

Application of Southern California Gas Company
(U904G) for authority to update its gas revenue
requirement and base rates effective on January 1,
2012.

Application 10-12-____
Exhibit No.: (SCG-23)

**PREPARED DIRECT TESTIMONY OF
CHERYL A. SHEPHERD
ON BEHALF OF SOUTHERN CALIFORNIA GAS COMPANY**

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

DECEMBER 2010



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**PREPARED DIRECT TESTIMONY OF
 CHERYL A. SHEPHERD
 ON BEHALF OF SOUTHERN CALIFORNIA GAS COMPANY
 (EXTERNAL AFFAIRS AND LEGAL DEPARTMENTS)**

I. INTRODUCTION

A. Purpose of Testimony

This exhibit presents Southern California Gas Company’s (“SCG’s”) Test Year 2012 (“TY2012”) cost estimates for the External Affairs and Legal Departments and a description of their structure and activities. Both organizations are facing challenges meeting the demands of an increasingly complex business environment. My testimony will show that the TY2012 forecasted expenses are just and reasonable and are critical in order to perform the necessary activities required to meet the needs of customers and regulators.

B. Summary of Request

Table SCG-CAS-1 provides a summary of the total TY2012 operations and maintenance (“O&M”) costs for the External Affairs and Legal Department, shown by Shared and Non-Shared Services costs. “Non-Shared Services” and “Shared Services” are terms defined in the testimony of Edward J. Reyes (Exhibit SCG-24).

**Table SCG-CAS-1
 Summary of TY2012 Change
 (Thousands of 2009 dollars)**

Functional Area: EXTERNAL AFFAIRS & LEGAL				
Description	2009 Adjusted- Recorded	TY2012 Estimated	Change	Testimony Reference
Total Non-Shared	188	1,371	1,183	Section II
Total Shared Services (Book Expense)	0	5,411	5,411	Section III
Total O&M	188	6,782	6,594	

The costs for these departments are strictly O&M in nature. There are no forecasted capital costs for these departments.

1 **C. Corporate Reorganization**

2 The April 2010 corporate reorganization, which resulted in the restructuring of various
3 departments and functions at Sempra Energy and the Utilities, is discussed in SCG’s Policy
4 testimony of Anne Smith (Exhibit SCG -01). The reorganization at the Utilities was
5 accomplished through a combination of transfers from Corporate Center, eliminating positions at
6 the Corporate Center and then staffing the function within the Utilities (i.e., SCG and San Diego
7 Gas & Electric Company (“SDG&E”)), and also realigning existing functions within each Utility
8 to support the new organizational structure. To advance the goals of the reorganization, many of
9 the External Affairs and Legal functions were transferred to the Utilities, from Sempra Energy’s
10 Corporate Center, and independent External Affairs and Legal Departments were established at
11 each Utility.

12 The Corporate Center transferred costs for SCG’s newly-created External Affairs and
13 Legal Departments are now presented in the TY2012 forecasted costs for those departments
14 within my testimony, while the 2009 cost for these functions remains within the historical
15 allocations from Corporate Center. A discussion and itemization of the transferred costs are
16 shown in the Corporate Center testimony of Bruce Folkmann (Exhibit SCG -17), in the table on
17 page BAF-11. The incremental costs above those Corporate Center transferred costs were
18 derived using a zero-based forecast methodology, since these newly-created departments did not
19 have a cost history at SCG.

20 The total O&M expense shown in Table SCG -CAS-1a on the next page reflects a further
21 breakdown of costs in Table SCG -CAS-1 depicting the transfers from Corporate Center.

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Table SCG-CAS-1a
Detail TY2012 Change
(Thousands of 2009 dollars)

