of health & welfare benefits

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[35] DRA-SCG-028-Question 1c (*see* Attachment B).
[36] Id.

costs will lead to a much lower FTE count than actual total company-wide FTE and thus a shortfall in the request for total health & welfare expenses.

C. DRA's Employee Population Forecast

DRA's forecasted SCG's TY 2012 "employee population" at 5,757 based on the above mentioned methodology.[37] This "employee population" is approximately 26 percent lower than SCG's TY 2012 headcount forecast of 7,734 and is also 19 percent lower than SCG's 2009 actual headcount of 7,136.[38] DRA's use of the term "employee population" refers to FTE and was derived from the DRA Results of Operations (RO) Model.

DRA describes in testimony that DRA's TY 2012 estimates are generally lower than SDG&E and SCG estimates due to its recommendation of a lower labor expense; fewer employees are expected to result in lower benefit expenses.[39]

Further,

> SDG&E's TY 2012 employee population estimate is 5,280 while DRA's employee population estimate for SDG&E's TY is 4,241. SCG's TY 2012 employee population estimate is 6,236 while DRA's employee population estimate for SCG's TY is 5,757. See Exhibit DRA-02 for more details on DRA's calculation of each company's employee population. The Results of Operations (RO) model does not use either employee population or labor expense to forecast the TY benefit estimates. To account for this, DRA divided each company's TY estimate by the TY population to arrive at a program cost per person, and then multiplied that program cost by DRA's estimated employee population to arrive at DRA's TY estimate.[40]

As described above, employee population (or FTE) and headcount are not comparable or interchangeable. DRA's use of employee population to recalculate health and welfare benefits

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[37] As described in response to DR SEU DRA-021 (QA.1)., DRA confirms that 4,241 and 5,757 are estimates of Full Time Equivalent (FTE) generated in the RO model using DRA's estimated labor dollars; they are not estimates of headcount (*see* Attachment C).
[38] DRA-SCG-028-Question 1c (*see* Attachment B).
[39] Exhibit DRA-29 at page 6 (lines 1-3).
[40] Exhibit DRA-29 at p. 6, (lines 3-12).

results in a much larger disallowance then if DRA had more appropriately used a headcount based forecast (see the comparison in Table 1 –below). If SDG&E's proposed headcount number is compared to DRA proposed employee population (FTE), the actual proposed disallowance results in a 25% reduction for both utilities (see Table 1). Even though comparing FTE's to headcount is an apples-to-oranges comparison, it's important to identify the magnitude of DRA proposed disallowance based on its use of an incorrect methodology.

TABLE 1 – DRA'S TY 2012 EMPLOYEE POPULATION (FTE) COMPARED TO SDG&E AND SCG TY2012 HEADCOUNT

UTILITY	SDG&E/SCG TY2012 Forecast (Headcount)	DRA's Proposed Adjusted TY 2012 Forecast (FTE)	DIFFERENCE Headcount vs. Proposed FTE	% CHANGE
SDG&E	5,642	4,241	(1,401)	(24.8%)
SCG	7,734	5,757	(1,977)	(25.60%)
TOTAL	13,376	9,998	(3,378)	(25.30%)

As shown above, to provide a more accurate forecast, DRA should have translated its proposed reductions in FTEs to reductions in headcount where appropriate in order to correctly estimate a total employee population. Therefore, DRA's results *cannot be relied upon* to accurately calculate employee health & welfare benefits. It would be inappropriate for the Commission to adopt DRA's proposed health and welfare benefit expenses based on a flawed forecast methodology.

D. Rebuttal to UCAN and TURN's Proposed Recommendations for Reductions Based on DRA's Proposed Disallowances

UCAN and TURN propose recommendations for reductions based on DRA's proposed disallowances (see table below), provide alternatives for reductions and state that further reductions may result if DRA's proposed reductions due to their derived "employee population" is accepted by the Commission. Statements that convey the message to ”reduce the overall forecast to account for DRA’s lower forecast of employees” is made in the following areas:

UCAN[41]	TURN[42]
Medical (1PB000), page 10, lines 11-16 and page 19, Line 1-2	Medical (2PB000), page 14, line 10-13 and page 20, line 16-17
Life Insurance (1PB000.06), page 22, line 8-9	
Retirement Savings Plan (1PB000.014), page 23, line 1-2; and page 21, line 14-15	Retirement Savings Plan (2PB000.014), page 23, lines 17-16 and page 27, line 6-7

As stated in rebuttal to DRA above, DRA’s recommended reductions based on ”employee population” uses FTE numbers, not headcount numbers. Health & welfare benefits are more accurately based on actual number of employees receiving these benefits or “headcount,” not FTEs. As previously stated, FTE and headcount are not comparable or interchangeable. Therefore, SDG&E strongly disagrees with DRA’s, UCAN’s and TURN’s proposed disallowances based on DRA’s derived employee population (FTEs). The Commission should reject these proposed disallowances as they are based on DRA’s flawed methodology.

IV. EMPLOYEE BENEFITS

A. Introduction

As discussed in my direct testimony, SCG’s benefit programs are a critical component of a competitive total rewards program. SCG offers a comprehensive and balanced employee benefits program that includes:

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[41] Prepared Testimony of Garrick Jones on behalf of UCAN.
[42] Prepared Testimony of Garrick Jones on behalf of TURN.

- Health benefits; medical, dental, vision, wellness, employee assistance program (EAP), and mental health and substance abuse benefits;
- Welfare benefits: long-term disability, workers' compensation, life insurance, accidental death and dismemberment insurance (AD&D) insurance, and business travel accident insurance;
- Retirement benefits: pension and retirement savings plans; and
- Other benefit programs.

