

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-224

**PREPARED REBUTTAL TESTIMONY OF  
EDWARD J. REYES  
ON BEHALF OF SOUTHERN CALIFORNIA GAS COMPANY**

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

**OCTOBER 2011**



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1 **A. SCG's Shared Services Expenses for Test Year ("TY") 2012**

2 In Exhibit DRA-34, Section II, Summary of Recommendations, DRA presented  
 3 Table 34-2 as shown below, that compares the shared services amounts recommended by  
 4 DRA with those proposed by SCG for TY 2012:<sup>2</sup>

**Table 34-2**  
**SCG Shared Services Expenses for TY 2012**  
**(In Thousands of 2009 Dollars)**

Description (a)	DRA Recommended (b)	SCG Proposed (c)	Amount SCG>DRA (d=c-b)	Percentage SCG>DRA (e=d/b)
<b>SCG SUMMARY OF DIRECT COSTS</b>				
100% Level Forecast by Functional Area	\$89,299	\$94,134	\$4,835	5%
Allocations-Out Costs by Functional Area	\$13,334	\$14,090	\$756	6%
Retained Costs by Functional Area	\$75,965	\$80,044	\$4,079	11%
Allocations-in Costs by Functional Area	\$65,503	\$76,676	\$11,173	17%
Book Expense by Functional Area	\$141,468	\$156,720	\$15,252	11%
<b>SCG OVERHEADS</b>				
Allocations Out to SDG&E	\$20,948	\$22,222	\$1,274	6%
Allocations Out to Corporate Center	\$1,277	\$1,388	\$111	9%
Allocations Out to Unregulated Affiliates	\$183	\$176	(\$7)	-4%
<b>SCG RETAINED AND ALLOCATIONS IN</b>				
Retained Costs by Functional Area	\$75,965	\$80,044	\$4,079	5%
Allocations-in (Fully Loaded) by Functional Area	\$95,863	\$111,474	\$15,611	16%
Overhead Credit	(\$8,573)	(\$8,928)	(\$355)	4%
Net Shared Services O&M	\$130,850	\$182,590	\$51,740	40%
<b>SCG CORPORATE REALLOCATION COSTS</b>				
SCG	\$5,395	\$6,104	\$709	13%
SCG	\$5,337	\$6,038	\$701	13%
Unregulated Affiliates	\$4,155	\$4,700	\$545	13%

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<sup>2</sup> See Exhibit DRA-34 at 3.

1 During the reconciliation between the shared services amounts from the RO model  
 2 provided by DRA to SCG and the table presented above, discrepancies were found in  
 3 various line items. Based on the RO model provided by DRA, the comparison of the  
 4 recommended versus proposed shared services amounts for SCG should be reflected as  
 5 follows:

**Table 34-2**  
**SCG Shared Services Expenses for TY 2012**  
**(In Thousands of 2009 Dollars)**

Description (a)	DRA Recommended (b)	SCG Proposed (c)	Amount SCG>DRA (d=c-b)	Percentage SCG>DRA (e=d/b)
<b>SCG SUMMARY OF DIRECT COSTS</b>				
100% Level Forecast by Functional Area	\$88,039	\$94,134	\$6,095	7%
Allocations-Out Costs by Functional Area	\$13,183	\$14,090	\$907	7%
Retained Costs by Functional Area	\$74,856	\$80,044	\$5,188	7%
Allocations-in Costs by Functional Area	\$65,344	\$76,676	\$11,332	17%
Book Expense by Functional Area	\$140,200	\$156,720	\$16,520	12%
<b>SCG OVERHEADS</b>				
Allocations Out to SDG&E	\$20,747	\$22,222	\$1,475	7%
Allocations Out to Corporate Center	\$1,266	\$1,388	\$122	10%
Allocations Out to Unregulated Affiliates	\$175	\$176	\$1	0%
<b>SCG RETAINED AND ALLOCATIONS IN</b>				
Retained Costs by Functional Area	\$74,856	\$80,044	\$5,188	7%
Allocations-in (Fully Loaded) by Functional Area	\$95,505	\$111,474	\$15,969	17%
Overhead Credit	(\$8,343)	(\$8,928)	(\$585)	7%
Net Shared Services O&M	\$162,018	\$182,590	\$20,572	13%
<b>SCG CORPORATE REALLOCATION COSTS</b>				
SDG&E	\$5,264	\$6,104	\$840	16%
SCG	\$5,207	\$6,038	\$831	16%
Unregulated Affiliates	\$4,053	\$4,700	\$647	16%

