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-221

PREPARED REBUTTAL TESTIMONY OF

SARAH E. EDGAR

ON BEHALF OF SOUTHERN CALIFORNIA GAS COMPANY

**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA**

OCTOBER 2011

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PREPARED REBUTTAL TESTIMONY OF

SARAH E. EDGAR

ON BEHALF OF SOUTHERN CALIFORNIA GAS COMPANY

I. INTRODUCTION

The following rebuttal testimony regarding Southern California Gas Company ("SCG") Human Resources, Disability & Workers' Compensation addresses the intervenor testimonies dated September 2011 of:

- Division of Ratepayer Advocates ("DRA") in Exhibit DRA-31 and
- The Utility Reform Network ("TURN") in the Prepared Testimony of Garrick Jones.

This rebuttal testimony consolidates the common issues raised by DRA and TURN for costs associated with Workers' Compensation and Long-Term Disability since similar issues were addressed by both parties. Other activities are addressed separately for DRA. Specifically, my testimony addresses the following points:

- Proposed reduction in shared service category Organizational Effectiveness/Employee Development. DRA methodology for computing its 2012 forecast yields an unreasonably low result.
- Proposed reductions in non-shared service categories Diversity & Organizational Effectiveness, Relocation, and Offices of the President & CEO and COO. DRA and TURN (on Relocation) adjustments are not based on better forecasting methodologies and under-fund important program costs.
- Proposed reductions to Workers' Compensation and Long-Term Disability. DRA and TURN ignore the specific costs drivers discussed by SCG which justify cost increases in these areas.

II. CATEGORIES OF AGREEMENT

No parties have opposed SCG's forecasts for the following areas and therefore, SCG's Test Year 2012 forecasts for these specific cost categories should be adopted by the Commission:

Shared Service Categories	
Business Partner	HR Services and Analysis
Non-Shared Service Categories	
VP of HR	Labor Relations
Staffing	Employee Care Services

III. REBUTTAL TO DRA-SPECIFIC PROPOSALS

A. Overview

DRA disputes costs associated with one shared service category and five non-shared service categories. DRA recommends a 2012 forecast of $28.752 million, which corresponds to a $4.826 million reduction in SCG's requested $33.578 million to meet its forecasted needs in the test year. It should be noted that, per communications with DRA's witness, DRA has agreed to correct an error identified in DRA's testimony impacting its stated total non-shared services amount.[1] DRA indicated that this correction will be revised via errata,[2] therefore the amounts indentified above appropriately reflect this change.

[1] See Attachment 1 to this rebuttal testimony (DRA's response to DR SEU DRA-013 Question 4). DRA's testimony Table 31-13 (page 21) currently reflects a total amount of $23.879 million. DRA confirms this is a typographical error, and that the correct amount for non-shared services should be $23.224 million.
[2] No errata testimony had been received from DRA related to this matter during the time SCG prepared this rebuttal testimony.

B. Shared Services - Organizational Effectiveness/Employee Development ("OE/ED")

SCG forecasts $1.148 million of necessary expenditures for OE/ED in cost center 2200-0840, which represents an $871K increase over 2009 base year costs.[3] DRA proposes a reduction of $871K, which amounts to a recommendation of no increase in funding from 2009 levels. OE provides employee and leadership development programs, instructional design activities, and organizational development programs. OE is one of the Human Resources ("HR") departments significantly impacted by the 2010 reorganization. Prior to the reorganization, SCG's OE services were provided by a combination of SDG&E, SCG, and Corporate Center resources, in both shared and non-shared capacities; costs were appropriately retained or allocated among them. As of April 2010, OE is no longer a shared service at any of the three companies. Therefore, to understand SCG's 2012 forecast for OE/ED, a functional view must be taken. Viewing each cost center in isolation will result in a substantial under-estimation of the dollars needed to run an adequate OE department.

DRA's significant proposed disallowance in SCG's OE/ED forecast for 2200-0840 indicates that the changes in cost allocations resulting from the 2010 reorganization, and offsetting reductions in allocations and direct costs in other cost centers which should have been considered, were not factored into DRA's analysis. In fact, increases in individual cost centers are substantially offset by reductions in direct costs in other cost centers and reduced allocations and billed-in costs in other areas.

[3] See Exhibit SCG-21, p. 12, Table SCG-SEE-11.

Table 1 below compares SCG's OE costs in all cost centers in 2009 (pre-reorganization) and 2012. For completeness, the transfer of Corporate Center OE costs that are requested in SCG's Diversity & OE shared service cost center (2HR008) is also reflected.