Long-term disability and workers compensation are covered by Sarah Edgar (SCG-21) and broad-based pension benefits and post-retirement benefits are covered by David Sarkaria (SCG-20).

DRA's testimony related to health and welfare benefits is presented in Exhibit DRA-29. DRA's forecasted expenses for all benefits are based on a flawed "employee population" forecast, as discussed above in Section III. DRA's proposes disallowance of $37.440M, or over 38%, of SCG's forecasted benefit expenses.

DRA understates the impact of medical premium cost escalation and classifies SCG's wellness programs (which are a key part of SCG's efforts to improve employee health and mitigate medical cost escalation) as an unnecessary luxury. DRA also recommends denial of ratepayer funding for programs that are "above and beyond what is legally required" or "supererogatory," despite the fact that such programs are common components of total rewards packages offered in the market.

In addition to the testimony related to benefits filed by DRA, intervenor testimony was filed by Garrick Jones or JBS Energy, Inc. on behalf of UCAN and TURN.

B. Medical

SCG's forecasted Test Year 2012 medical expense of $70.735 million was determined based on actual medical premium rate increases for 2009, 2010 and a forecast of 2011 and of 2012 rates. As noted to DRA in DEF-SCG-09-STA (attachment D), the 2011 increase in medical rates was within rounding of the 13% projected increase for 2011. When SCG's General Rate Case testimony was prepared in December 2010, medical cost escalation for 2012 was forecasted at 12%. SCG recently negotiated final 2012 renewal rates with its health insurance carriers. The overall rate increase for 2012 will be 6.8%. SCG's better than expected medical insurance renewal is slightly higher than a recently published forecast of *nationwide* 2012 trends. According to the 2011 Towers Watson Health Care Trend Survey published on August 24, 2011, the employer health care costs are expected to increase by 5.9% in 2012. Historically, California medical cost escalation has been higher than the nationwide average.

1. DRA's Position

Medical Expense Forecast	Thousands of 2009 $			
	2009 Actual	2012	2009-2012 Change	2009-2012 Percent Change
SCG Forecast	$50,248	$70,735	$20,487	41%
DRA Forecast	$50,248	$43,851	($6,397)	-13%

DRA recommends using Global Insight "Cost Planner" escalation rates of 4.8% in 2010, 4.0% in 2011 and 4.1% in 2012.[43] Additionally, DRA used a lower employee population forecast that further reduced the forecast expense.[44] This resulted in a recommendation of $35.419 million in Test Year 2012.

[43] DRA-29, pages 7-8.
[44] DRA-29, pages 5-6.

2. SCG's Rebuttal to DRA

DRA fails to acknowledge SCG's actual medical cost escalation of 3.5% in 2010 and 13% in 2011. Instead, DRA uses Global Insight Cost Planner forecasts of 4.8% in 2010 and 4.0% in 2011.

Global Insight "Cost Planner" forecast has consistently understated actual medical premium escalation. Global Insight's Cost Planner is a forecast of the U.S. Bureau of Labor Statistics Employment Cost Index for health benefits. Use of this index to forecast SCG's medical escalation is inappropriate because:

- The Employment Cost Index for health benefits includes non-medical benefits such as dental and vision benefits. Dental and vision benefits have experienced significantly lower cost escalation compared to medical benefits. Using an index that includes these non-medical benefits to forecast medical expenses understates medical escalation. SCG separately forecasted dental and vision expenses and DRA did not dispute the escalation rate for these benefits.
- When companies included in the Employment Cost Index eliminate health benefit coverage, their benefit costs drop to zero. This would have a downward effect on the health insurance ECI series.[45]
- The U.S. Bureau of Labor Statistics discusses additional concerns and cautions users to exercise care in using and interpreting this information:

> The 12-month percent change in health insurance costs from the ECI should be used with caution. First, employer nonresponse for the health insurance component is substantial, which may affect the quality of the estimate. Second, there are fewer observations supporting health insurance estimates as compared with total

[45] Email from Alan Zilberman, Bureau of Labor Statistics, dated April 28, 2008 as cited in Southern California Edison 2012 Rate Case Rebuttal Testimony, Exhibit No. SCE-21, p. 62.

> benefits estimates. Finally, in some cases, respondents are able to report only a single cost for a combination of benefits (for example, life insurance and health insurance); in these instances, BLS allocates the cost among the benefits. Users should also be aware that ECI may understate health insurer increases for a fixed set of plans because employers may reduce their contributions or employees may switch to lower cost health plans where there is an employee contribution. For these reasons, please exercise care in using and interpreting these estimates.[46]

- The Employment Cost Index measures nationwide trends. Medical escalation in California has generally exceeded nationwide medical escalation.

DRA has advocated the use of the Global Insights Cost Planner Index to forecast medical escalation in prior General Rate Case proceedings for SCG, SCG, and the other California utilities. A comparison of actual 2007 through 2010 California medical escalation to the Global Insights Cost Planner Index forecasts used by the DRA in past General Rate Case proceedings shows that the Global Insights forecast was much lower than the actual increases experienced by California employers.

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[46] Source: *http://www.bls.gov/ect/sp/echealth.pdf,* p. 2.