EXTERNAL AFFAIRS & LEGAL	2009 Adjusted-Recorded	TY2012 Estimated	Change
Non-Shared			
External Affairs – Transferred from Corp Center	0	366	366
External Affairs – Utility Specific	188	337	149
<i>Subtotal</i>	188	703	515
Legal – Transferred from Corp Center	0	668	668
Legal - Utility Specific	0	0	0
<i>Subtotal</i>	0	668	668
Total Non-Shared	188	1,371	1,183
Shared Services Incurred Expense			
External Affairs – Transferred from Corp Center	0	606	606
External Affairs – Utility Specific	0	0	0
<i>Subtotal</i>	0	606	606
Legal – Transferred from Corp Center	0	4,391	4,391
Legal - Utility Specific	0	465	465
<i>Subtotal</i>	0	4,856	4,856
Total Shared Services Incurred Expense	0	5,462	5,462
Total Incurred Costs			
External Affairs – Transferred from Corp Center	0	972	972
External Affairs – Utility Specific	188	337	149
<i>Subtotal</i>	188	1,309	1,121
Legal – Transferred from Corp Center	0	5,059	5,059
Legal – Utility Specific	0	465	465
<i>Subtotal</i>	0	5,524	5,524
Net Billings			
External Affairs – Net USS Billings	0	(51)	(51)
Legal – Net USS Billings	0	0	0
<i>Subtotal</i>	0	(51)	(51)
Total Shared Services (Book Expense)	0	5,411	5,411
External Affairs Total	188	1,258	1,070
Legal Total	0	5,524	5,524
Total O&M	188	6,782	6,594

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1 **II. NON-SHARED SERVICES COSTS**

2 The Non-Shared Services costs for the External Affairs and Legal Departments are
3 presented below in Table SCG-CAS-2.

4 **Table SCG-CAS-2**
5 **Non-Shared Services Costs**
6 (Thousands of 2009 dollars)

EXTERNAL AFFAIRS & LEGAL			
Categories of Management	2009 Adjusted-Recorded	TY2012 Estimated	Change
A. External Affairs	188	703	515
B. Legal	0	668	668
Total	188	1,371	1,183

7
8 The TY forecast of approximately \$703,000 is attributable to the activities performed by
9 the Communications (Media and Employee) group within the External Affairs Department. The
10 2009 amount of approximately \$188,000 represents labor and non-labor costs of an existing SCG
11 management position that was redefined to provide leadership to the Communications (Media &
12 Employee) functions that were transferred from Corporate Center to SCG as part of the
13 reorganization. Notwithstanding the 2009 amount, the TY2012 forecast was developed using a
14 zero-based methodology, which included transferred costs from Corporate Center of
15 approximately \$366,000. See Table SCG-CAS-1a.

16 Section IV of this testimony will discuss the structure and activities of the External
17 Affairs Department, and will provide a further discussion on the TY2012 Total O&M forecast
18 including the Non-Shared Services costs shown above.

19 SCG’s Legal Department forecasts approximately \$668,000 in TY2012 for Non-Shared
20 Services, which is attributable to the dual activities of the Senior Vice President of External
21 Affairs and General Counsel of the Legal Department (jointly, “SVP & GC”), and an executive
22 assistant. For efficiency purposes, these costs were placed under a Legal cost center. The
23 TY2012 forecast was developed using a zero-based methodology, which included transferred
24 costs from Corporate Center of \$668,000, since in 2009, the function did not exist at SCG.

25 Section V of this testimony will discuss the structure and activities of the Legal
26 Department, and will provide a further discussion on the TY2012 Total O&M forecast including
27 the Non-Shared Services costs shown above.

III. SHARED SERVICES COSTS

The Shared Services costs for the External Affairs and Legal Departments are presented
 In Table SCG-CAS-3 below.

Table SCG-CAS-3
Shared Services Costs
 (Thousands of 2009 dollars)

EXTERNAL AFFAIRS & LEGAL			
Categories of Management	2009 Adjusted-Recorded	TY2012 Estimated	Change
A. External Affairs	0	550	550
B. Legal	0	4,706	4,706
C. Billed-in from SDG&E	0	155	155
Total Shared Services (Book Expense)	0	5,411	5,411
EXTERNAL AFFAIRS & LEGAL			
Incurred Costs (100% Level)			
A. External Affairs	0	606	606
B. Legal	0	4,856	4,856
Incurred Costs Sub-Total	0	5,462	5,462
Allocations Out To SDG&E			
A. External Affairs	0	25	25
B. Legal	0	150	150
Allocations Out To SDG&ESubTotal	0	175	175
Allocations Out To CORP			
A. External Affairs	0	31	31
B. Legal	0	0	0
Allocations Out To CORP SubTotal	0	31	31
Allocations Out To Unreg			
A. External Affairs	0	0	0
B. Legal	0	0	0
Allocations Out To Unreg SubTotal	0	0	0
Retained by SCG			
A. External Affairs	0	550	550
B. Legal	0	4,706	4,706
SCG Retained Sub-Total	0	5,256	5,256
Billed-In From SDG&E			
	0	155	155
SCG Book Expense			
	0	5,411	5,411

1 As shown above, both the External Affairs and Legal Departments have Shared Services costs.
2 As with Non-Shared Services costs, the Shared Services costs were derived utilizing a zero-
3 based forecasting methodology, which included costs transferred from Corporate Center.