Table 1
OE Cost Center Comparison
($ in thousands)

	2009	**2012**	**Inc.**
SCG OE 2200-0840	$277	$1,148	
Billed-in from SDG&E 2100-3679	$601	$0	
Billed-in from SDG&E 2100-3552	$376	$401	
Allocations from Corporate Center	$122	$0	
Sub-Total	$1,376	$1,549	
OE costs captured in 1HR008-Diversity Affairs	$0	$122	
TOTAL	**$1,376**	**$1,671**	**$295**

Taking into account the full OE picture at SCG, which shows SCG incurring the majority of costs on its own behalf in 2012 with corresponding decreases in shared service allocations from SDG&E, the requested incremental increase for OE is only $295K, rather than $871K. These incremental costs will fund the programs described in the direct testimony and workpapers,[4] which will improve service and benefit ratepayers. DRA's proposed forecast would under fund the leadership training and process improvement programs utilized to enhance utility service. SCG's OE forecast is reasonable and will allow for adequate funding of its programs. The Commission should adopt the test year total amount of $1.148 million.

[4] See Id. at 12-13 and Exhibit SCG-21-WP, p. 21.

C. Non-Shared Services

1. <u>Diversity & OE</u>

SCG requests $545K to fund 2012 Diversity and OE program costs.[5] DRA does not oppose the $423K forecast for Diversity activities, but opposes $122K for OE activities.[6] DRA states that the request is unjustified, but gives no further justification for its proposed disallowance.[7] SCG has earlier addressed DRA's proposed reductions to shared services OE and defends the reasonableness of SCG's OE forecast in total, including the $122K of non-shared OE costs. DRA's recommendation to eliminate $122K from the non-shared OE represents a significant under-funding of this important utility function, without any justification for why OE programs and related costs merit cuts in forecasted funding. DRA provides no comment on the merit of OE activities. The Commission should adopt the test year total amount of $545K million.

2. <u>Long-Term Disability ("LTD")</u>

SCG requests $4.739 million to cover 2012 LTD costs, while DRA proposes $4.165 million, or a 12% reduction. DRA uses a 4-year historic average (2007-2010) but does not take into account the anticipated increases in headcount or labor escalation, which SCG details in its workpapers.[8] DRA is also inconsistent by applying two different LTD forecasting methodologies between SDG&E (DRA recommends use of 2010 recorded data for 2012) and SCG (utilizes a 4-year average), presumably in an effort to capture the lowest possible test year forecast. Both DRA recommended methodologies fail to take into consideration the increases described above and therefore should be rejected. SCG's forecasting method is more

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[5] See Exhibit SCG-21 at 9, Table SCG-SEE-8.
[6] See Exhibit DRA-31, p. 28, lines 4-5.
[7] See Id., line 13.
[8] See Exhibit SCG-21-WP at 53.

comprehensive than DRA's method, and produces a reasonable 2012 forecast. The Commission should adopt a test year of $4.739 million in LTD costs.

3. President & CEO and COO

SCG requests $1.744 million for the labor and non-labor costs associated with SCG's two executive positions.[9] DRA recommends funding of $1.188 million, which corresponds to a $556K reduction.[10] DRA's forecast is not representative of the costs for these positions, which is primarily due to DRA's use of historical costs for this particular cost center, which previously housed costs associated with other executive positions. The adjusted-recorded labor costs in this cost center for the years 2005-2009 are costs associated with the SCG President, a Senior Vice President and an Executive Assistant.[11] Beginning in April 2010, after the reorganization, the costs of the President & CEO, the COO, and an Executive Assistant were charged to this cost center, which is why SCG used a zero-based methodology, and factored in expected cost drivers. SCG's compensation witness (D. Robinson) sponsors the Total Compensation Study, which reflects that the compensation for these officers is reasonable. The non-labor dollars that follow also include dues to the American Gas Association ("AGA"), which continues to be a prudent investment for a gas utility, as AGA is a valuable industry resource for information, research, and guidance.

SCG's 2012 forecast is reasonable and more accurately reflects the change in the executive positions now housed under this cost center. The Commission should adopt a test year amount of $1.74 million for the Offices of the President & CEO and COO.

[9] See Exhibit SCG-21 at 22, Table SCG-SEE-17.
[10] See Exhibit DRA-31 at 30, line 16.
[11] See Exhibit SCG-21-WP at 64.

IV. REBUTTAL TO DRA AND TURN PROPOSALS

A. Relocation

1. Rebuttal to DRA

SCG forecasts $385K in relocation costs for 2012, whereas DRA proposes a $335K reduction (87%) under a belief that relocation reimbursement is "not reasonable and does not provide a clear benefit to ratepayers."[12]

SCG's relocation program is reasonable. SCG's program is a standard relocation program provided by SIRVA, a relocation program vendor.[13] The services provided under SCG's program are selected from a menu of standard relocation service options. Under 1300 relocation policies, SIRVA is a relocation expert providing services to employers nationwide.