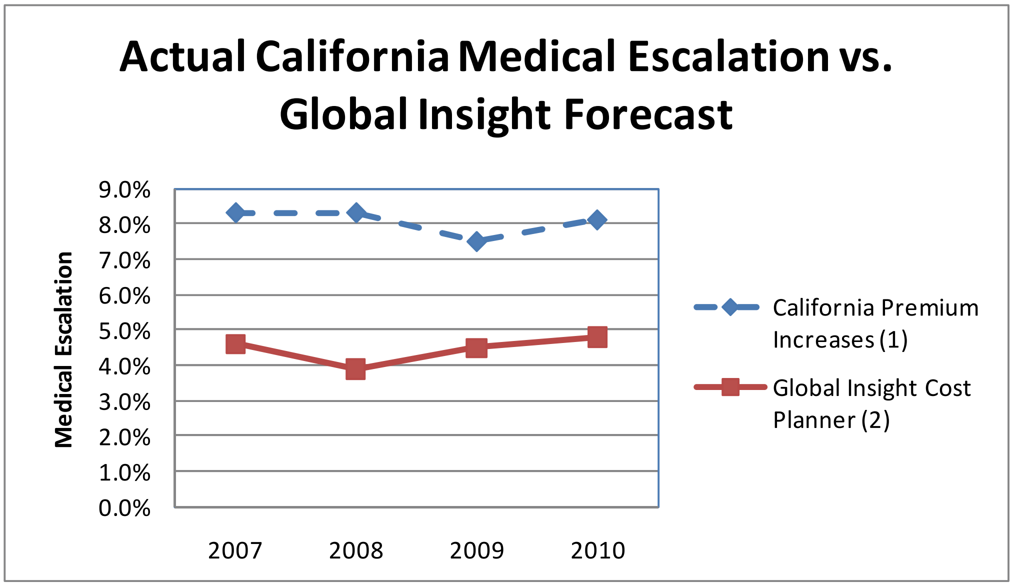

Figure 1

(1) California Employer Health Benefits Survey, December 2010.

(2) Global Insight Cost Planner data sources:

2007-2008 data from Global Insight Cost Planner, 4th Quarter 2007, see Report on the Results of Operations for Southern California Edison Company General Rate Case, Test Year 2009, Pensions and Benefits, page 7.

2009 data from Global Insight Cost Planner, 4th Quarter 2009, see Report on the Results of Operations for Pacific Gas & Electric General Rate Case, Test Year 2011, Administrative and General Expenses, Part 1 of 4, page 48.

2010 data from Global Insight Cost Planner, 1st Quarter 2011

SCG's medical cost escalation is consistent with the average for California employers. SCG's 2007-2010 average medical cost escalation of 8.3% was comparable to the 2007-2010 California average of 8.1% as reported in the December 2010 California Employer Health Benefits Survey.

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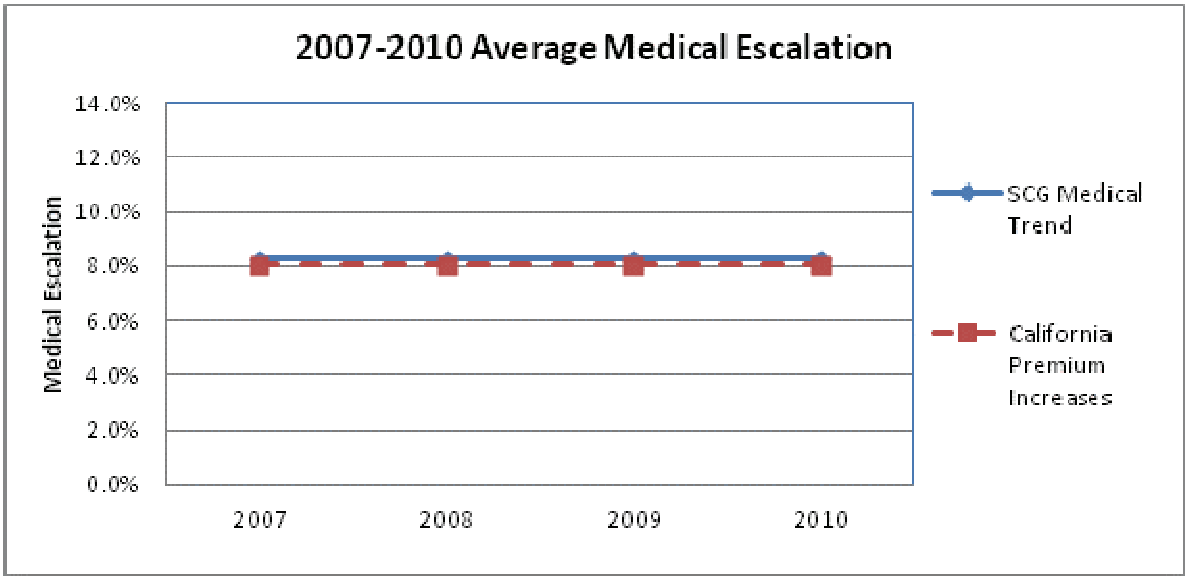

Figure 2

DRA contends that SCG's parent company, Sempra Energy, as a large employer, should have the "skill and market power" to negotiate rate increases lower than the average company in California.[47] However, as shown by the chart below, even CalPERS, the third largest purchaser of health care in the nation (providing benefits to more than 1.3 million public employees, retirees, and their families),[48] has experienced much higher medical escalation than the Global Insights Cost Planner Index forecasts.[49]

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[47] DRA-29, p. 8.
[48] *http://www.calpers.ca.gov/index.jsp?bc=/about/benefits-overview/health/benefits-overview.xml*
[49] *http://www.calpers.ca.gov/index.jsp?bc=/about/press/pr-2011/june/2012-health-benefits.xml*

