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)

Applications: A.10-12-005/A.10-12-006
Exhibits No.: SDG&E-255/SCG-245

PREPARED REBUTTAL TESTIMONY OF
LANE T. RINGLEE
ON BEHALF OF SAN DIEGO GAS & ELECTRIC COMPANY AND SOUTHERN CALIFORNIA GAS COMPANY

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

OCTOBER 2011

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I. INTRODUCTION

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

- Division of Ratepayer Advocates (DRA) witness Dao Phan (Exhibit DRA-28);
- Joint Parties' Witnesses Len Canty, Jorge Corralejo And Faith Bautista (Exhibit JP-1); and
- Joint Parties' Witness Michael Phillips On Behalf Of Black Economic Council, Latino Business Chamber of Greater Los Angeles and National Asian American Coalition (Exhibit JP-3).

Specifically, my testimony supports the following rebuttal points:

- The Towers Watson Total Compensation Study ("Total Comp Study" or "Study")[1] is an accurate and reliable basis for determining that compensation at San Diego Gas & Electric Company ("SDG&E") and Southern California Gas Company ("SoCalGas") is competitively "at market," contrary to DRA's and the Joint Parties' claims.[2]
- The Joint Parties argue incorrectly that executive compensation levels at SDG&E and SoCalGas are excessive;[3] and

[1] Exh. SDG&E-25-R, Appendix 1, (witness D. Robinson).
[2] Exh. DRA-28, p. 7; Exh. JP-1, p. 4.
[3] Exh. JP-3, p. 13.

- The Joint Parties incorrectly claim that the Los Angeles Department of Water and Power (LADWP) should be the only comparison peer used to evaluate SDG&E's and SoCalGas's total compensation levels.[4]

II. SDG&E AND SOCALGAS COMPENSATION LEVELS

My testimony rebuts the following intervenor testimony concerning compensation: (a) DRA's and Joint Parties' respective incorrect conclusions that SDG&E and SCG's total compensation is above market and executive compensation levels are excessive;[5, 6] (b) Joint Parties' incorrect assertion that "excessive executive compensation" inflates compensation levels for other employees;[7] and (c) Joint Parties' inappropriate recommendations that SDG&E and SCG should not rely upon the Total Comp Study because of its inappropriate selection of peers for comparison, specifically, that the Los Angeles Department of Water and Power (LADWP) should be the only comparison peer and that aggregate executive compensation should be reduced to no greater than 150 percent of LADWP compensation levels.[8]

A. Compensation Levels at SDG&E and SoCalGas are Competitive and "At Market"; Towers Study is Properly Structured to Compare Relevant Peers in the Market.

The Total Comp Study was conducted to assess the competitiveness of total compensation at SDG&E and SoCalGas. The Study's methodology was consistent with the best practices of compensation professionals and performed under the joint management of Sempra and DRA. The study concluded that total compensation at SDG&E and SoCalGas was 3.4 percent and 3.2 percent above the competitive mean (average) which is within the competitive

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[4] Exh. JP-3, p. 4.
[5] Exh. DRA-28, p. 7.
[6] Exh. JP-3, p. 13.
[7] Exh. JP-1, pp. 17-19.
[8] Exh. JP-3, pp. 4-10.

range typically used by compensation professionals of plus or minus 10 percent of the mean,[9] refuting DRA's and the Joint Parties' assertions that SDG&E and SoCalGas compensation is excessive.

As described in the prepared direct testimony of Debbie Robinson (Exhibits SDG&E-25-R and SCG-19-R), the Study results were based upon a relevant and objective comparison of SDG&E and SoCalGas total compensation, including benefits, to the competitive market. The Study used peer groups to define the competitive market. The peer groups were developed based upon objective criteria established jointly by Sempra and DRA. Based upon these predefined criteria, peer companies were selected by Sempra and DRA to ensure objectivity. The two peer groups selected were composed of 31 utility industry companies and 31 general industry companies comparable in annual revenues to Sempra. The comparison to the peer groups, not to a single company, is the most relevant assessment of the competitiveness of total compensation. This sample is robust, comparable in scope and is consistent with practices for conducting compensation surveys to ensure a broad-based representation of the competitive market for labor.