SCG's relocation program provides benefits to ratepayers as these programs are used by SCG to recruit employees with the requisite skills and experience and to attract the most qualified employees to help ensure the safe and reliable delivery of natural gas. While the majority of employees can be recruited locally, SCG must be able to recruit regionally and sometimes nationally for some key positions, and offer relocation services in order to compete with other employers vying for the same potential future employees.

DRA's asserts that the use of base year methodology (2009) is reasonable because "670% increase for Non-Labor Relocation costs is excessive."[14] Although costs in this area have been at extraordinarily low levels in recent years due to the economy, they are returning to an upward trend. The current upward trend is due to rising relocation costs related to fuel, lodging, and other services experiencing cost increases. In the near term, relocation costs are expected to

[12] Exhibit DRA-31 at 23, lines 8-9.
[13] See Attachment 2 (data request response to DRA-SDG&E-047-MCL, Question 4.)
[14] Exhibit DRA-31 at 22, line 16.

trend further upward due to increases in SCG's need to hire employees requiring relocation services.

SCG explains its reasons for expecting an upswing in Relocation costs in workpapers and in a data request response to DRA.[15] SCG's use of a 5-year historical average of Relocation costs, factoring in increasing costs described above.

Table 3
Historical Relocation Costs
($ in thousands)

2005	2006	2007	2008	2009	2010	5yr avg.	TY2012
$394	$203	$6	$17	$50	$89	$134	$385

DRA's recommendation of $50K will not cover SCG's expected relocation program costs in 2012. It would not have even covered 2010 Relocation costs. Such a forecast would significantly underfund a valuable recruiting tool. The Commission should adopt the total test year amount of $385K.

2. Rebuttal to TURN

TURN supports DRA's proposal in this area and cites low spending in recent years as further support for its recommendation.[16] However, TURN's consultant also evaluated SDG&E's Relocation costs and did not dispute its forecast of $500K. SCG services a larger service territory than SDG&E, and its forecasted needs in this area are at least on par with SDG&E if not greater. The Commission should adopt the total test year amount of $385K.

[15] See Exhibit SCG-21-WP at 38 and Attachment 3 (SCG data request response to DRA).
[16] See TURN testimony (Jones), p. 11, line 19.

B. Workers' Compensation ("WC")

1. Rebuttal to DRA

SCG forecasts a 2012 WC funding need of $16.811 million,[17] while DRA proposes $14.4 million, or a 14% reduction, stating that WC costs "remained at a comparable expense level for the past 4 years."[18] DRA's forecast results in a significant underestimation of projected costs for WC. While SCG agrees that averaging historic costs is the correct foundation for estimating future WC costs, DRA did not consider known cost drivers that will impact WC into 2012.

As SCG explained in its direct prepared testimony, employers face increasing Federal and State requirements which will put upward pressure on WC costs.[19] In fact, there are several widely known facts that will clearly drive up WC costs for employers in the coming years. And because SCG's WC program is self-insured, SCG will experience the full impact of these upward pressures immediately. Listed below are some examples of known cost drivers related to increases in Federal and State requirements.

California Labor Code 4661.5 - temporary disability rates increase every two years. 2012 temporary disability rates are expected to increase to $1,010.50 per week, which is a 2.4% increase over 2010 rates.

Medicare, Medicaid, and SCHIP Extension of 2007 - new Medicare reporting requirements went into effect in 2011. Like many other employers, SCG has entered into a contract with a third party to ensure compliance with these reporting requirements.

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[17] See Exhibit SCG-21 at 21, Table SCG-SEE-16.
[18] Exhibit DRA-31 at 26, lines 4-5.
[19] See Exhibit SCG-21 at 2, lines 17-29.

Increasing Medical Costs - expected to continue to increase as described in the testimony of Debbie S. Robinson (Exhibit SCG-19-R). Historically, medical care costs have made up in excess of 30% of WC costs.

SCG's forecast is a more reasonable result, as it uses a 3-year average plus escalation factors to account for the incremental cost drivers described above. Detailed information regarding the escalation factors can be found in SCG's supplemental workpapers.[20] Lastly, as noted in its direct testimony, SCG's WC costs are more than 20% below the average insured rate (per $100 of payroll) in California.[21] Therefore, SCG's WC forecast is reasonable. The Commission should adopt the total test year amount of $16.811 million.