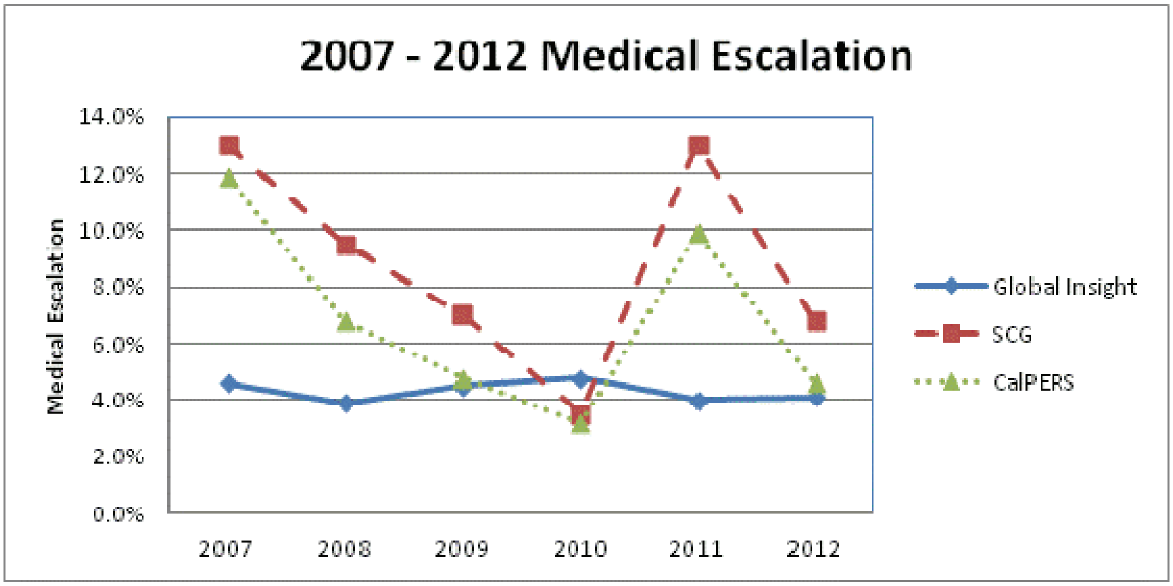

Figure 3

In addition, as discussed in Section I above, DRA's employee population forecast is flawed in its use of FTEs rather than headcount to project benefit costs and understates the number of covered employees.

DRA's forecast of medical expenses is thus flawed and should be rejected.

3. TURN's Position

TURN submitted testimony related to benefits in the testimony of Garrick Jones of JBS Energy. While TURN does not object to the DRA's recommendation, Mr. Jones also provides an alternative recommendation. Mr. Jones' recommendation would provide recovery for all insured employees based on the rate for the lowest cost medical plan, reducing the TY2012 revenue requirement from $70.735M to $64.345M.[50]

[50] ErrataTestimony on Pensions, Compensation, HR and External Affairs for Southern California Gas Company's 2012 Test Year General Rate Case, Prepared testimony of Garrick Jones, p. 21.

4. SCG's Position

SCG's benefits are competitive compared to other California employers and compared to other utilities. As shown in Figure 3 above, SCG's average medical rate escalation of 8.3% is consistent with the 8.1% average increase reported by California Employers during that period. According to the 2011 Towers Watson Healthcare 360 Performance Study, SCG's average annual medical cost per covered employee of $10,625 is significantly lower than the $12,489 average cost reported for energy/utility companies and consistent with the average spending of $10,623 for general industry.

TURN recommends changes to employee/employer cost sharing in order to encourage more employees to select coverage through the lowest cost HMO, currently the Anthem Blue Cross HMO.

As discussed in my direct testimony,[51] SCG's HMO enrollment level of 72 percent far exceeds the nationwide average of 20 percent and the regional average for the Western U.S. of 31 percent.[52]

SCG's cost sharing arrangements already encourage employees to select the lowest cost HMO. The company pays a higher percentage of the medical premium for the Anthem Blue Cross HMO than for the other HMO plans and the Point of Service Plan.

SCG continuously analyzes possible means of reducing medical cost escalation, including changes to medical plan designs and employer/employee cost sharing. Beginning in 2012, the Pacificare HMO, which was the company's highest cost HMO plan, will no longer be

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[51] Exhibit SCG 19 R p. 14.

[52] 2009 Kaiser Family Foundation Employee Health Benefits Survey: 20 percent of covered workers are enrolled in HMOs, while 60 percent are enrolled in PPOs, 10 percent in POS plans, and the remaining 10 percent in high deductible and indemnity plans.

offered. This change will provide additional incentive for employees to select the lowest cost HMO plan.

C. Dental

1. DRA's Position

DRA did not take issue with the calculation of Test Year program costs, but its use of a lower employee population based on FTEs rather than headcount resulted in 2012 test year costs of $2.736 million, compared to the $3.675 million forecasted by SCG.

2. SCG's Rebuttal to DRA

As discussed in Section III above, SCG disagrees with DRA's FTE forecast and its use of FTEs rather than headcount to project benefit costs.

D. Vision

1. DRA's Position

DRA did not take issue with the calculation of 2012 Test Year program costs, but its use of a lower employee population based on FTEs rather than headcount resulted in 2012 test year costs of $363 thousand, compared to $487 thousand forecasted by SCG. DRA's forecast is therefore incorrect.

2. SCG's Rebuttal to DRA

As discussed in Section III above, SCG disagrees with DRA's FTE forecast and its use of FTEs rather than headcount to project benefit costs.

E. Wellness

1. DRA's Position

DRA recommends zero ratepayer funding for wellness programs. DRA contends that the company's Wellness programs are duplicative of services available under the medical and EAP plans. According to the DRA, "both companies provide sick leave so that doctor visits will not result in loss of wages, making onsite immunizations, screenings, and education programs a luxury, not a necessity."[53]

2. SCG's Rebuttal to DRA

DRA argues that wellness programs duplicate programs provided through SCG's medical plans and that such programs are a luxury, not a necessity. This myopic view ignores the impact of wellness programs on sick leave/absenteeism, medical premium escalation and workers' compensation and disability claim costs.