4 Section IV of this testimony will discuss the structure and activities of the External
5 Affairs Department, and will provide a further discussion on the TY2012 Total O&M forecast
6 and the Shared Services costs shown above.

7 Section V of this testimony will discuss the structure and activities of the Legal
8 Department, and will provide a further discussion on the TY2012 Total O&M forecast and the
9 Shared Services costs shown above.

10 **IV. EXTERNAL AFFAIRS DEPARTMENT**

11 The External Affairs Department is headed by a SVP (who also serves as GC), and is
12 comprised of three distinct groups: (1) Regional Public Affairs, (2) Communications (Media and
13 Employee), and (3) Community Relations. However, this testimony does not address Regional
14 Public Affairs or present the costs for that group. Because the activities performed by SCG's
15 Regional Public Affairs group are primarily focused on the Gas Distribution function, those costs
16 are sponsored by the Gas Distribution witness, Gina Orozco-Mejia (Exhibit SCG-02).

17 This testimony specifically addresses the remaining two groups. Prior to the
18 reorganization, the Communications (Media and Employee) and Community Relations activities
19 were performed at Corporate Center and were allocated to the Utilities. Pursuant to the goals of
20 the reorganization (see Exhibit SCG-01, witness A. Smith), SDG&E and SCG established their
21 own dedicated External Affairs Departments so that the activities performed by these two groups
22 could better focus on the specific company, service territory, and community needs unique to
23 each Utility. Some groups formerly at Corporate Center were transferred to the utilities during
24 the reorganization, and some remained at Corporate Center (see Exhibit SCG -17 for a
25 discussion of the costs and activities remaining at Corporate Center). Additionally, an existing
26 SCG management position was redefined to provide leadership to the Communications (Media
27 and Employee) resources transferred from Corporate Center to the utility as part of the corporate
28 reorganization. Table SCG-CAS-4 shows the total O&M costs for External Affairs being
29 requested for TY2012.

1 **Table SCG-CAS-4**

2 **External Affairs**

3 **Total O&M Costs**

4 (Thousands of 2009 dollars)

EXTERNAL AFFAIRS			
	2009 Adjusted-Recorded	TY2012 Estimated	Change
A. Communications (Media & Empl.)	188	703	515
B. Community Relations	0	555	555
Total	188	1,258	1,070

5
6 The TY2012 forecast was developed using a zero-based methodology, which included
7 transferred costs from Corporate Center of approximately \$972,000, since in 2009 the functions
8 did not exist at SCG. See Table SCG-CAS-1a.

9 **A. Communications (Media and Employee)**

10 The Communications (Media and Employee) group manages and coordinates external
11 communications with the media and internal communications with employees on the vast array
12 of topics that involve the utility and are of interest and importance to both ratepayers and
13 employees. Table SCG-CAS-5 shows the TY2012 forecast of total O&M costs for this group.

14 **Table SCG-CAS-5**

15 **Communications (Media and Employee)**

16 **O&M Costs**

17 (Thousands of 2009 dollars)

COMMUNICATIONS (MEDIA & EMPL.)			
	2009 Adjusted-Recorded	TY2012 Estimated	Change
Non-Shared Services	188	703	515
Shared Services	0	0	0
Total O&M Costs	188	703	515

18
19 This group provides only Non-Shared Services, so there are no Shared Services costs
20 presented in this testimony. Further details of these Non-Shared Services costs (labor and non-
21 labor split) are contained in my workpapers (Exhibit SCG-23-WP). The TY2012 costs are

1 attributable to the activities performed by the Communications (Media and Employee) group, as
2 discussed below.