2. Rebuttal to TURN

TURN recommends a 2012 WC forecast of $15.108 million, accepting SCG's forecast for all WC subcategories except Medical.[22] TURN recommends that the Medical subcategory be treated as "non-labor" costs for escalation purposes as opposed to "non-standard escalation," which is based on known medical cost escalation rates. TURN's proposal to apply a non-labor escalation to the Medical subcategory is not appropriate when escalation factors for medical costs are known. Therefore, TURN's proposal does not yield a more reasonable forecast than the one presented by SCG. The Commission should adopt the total test year amount of $16.811 million.

V. SUMMARY AND CONCLUSION

Forecasting is not an exact science; however, SCG's forecasts incorporate known cost drivers and employ reasonable forecasting methodologies, which DRA and TURN have largely

[20] See Exhibit SCG-21-WP at 61.
[21] See Exhibit SCG-21 at 20, lines 18-19.
[22] Jones at 12, line 19.

ignored. SCG maintains that its forecasts are reasonable and supported by the information provided in its original showing. Granting SCG's request in the specific areas sponsored here will allow SCG adequate funding to administer its programs that relate to the human resources that drive the provision of utility services to customers. Therefore, SCG requests that its 2012 forecasts of $6.399 million for shared services and $27.179 million for non-shared services be adopted.

This concludes my prepared rebuttal testimony.

VI. WITNESS QUALIFICATIONS

My name is Sarah E. Edgar. My business address is 8306 Century Park Ct., San Diego, CA 92123. I am employed by SDG&E as the Director of Safety, Wellness, & Disability Services. In my current position I oversee three distinct work groups: Safety, EAP and Wellness, and Employee Care Services. I have been in my current position since June of 2011.

I received a Bachelor of Science degree in Mechanical Engineering from the University of California at Santa Barbara in June of 1986. I was previously employed by SCG from 1986-2011 and moved to SDG&E in January 2011. I have held positions of increasing responsibility in the following departments; Marketing, Transmission and Storage, Information Technology, Distribution Operations, and Human Resources.

I have previously testified before the California Public Utilities Commission.

ATTACHMENT 1

DRA's Data Request Response to DR SEU DRA-013, Question 4

(relevant portion reproduced)

* * * * *

Origination Date: September 9, 2011
Due Date: September 23, 2011
Response Date: September 22, 2011

Data Request No: DR SEU DRA-013

Exhibit Reference: DRA-31

Subject: Clarification of DRA's proposals and calculations

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.

Q.4: Regarding Table 31-13 on page 21, the A&G - HR Non-Shared Serv Total under column heading "DRA Total" reads, $23,879. SDG&E calculates an amount for this column as $23,491 using DRA's numbers. Please indicate which amount is correct and constitutes DRA's number. If neither amount is considered by DRA to be incorrect, please reconcile the two numbers. Please provide any supporting documentation or workpapers.

A.4: In reference to page 21, Table 31-13 Non-shared services, SCG and DRA TY 2012 Forecast, DRA's Total is a typographical error and it should be $23,224 million.

ATTACHMENT 2

Data Request Response to DRA-SDG&E-047-MCL, Question 4

DRA DATA REQUEST
DRA-SDG&E-047-MCL
SDG&E 2012 GRC – A.10-12-005
SDG&E RESPONSE
DATE RECEIVED: FEBRUARY 25, 2011
DATE RESPONDED: MARCH 11, 2011

4. Referring to page SEE-15, please provide a description and supplemental documentation of what entail SDG&E and SCG Relocation Programs within the Staffing Department. Provide within your program descriptions of any new program changes, additions and goals for these programs for future years. Include the date and year this program was developed.

SDG&E Response 04:

Attached please find the full descriptions of the SDG&E and SoCalGas relocation programs. No changes to these plans are anticipated in the near term. This program was implemented on June 1, 2005.

SoCalGas HO DR Relocation Policy 09-(

SoCalGas Policy Comparison 09-09-10

ATTACHMENT 3

Data Request Response to DRA-SCG-051-MCL, Question 9

9. Referring to page SEE-15 please provide a breakdown of the additional $385,000 requested for Relocation costs for TY 2012. Provide data in constant 2009 dollars.

SoCalGas Response:

The relocation costs requested for 2012 were calculated as follows. The number of anticipated hires requiring relocation reimbursement for 2012 was multiplied by the average relocation cost for the period of 2005 to 2010. The number of hires requiring relocation reimbursement for 2012 is anticipated to be 15. Please see Exhibit SCG-21-WP, page 38, for the average relocation cost per employee. The number of hires requiring relocation will be higher in 2012 than it has been in recent years due to the fact that SoCalGas is expanding its recruiting outside of Southern California. This effort is expected to identify larger pools of qualified diverse candidates in an effort to meet diversity goals in mid-manager positions and above. Also included in the 2012 request are small amounts of anticipated expenses associated with relocation in 2011.