Helping employees to better manage their health benefits the employees, the Company, and ratepayers. According to a 2010 study by researchers at Harvard University, medical costs fall by about $3.27 for every dollar spent on wellness programs and absenteeism costs fall by about $2.73 for each dollar spent.[54] A review of 56 peer-reviewed studies of worksite health promotion programs[55] summarized the studies as follows:

- Average percent reduction in sick leave/absenteeism: 26.8%
- Average percent reduction in health costs: 26.1%
- Average percent reduction in workers' compensation and disability management claims costs: 32%
- Average $5.81 total cost savings for each $1 spent

Employers are uniquely positioned to reach employees with onsite wellness programs. According to "Working Together for Workplace Wellness" published by CalPERS, the workplace provides the following advantages:

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[53] DRA-29, page 10.
[54] Source: Workplace Wellness Programs Can Generate Savings, by Katherine Baicker, David Cutler and Zirui Song, page 1, published in the February 2010 issue of Health Affairs.
[55] Source: Meta-Evaluation of Worksite Health Promotion Economic Return Studies, 2005 Update, by Larry S. Chapman, MPH.

- It is a convenient site where employees spend many of their waking hours each week.
- It has social networks that can provide vital support for learning and adopting healthier lifestyles and maintaining motivation.
- It has informed and educated employees who can share wellness information that reinforces positive behavior.[56]

Onsite wellness programs provide convenient, easy access and encourage employee participation through peer and leadership examples. An illustrative example of the benefits of onsite wellness programs is the Company's annual onsite flu vaccination program. Offering onsite vaccinations is cost-efficient and increases the likelihood that employees will be vaccinated:

The cost of the onsite flu vaccine program is approximately $28 per shot. In comparison, if an employee uses sick leave to obtain the flu vaccine at a doctor visit as suggested by the DRA, the medical plan is charged for the doctor visit and the Company must pay sick leave for the doctor visit and associated travel time. Assuming the average employee's straight-time base salary is approximately $32.00 per hour, the cost of one hour of sick leave significantly exceeds the cost of the onsite flu shot.

In addition the onsite programs, the wellness programs offer resources to employees and dependents facing serious health conditions. The Best Doctors program provides a comprehensive review of the diagnosis and treatment plan by a team of physicians recognized by their peers as the top specialists in their respective areas. Best Doctors improves health care quality and cost by helping people get the right care. In 2010, Best Doctors provided expert

[56] http://www.calpers.ca.gov/eip-docs/about/pubs/employer/er-pubs/misc-pubs/wrkst-well-broch.pdf

medical case reviews and physician referrals for over 80 employees and dependents within the Sempra Energy companies. Of these cases, 21 percent had a change in diagnosis and 54 percent had a change in treatment plan. The estimated financial saving resulting from the consultations was over $250,000. From 2008 through June 2011, Best Doctors reviewed almost 200 cases with a total estimated cost savings of over $950,000.

A comprehensive, proactive wellness program can reduce medical costs, sick leave and absenteeism and workers' compensation and disability costs. SCG's wellness programs are reasonable and cost-effective. The cost of these programs should be approved as submitted.

F. Employee Assistance Plan (EAP)

1. DRA's Position

DRA did not take issue with the calculation of Test Year program costs, but its use of a lower employee population based on FTEs rather than headcount resulted in 2012 test year costs of $566 thousand, compared to $760 thousand forecasted by SCG. DRA's recommendation is thus flawed and should be rejected.

2. SCG's Rebuttal to DRA

As discussed in Section III above, SCG disagrees with DRA's FTE forecast and its use of FTEs rather than headcount to project benefit costs.

G. Mental Health

1. DRA's Position

DRA assumed no escalation in mental health costs. DRA used 2009 base year cost per employee and applied its lower employee population, which is based on FTEs rather than headcount. This resulted in 2012 test year costs of $770 thousand, compared to $1.310 million forecasted by SCG. It should be noted that DRA's forecasted 2012 test year cost of $770 thousand is significantly lower than SCG's 2009 base year actual cost of $962 thousand.

2. SCG's Rebuttal to DRA

SCG's use of medical escalation rates for mental health costs is appropriate. Mental health claim costs have continued to rise. One reason for this increase is due to recent changes in the Mental Health Parity and Addiction Equity Act, such that mental health and substance abuse services are available on an unlimited basis and charged at the same costs, similar to any other illness or condition that is covered through the medical plans.

SCG's 2010 actual claim costs of $1.178 million exceed the $1.035 million forecast for the GRC. Year-to-date 2011 actual claim costs are $890 thousand. Full-year 2011 costs will likely exceed the full-year 2011 forecast of $1.169 million.

The forecasted expense for mental health benefits is reasonable and SCG requests that it be approved as submitted.

H. Life Insurance

1. DRA's Position

DRA did not take issue with the calculation of Test Year program costs, but its use of a lower employee population based on FTEs rather than headcount resulted in 2012 test year costs of $674 thousand, compared to $906 thousand forecasted by SCG. DRA's recommendation is thus flawed and should be rejected.

2. SCG's Rebuttal to DRA

As discussed in Section III above, SCG disagrees with DRA's FTE forecast and its use of FTEs rather than headcount to project benefit costs.

3. Intervenor Testimony

While Garrick Jones submitted testimony on behalf of UCAN related to SDG&E's life insurance benefits, no intervenor took issue with SCG's life insurance benefits.

I. Accidental Death and Dismemberment (AD&D) Insurance

1. DRA's Position

DRA did not take issue with the calculation of Test Year program costs, but its use of a lower employee population based on FTEs rather than headcount resulted in 2012 test year costs of $28 thousand, compared to $37 thousand forecasted by SCG.