The Study was conducted accurately and in accordance with industry standards and Commission practice, as follows:

- The total compensation study was conducted and jointly managed by Sempra and DRA; the consultants leading the study had not performed any other work for Sempra, SDG&E and SCG.
- An objective process was conducted to select a consultant to conduct the Study.
- Objective, predefined criteria were agreed upon by Sempra and DRA to select 20 to 30 peer companies to provide sufficient coverage of jobs.

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[9] Exh. SDG&E-25-R, Appendix 1, p. 14 et seq.

- A significant and relevant data set from two groups of 31 companies (62 companies in total) was developed to establish competitive levels of total compensation.
- The methodology for conducting the Study was consistent with practices of compensation professionals.
- The results of the Study show that SDG&E total compensation is only 3.4 percent above the peer group compensation levels and within the range of competitiveness. And, executive compensation for SDG&E is only 5.9 percent above the peer group compensation levels, again within the range of competitiveness. Similarly, SoCalGas total compensation is 3.2 percent above peer compensation levels, but executives at SoCalGas are paid 10.8 percent below the competitive average of the peers.
- DRA incorrectly uses "actual" instead of "target" incentive compensation (ICP) payout amounts to compare with the results of the Total Comp Study, resulting in inaccurate conclusions. Ms Robinson explains how this inaccurate methodology has led to inappropriate DRA recommendations.[10] However, even if DRA's inappropriate use of actual ICP payout forecasts is adopted,[11] the Total Comp Study shows that SDG&E and SCG ICP payouts are "at market," by industry standards – as stated above, plus or minus 10 percent of the mean.[12]

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[10] As noted in the Prepared Direct and Rebuttal Testimonies of Debbie Robinson (SDG&E-25-R, SDG&E-225, SCG-19-R, and SCG-219), only target ICP payouts have been requested in this case. Actual historic payout amounts include shareholder contributions and do not reflect SDG&E's and SCG's request in this case.
[11] Exh. DRA-28, p. 7.
[12] Exh. SDG&E-25-R, Appendix 1, p. 14 et seq.; *see also* SDGE-25-R, p. DSR-4 and App.1; SCG-19-R, p. DSR-4 and App. 1.

The Joint Parties argue anecdotal comparisons of SDG&E and SoCalGas to LADWP.[13] As shown below, this comparison is inappropriate. Further, the Joint Parties argue that "this Commission cannot and should not rely on Sempra's so-called independent analysis from Towers Watson." Witness Phillips' argument lacks merit and ignores the process followed jointly by Sempra and the DRA to select a consulting firm for the Study. Phillips has provided no evidence that Towers Watson failed to function as an impartial and unbiased consultant. Moreover, use of a third-party consultant to conduct such a compensation study is a commonly accepted industry and public utility commission practice for analyzing utility compensation.

Moreover, the Joint Parties do not challenge the Study's results. The results of the Study should be accepted, as it is accurate and based on industry standards for analyzing and comparing market-based total compensation, using comparable industry peers.

B. Phillips' Assertion that Executive Compensation at SDG&E and SoCalGas is Excessive is Not Fact-Based.

The Study invalidates the assertion that compensation for executives at SDG&E and SoCalGas is excessive and that, as a result, employee compensation is inflated. The Study provided a fact-based analysis of SDG&E's and SoCalGas' total compensation and confirmed that total compensation levels are statistically within the competitive market for all employee categories. The total compensation for the SDG&E executive segment was 5.9 percent above the competitive mean and SoCalGas total compensation for the executive segment was 10.8 percent below the competitive mean. The SDG&E executive segment results are within the range of competitiveness, while the SoCalGas total compensation for executives was below the range of competitiveness. Total compensation for all employee categories was within the range of competitiveness as SDG&E results were 3.4 percent above the competitive mean and SoCalGas

[13] Exhibit JP-3, p. 4-8.

results were 3.2 percent above the competitive mean.[14] Joint Parties' witness Phillips states "…executive compensation at the top affects and inflates executive compensation at all levels. And executive compensation permeates to all managers and professionals".[15] This is factually incorrect, as proven by the Study results. Additionally, executive compensation, by definition, only applies to executives, not "all managers and professionals."