1 DRA did not raise any issues with SCG’s billing process and allocation of shared  
2 services costs. Rather, DRA’s proposed adjustments are based solely on adjustments made  
3 to shared services cost centers from various functional areas. Depending on the final  
4 determination by this Commission on those adjustments, the direct costs, overhead costs,  
5 retained and allocations-in costs, corporate reallocation costs in this case may be subject to  
6 change.

7 **B. Shared Services Presentation in the RO Model**

8 DRA’s issues with SCG’s shared services presentation in the RO model will be  
9 addressed in the rebuttal testimony of Ms. Deborah A. Hiramoto (Exhibit SDG&E-  
10 245/SCG-238).

11 **III. REBUTTAL TO TURN/UCAN**

12 TURN/UCAN recommend an undistributed and unsupported reduction of an  
13 additional \$1.5 million (\$750,000 for SCG and \$750,000 for SDG&E) due to the  
14 multiplicity of shared services cost centers. TURN/UCAN also recommend that utilities be  
15 required to reduce the number of shared service cost centers (the term “accounts” was used  
16 by TURN/UCAN) to no more than 100.<sup>3</sup>

17 TURN/UCAN’s request for a reduction of \$1.5 million has no basis for either the  
18 derivation of the figure or the allocation between the two utilities, and should therefore be  
19 rejected. Both SDG&E and SCG have provided supported documentation for all shared  
20 service costs presented in this General Rate Case (“GRC”) and should not be arbitrarily  
21 penalized through an unsupported across-the-board reduction. Additionally, all costs, both  
22 shared and non-shared, are summarized and presented at a functional level and supported by

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<sup>3</sup> See Prepared Testimony of William B. Marcus on behalf of TURN/UCAN, p. 13.

1 witnesses for each area and applying a blanket reduction does not allow for any explanation  
2 or defense of the costs. Similar to the last GRC, shared service cost centers were presented  
3 in this level to show transparency of their allocations as well as the audit trail to ensure  
4 appropriate entity or entities are being billed for their services.

5           SDG&E and SCG have created cost centers based on departments and/or work  
6 activities performed. These rational groupings assist in managing costs and allocating those  
7 costs in a logical manner, ensuring no cross-subsidization between ratepayers. Both utilities  
8 are continually looking for ways to streamline and make improvements in process. This has  
9 resulted in a reduction of shared service cost centers from 363 (217 for SDG&E and 146 for  
10 SCG) in the 2008 GRC proceeding to 297 (185 for SDG&E and 112 for SCG) in the 2012  
11 GRC. Requiring the utilities to reduce the number of cost centers without a sound rationale  
12 would result in a reduction in the accuracy of allocations without a real reduction to the  
13 supporting detail.

14           This concludes my prepared rebuttal testimony.  
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1 **IV. WITNESS QUALIFICATIONS**

2 My name is Edward J. Reyes. My business address is 555 West Fifth Street, Los  
3 Angeles, California 90013. My current position is Financial Analysis & Strategic Manager  
4 for Southern California Gas Company (“SCG”).

5 I received a Bachelor of Science from California State University, Dominguez Hills  
6 in May 1994. I was initially employed by SCG in November 1994 and have held various  
7 positions of increasing responsibility in the Accounting and Finance areas of the company,  
8 including Cost Accounting, Financial Accounting, Accounts Payable, New Business  
9 Accounting, Financial Systems and Affiliate Billing & Costing. My responsibilities have  
10 included participation and/or supervision of SAP CO month-end closing, affiliate billing,  
11 overhead rate studies, plant accounting, system design and implementation, and  
12 SAP/Business Warehouse client support.

13 I have been in my current position since January 2011. In my current position my  
14 responsibilities include overseeing the financial analysis in support of new investment  
15 opportunities, development of revenue requirements and development of financial planning  
16 for incremental projects.