2. SCG's Rebuttal to DRA

As discussed in Section III above, SCG disagrees with DRA's FTE forecast and its use of FTEs rather than headcount to project benefit costs.

J. Business Travel Insurance

1. DRA's Position

DRA did not take issue with the calculation of Test Year program costs, but its use of a lower employee population based on FTEs rather than headcount resulted in 2012 test year costs of $26 thousand, compared to $35 thousand forecasted by SCG.

2. SCG's Rebuttal to DRA

As discussed in Section III above, SCG disagrees with DRA's FTE forecast and its use of FTEs rather than headcount to project benefit costs.

K. Retirement Savings Plan

1. DRA's Position

DRA applied SCG's five-year historical average contribution rate of 2.4% to the average estimated eligible compensation per employee to determine the average company matching contribution per employee. DRA then applied its forecast of employee population.

2. SCG's Rebuttal to DRA

The workpapers that SCG used to develop the TY 2012 forecast of $13.791M contained an error. The average salary expense per participant as of December 2009 was assumed to be

$65,093 instead of the correct average salary expense per participant of $65,980. After correcting this error, the TY 2012 forecast is $13.952M. SCG requests that the Commission approve its forecast of $13.791M as submitted.

In addition, as discussed in Section III above, SCG disagrees with DRA's FTE forecast and its use of FTEs rather than headcount to project benefit costs.

3. TURN's Position

TURN used the 2.4% historical matching contribution rate and attempted to correct the error described above, resulting in a recommended forecasted TY 2012 expense of $12.514M. This forecast is $1.277M lower than the $13.791M forecast submitted by SCG.[57]

4. SCG's Rebuttal to TURN

In its attempt to correct the errors, TURN used the December 2009 average salary of $65,980 as the average salary in TY 2012. This ignores the effect of labor inflation. SCG recommends that the Commission approve its forecast of $13.791M as submitted.

L. Nonqualified Savings Plan

1. DRA's Position

DRA recommends zero ratepayer funding for deferred compensation plan benefits.

2. SCG's Rebuttal to DRA

The nonqualified savings plan, or deferred compensation plan, allows pre-tax contributions for employees subject to IRS compensation and contribution limits. Company matching contributions under the plan are identical to company matching contributions under the RSP.

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[57] Errata Testimony on Pensions, Compensation, HR and External Affairs for Southern California Gas Company's 2012 Test Year General Rate Case, Prepared testimony of Garrick Jones, pp. 24-26.

Deferred compensation plans are a component of a competitive compensation and benefits package. According to the 2010 Hewitt Executive Compensation Policies and Programs, U.S. Edition survey, 77% of companies surveyed offer voluntary nonqualified deferred compensation plans. Availability of these plans facilitates successful recruiting of the best possible candidates for positions at the executive, director, attorney and management levels.

SCG requests that the Commission approve the deferred compensation plan expense as submitted.

M. Supplemental Pension

1. DRA's Position

DRA recommends zero ratepayer funding for supplemental pension benefits.

2. SCG's Rebuttal to DRA

SCG offers two supplemental pension plans, the Supplemental Executive Retirement Plan, which covers a small number of senior executives, and the Cash Balance Restoration Plan.

The Cash Balance Restoration Plan restores benefits for employees whose earnings or benefits exceed the limitations established by the Employee Retirement and Income Security Act. Benefits are accrued at the same percentage and using the same benefit formula as the broad-based retirement plan.

Supplemental pension plans are an important component of a competitive compensation and benefits package for executive and other key employees. These benefits are common in the external market, particularly among utilities.

Attracting and retaining employees at all levels provides value to both ratepayers and shareholders. SCG requests that the Commission approve the Supplemental Pension expense as submitted.

3. SCG's Response to Joint Parties' Position – Testimony of Michael Phillips

Joint Parties also submitted testimony opposing supplemental pension plans.[58] SCG takes exception to the Joint Parties' testimony related to executive pension benefits. In discussing SCG's pension practices, Mr. Phillips states as follows: "The executives bear no risks relating to the market value of the investments and they are generally guaranteed pensions."

SCG's executives participate in the same ERISA-qualified pension plan from which all other eligible employees receive pension benefits. All participants share the same exposure to benefit risk and the same benefit protections under ERISA.

Executives also participate in a supplemental nonqualified pension plan. Unlike the broad-based plan discussed above, participants in the supplemental plan do not have the same ERISA protections and the participants are subject to additional risks and, under certain conditions, potential forfeiture.

N. Other Benefit Program Expenses

1. DRA's Position

DRA does not take issue with the test year program costs for benefits administration fees, educational assistance, emergency childcare and mass transit. However, DRA's application of its lower forecasted employee population resulted in lower forecasted expense.

DRA recommends zero ratepayer funding for retirement activities, service recognition, and special events.

2. SCG's Rebuttal to DRA

As discussed in Section III above, SCG disagrees with DRA's FTE forecast and its use of FTEs rather than headcount to project benefit costs. SCG also disagrees with DRA's

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[58] Exhibit No. JP-3, page 9, Question 20.

recommendation to disallow funding for service recognition, retirement activities and special events. Recognizing the contributions of employees is an important factor in maintaining employee morale and can directly affect employee engagement and productivity. These programs provide a modest level of financial resources through which managers and supervisors can recognize key events in an employee's career, such as service anniversaries and upcoming retirements.

3. TURN's Position

TURN recommends no ratepayer funding for retirement activities and special events. In the event that the Commission decides to fund the Special Events Night, TURN recommends using a rate of $25.83 per employee, or a total of $0.201M. This rate was calculated using 2007 expense per employee of $23 and escalating by non-labor inflation.