C. Phillips' Comparison of SDG&E to LADWP Compensation is Inappropriate.

The Joint Parties' witness Phillips notes that the Study excluded the use of Los Angeles Department of Water and Power (LADWP) for benchmarking executive positions and proposes a study using a peer group comprising one company – LADWP. This would be inconsistent with practices used by compensation professionals for conducting total compensation studies. The Study included 31 utility industry firms, which is a more substantial sample than typical practices. Including an additional company would have an insignificant impact (1/31st or 3 percent of the sample) on the results. Additionally, LADWP is a municipal organization governed by a board appointed by the Mayor of the City of Los Angeles and confirmed by the City Council and its employees are City of Los Angeles employees. In contrast, the Study's peer groups were based on investor-owned entities that in aggregate (median and average annual revenue) are comparable to SDG&E and SoCalGas, a much more pertinent competitive comparison.

As described in the prepared direct testimony of Debbie Robinson (Exhibits SDG&E-25 and SCG-29), the Study was conducted under the joint management of the DRA and Sempra and the methodology for the Study was consistent with prior GRC total compensation studies and practices used by compensation professionals. DRA provided input on the Study's peer group

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[14] Exhibit. SDG&E-25-R,Appendix 1, p. 4, SCG-19-R, Appendix 1, p. 4.
[15] Exhibit JP-3, p. 6.

criteria for selection and the final peer group, in addition to other critical Study components such as assumptions, methodology, and benchmarking of positions. Compensation professionals develop peer groups to provide a substantial base of compensation data from which to compare compensation levels. Total compensation studies such as the Study use a robust group of comparable companies to assess compensation levels, as noted above. The comparable companies are selected based upon objective criteria and represent a group that are reasonably comparable to SDG&E and SoCalGas. These companies also participated in the six survey sources used for the Study. In contrast, the Joint Parties obtained data for LADWP from published compensation schedules for her/his analysis of non-executive positions for which SDG&E and SoCalGas compete in a local labor market. Joint Parties' witness Phillips' conclusion that the "LADWP data…appears to have been given very little weight"[16] is incorrect, as LADWP was included in the peer group used for non-executive positions in the Study and all peer company data was weighed equally for these non-executive positions.

III. SUMMARY AND CONCLUSION

None of the criticisms set forth in the testimony of DRA or the Joint Parties' witnesses are valid with regard to the Towers Total Compensation Study. The Commission should accept the Study as a valid demonstration that SDG&E and SoCalGas's compensation levels are reasonable and at market.

[16] Exh. JP-3, p. 4.

IV. WITNESS QUALIFICATIONS

I am currently a partner at Pay Governance LLC, 2200 Powell Street (Suite 205), in Emeryville, CA 94608. I have 25 years of experience consulting with organizations in the areas of competitive analyses, design of incentive compensation programs, and compensation governance practices. I have led several total compensation studies for general rate case proceedings and have conducted numerous total compensation studies for companies using compensation and benefits data obtained from major surveys and consulting firms. These compensation studies have been conducted for clients in a variety of industries including energy services, financial services, manufacturing, high technology, and consumer products.

I hold a Bachelor of Arts degree in Political Economy from the University of California at Berkeley (1981) and a Master's degree in Business Administration from Cornell University (1986). Prior to joining Pay Governance, I was a Principal and manager of the Towers Watson (previously Towers Perrin) Executive Compensation and Rewards Practice in California. Prior to my experience at Towers Watson, I worked as a compensation and benefits consultant with Hewitt Associates from August 1988 to March 1996.

I was the senior consultant leading the development and completion of the Study. In my role, I led the Towers project team and was responsible for facilitating Study Team meeting discussions, preparing analyses and background materials to assist the Study Team in conducting and managing the completion of the Study.