4. SCG's Rebuttal to TURN

As stated above in SCG's rebuttal to DRA, by recognizing the contributions of employees, these programs help to maintain employee engagement, productivity and morale. It should be noted that the 2007 expense for Special Events Night, which TURN used as the basis for its alternative recommendation, included only a portion of the 2007 event cost. The balance of the expense for this event was recorded in 2008.

V. CONCLUSION

This concludes my prepared rebuttal testimony.

Attachment A

DRA DATA REQUEST
DRA-SCG-116-DAO
SOCALGAS 2012 GRC – A.10-12-006
SOCALGAS RESPONSE
DATE RECEIVED: JULY 5, 2011
DATE RESPONDED: JULY 19, 2011

2. On page DSR-8 of Exhibit SCG-19, SCG states that the forecasted expense for 2010-2012 is based on target performance. Please explain in detail why the forecast is based on target performance and not on actual performance?

SoCalGas Response 02:

The first reason is that actual performance is not yet known, so an assumption is made that target performance will be met for this period. Second, planning ICP at target is consistent with our practice of requesting rate recovery for target performance with shareholders paying any difference when payouts exceed target. Finally, this assumption is in line with the company's total compensation philosophy of being market competitive since ICP assuming a target payout is a component of SoCalGas Target Total Compensation noted on page DSR-4.

Attachment B

DRA DATA REQUEST
DRA-SCG-028-DAO
SOCALGAS 2012 GRC – A.10-12-006
SOCALGAS RESPONSE
DATE RECEIVED: JANUARY 18, 2011
DATE RESPONDED: FEBRUARY 2, 2011

Exhibit Reference: SCG-19 Compensation, Health & Welfare

Subject: Employee Compensation

Please provide the following:

1. With regard to page 11 of the workpapers, please define and/or provide the following:
   a. Define "Union ICP for Non-Rep Duties," and list the activities/duties eligible for ICP;
   b. "Headcount";
   c. Does "Headcount" equal "Full Time Equivalent"? If the terminologies are not synonymous, please provide a detailed explanation stating the differences and include a step-by-step showing of how SCG calculates the "Headcount". Please provide a copy of the computational model used, if applicable.
   d. Provide the headcount information and ICP expenses for years 2005-2008, itemized in the same format as presented on page 11 of the workpapers.

SoCalGas Response:

a. The term "Union ICP for Non-Rep Duties" includes work performed on a temporary basis by union personnel that is normally performed by non-represented personnel.

b. The term "Headcount" refers to an employee of the company. This is different than Full Time Equivalent (FTE) as an FTE position is an indication of activity level not necessarily the actual number of employees performing the work.

c. "Headcount" does not equal "Full Time Equivalent (FTE)". An FTE position is an indication of activity level and not a specific headcount in any given year. In some cases headcount may be less than the FTE count. For example, the activity level driving the forecasted incremental FTE in an operational area may ultimately be performed using internal labor, outside contractors, overtime or a mix of each. In other cases, headcount may be more than the FTE count if the positions are filled with part-time employees.

   In the 2012 GRC all positions are identified as FTE. The Witness and GRC Planner used management judgment to translate the incremental FTE that may result in an increase in headcount. SCG can provide a summary in table format of 2010-2012 estimated incremental headcount by witness area which was used to determine certain pension and benefits forecasts which are headcount driven and are not based on activity levels. This summary is attached below.

Q1c-DRA-SCG-028.p
df

2012 HEADCOUNT CONSOLIDATION
SoCAL CHANGES IN HEADCOUNT

WITNESS	2009 TOTAL HEADCOUNT	2010 CHANGES ASSOC.	MGMT	TEMP/PT	UNION	2010 TOTAL HEADCOUNT	2011 CHANGES ASSOC.	MGMT	TEMP/PT	UNION	2011 TOTAL HEADCOUNT	2012 HEADCOUNT ASSOC.	MGMT	TEMP/PT	UNION	2012 TOTAL HEADCOUNT
M. BALDWIN	311	-	5	2	6	324	-	2	-	-	326	-	4	-	(1)	329
L. KREVAT	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
J. DAGG	237	-	-	-	-	237	7	1	-	12	257	-	-	-	1	258
J. MANSDORFER	161	-	-	-	-	161	-	-	-	2	163	-	-	-	2	165
R. STANFORD	349	-	19	-	7	375	-	20	-	8	403	-	15	-	-	418
S. DRURY	23	-	1	-	-	24	-	-	-	-	24	-	2	-	-	26
K. SEDGWICK	136	-	-	-	10	146	-	-	-	-	146	-	-	-	-	146
D. TAYLOR	66	-	-	-	3	69	-	-	-	-	69	-	3	-	-	72
S. EDGARD	68	-	-	-	-	68	-	-	-	-	68	-	-	-	-	68
E. FONG	3,456	(2)	16	-	161	3,631	-	4	-	53	3,688	-	17	-	36	3,741
L. GOMEZ	5	-	-	-	-	5	-	1	-	-	6	-	-	-	-	6
H. MADARIAGA	123	-	-	-	6	129	-	-	-	6	135	-	-	-	-	135
J. NICHOLS	30	-	20	-	-	50	-	25	-	-	75	-	20	-	-	95
G. OROZCO-MEJIA	1,635	-	2	-	6	1,643	-	13	-	99	1,755	-	-	-	48	1,803
R. PHILLIPS	64	-	-	-	-	64	-	-	-	-	64	-	-	-	(157)	(93)
K. DEREMER	123	-	-	-	-	123	-	2	-	-	125	-	-	-	-	125
G. WRIGHT	311	2	22	-	-	335	-	10	-	-	345	-	15	-	-	360
I. CHANG	34	-	-	-	-	34	-	-	-	-	34	-	-	-	-	34
ADJUSTMENTS	4	-	-	-	(2)	2	-	-	-	-	2	-	-	-	-	2
SECC Transfers	-	44	-	-	-	44	-	-	-	-	44	-	-	-	-	44
TOTALS	**7,136**	**44**	**85**	**2**	**197**	**7,464**	**7**	**78**	**-**	**180**	**7,729**	**-**	**76**	**-**	**(71)**	**7,734**

Attachment C

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 28, 2011
Due Date: October 12, 2011
Response Date: October 13, 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: Stacey Hunter
Phone: 415-703-1842
Email: Stacey.hunter@cpuc.ca.gov

Data Request No: DR SEU DRA-021

Exhibit Reference: DRA-29

Subject: Clarification of DRA's calculation for employee population

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.

In DRA-29 at page 1 (lines 25-26) DRA indicates that, " DRA's TY 2012 estimates are generally lower than each company's estimates due to its recommendation of a lower labor expense; fewer employees are expected to result in lower benefit expenses.

SDG&E's TY 2012 employee population estimate is 5,280 while DRA's employee population estimate for SDG&E's TY is 4,241. SCG's TY 2012 employee population estimate is 6,236 while DRA's employee population estimate for SCG's TY is 5,757. See Exhibit DRA-02 for more details on DRA's calculation of each company's employee population."

Q1. Please confirm that "4,241" and "5,757" are estimates of headcount and not Full Time Equivalent (FTE).

A1. 4,241 and 5,757 are estimates of Full Time Equivalent (FTE) generated in the RO model using DRA's estimated labor dollars; they are not estimates of headcount.

Q2. Please provide a written description of DRA's methodology used to determine DRA's calculation for employee population for SDG&E of "4,241" and SCG of "5,757".

A2. Please see A. 1.

Q3. Please provide all supporting calculations, workpapers and documents used to determine DRA's calculation for employee population for SDG&E of "4,241" and SCG of "5,757."

A3. Please see A. 1.

Attachment D

DRA DATA REQUEST *
DEF-SCG-09-STA
SOCALGAS RESPONSE
DATE RECEIVED: SEPTEMBER 1, 2010
DATE RESPONDED: SEPTEMBER 28, 2010

Deficiency Item #: DEF-SCG-09-STA

Reference #: SCG-19 Compensation, Health & Welfare - Workpapers for the Health Benefits, Welfare Benefits, Retirement Plans, and Other Benefit Program Expenses

Deficiency:

A. Supporting documentation is missing or incomplete for the following:
   a. Medical Plans
   b. Dental Plans
   c. Vision Plans
   d. Wellness
   e. Life Insurance
   f. AD&D Insurance
   g. Supplemental Pension
   h. Retirement Savings Plan
   i. Admin Fees & Services
   j. Emergency Care
   k. Employee Recognition
   l. Service Recognition
   m. Special Events

SCG needs to:

1. Provide supporting documentation for all cost estimates, including but not limited to: documentation for 2009 actual expenses when they are used as a basis for test year expense; correspondence from providers regarding rates, premiums, and costs for services or products to be provided; support for all head counts and number of participants that differ from the company total; support for the "estimated retiree shift" amounts; support for average salary per participant; and copies of actuarial reports.

SoCalGas Response:

a. Supporting documentation for medical cost estimates including working spreadsheet are included below

Projection Methodology
Medical costs are projected using a zero-based forecast; prior year data is not a factor in projecting the cost for the year. The following are inputs for the forecast which are noted as assumptions on page 38 (work papers of Debbie S. Robinson, DSR-19-WP) :

1. Expected annual employer portion of medical premiums. This is different than the total premium due to cost sharing between the company and its employees for most medical plans.

DRA DATA REQUEST *
DEF-SCG-09-STA
SOCALGAS RESPONSE
DATE RECEIVED: SEPTEMBER 1, 2010
DATE RESPONDED: SEPTEMBER 28, 2010

Response to Question 1 (Continued)

2. Expected participation in medical plans including waived coverage based on current participation and projected increase in headcount. New employees are projected to enroll in plans at the same proportion as current employees.
3. Reductions for estimated reimbursement for retirees under age 65 due to those retirees' premiums are combined with active employees, which increases the overall premium rates.

Medical Premiums

As noted in assumptions 3 and 4 of the workpapers, one of the factors used in projecting medical cost is the company's portion of the medical premiums paid per employee.

Medical premiums are negotiated with the benefit providers on an annual basis with assistance provided by Towers Watson (formerly known as Towers Perrin). The annual renewal confirms total monthly premiums for each type of medical benefit (e.g. HMO) based on tier of coverage (i.e. employee only, employee + 1 additional person, or employee's family). Rates for 2010 are based on actual rates and projected 2011 and 2012 rates are based on estimated annual rate increases provided by Towers Watson. Following filing of the NOI, medical premiums for 2011 were confirmed and the actual increase is within rounding of the conservative increase noted on page DSR-20 in the testimony.

The premium rates noted in the confirmations are different than the amounts reflected in the workpapers due to the use of annualized employer cost compared to total monthly premium. The cost of the total premium is shared between the company and its employees. No changes in cost sharing are forecasted for 2011 and 2012. Below are the cost sharing arrangements in effect for 2010:

The following document ***is considered confidential information pursuant to PUC Code Section 583 & General Order 66-C.***

SCG Medical Cost
Sharing.xls

* This data request response contained embedded documents that have not been included in this rebuttal testimony for sake of brevity and relevance.