3 **1. Organizational Structure**

4 This group consists of a department manager, 2 public relations managers and an
5 employee communications manager. The department manager is responsible for providing
6 leadership and guidance over the activities of this department and its employees. The public
7 relations managers are responsible for proactively developing and disseminating materials for
8 use with and by media representatives, and for responding to media inquiries. They are
9 responsible for understanding needs and interests of the media, as well as building and
10 maintaining strong relationships with the media. The end goal is to ensure that SCG's
11 communications on issues of interest and importance reach multiple audiences including
12 residential business, low-income customers, and community leaders served by the Utility. The
13 employee communications manager is responsible for developing and disseminating information
14 to SCG's approximately 7,300 employees so that they remain well-informed about energy
15 industry topics, utility issues, programs, services and safety. Administrative support for this
16 group is shared with the Community Relations group.

17 **2. Activities**

18 SCG's service territory includes the second-largest media market in the nation. As such,
19 media relations are a key aspect of the company's external communications efforts to raise
20 customer awareness of energy topics such as energy conservation and assistance programs,
21 public safety, emergency response, planned and current infrastructure improvement projects, rate
22 changes, and environmental issues. By working closely with the media, SCG significantly
23 broadens the reach of key messages, keeping customers better informed about critical energy
24 issues and increasing their knowledge of SCG's services. This is particularly true in ethnic
25 communities, which often turn to in-language media as a trusted source for information.
26 Customers expect utilities to provide accurate and timely information about utility projects,
27 plans, services and policies that will affect them. This is accomplished through proactive
28 communications with the media, news releases, news conferences and interviews, and by
29 responding to media inquiries. Examples of external communications efforts include appearing
30 on news shows to discuss customer assistance programs, distribution of news releases on topics

1 ranging from the “Call Before You Dig” service to energy conservation, and pitching reporters to
2 cover incentives available through energy efficiency programs.

3 In addition to working with traditional media, the group is increasingly having to focus
4 time and attention on “new media,” such as blogs, Twitter® and YouTube® – media which has
5 grown significantly since the last rate case. Customers increasingly expect information to be
6 available at their fingertips immediately. Most traditional media, including TV and newspapers
7 have 24/7 online news pages. SCG expects that this trend will continue over the next several
8 years. Since many of our youngest customers – those perhaps least familiar with energy issues
9 and utility service – comprise social media’s largest audience, dedicating resources to social
10 media is critical on a going-forward basis.

11 This group also provides SCG employees with news and information about the utility,
12 helping them better understand the energy industry, SCG’s direction and objectives, and the
13 services provided to the community. The Communications (Media and Employee) group
14 informs and motivates employees throughout the company through a variety of communications
15 tactics. These communications are essential, as our employees are often frontline
16 communicators with our customers. Keeping employees informed allows them to more
17 efficiently, effectively and safely perform their job duties and to better serve our customers’
18 needs. Moreover, because the majority of SCG employees are also customers, they interact with
19 other customers in their daily lives, making them ambassadors and messengers who can deliver
20 these important messages to their communities. Disseminating this information benefits all
21 customers through increased participation in SCG programs.

22 **B. Community Relations**

23 As the liaison between SCG, community-based organizations, faith-based organizations,
24 and the local communities, the Community Relations staff develops partnerships with these
25 groups to facilitate promotion of SCG’s customer programs and services. The group also
26 provides financial and logistical support to Company and third-party programs that benefit
27 ratepayers by indirectly mitigating the impacts of its operating activities on the communities
28 served by SCG. As such, the Community Relations group also coordinates and manages all
29 community involvement, employee engagement/volunteerism and directs the charitable
30 contributions strategy and programs for SCG. Community Relations provides information on
31 key company programs to underserved communities and those in need of financial assistance, by

1 teaming with other organizations to provide information on programs available to ratepayers.¹
2 Table SCG-CAS-6 below shows the TY2012 forecast of total O&M costs for the Community
3 Relations group.

4 **Table SCG-CAS-6**
5 **Community Relations**
6 **Total O&M Costs**

7 (Thousands of 2009 dollars)

COMMUNITY RELATIONS	2009 Adjusted-Recorded	TY2012 Estimated	Change
Non-Shared Services	0	0	0
Shared Services Incurred Costs	0	606	606
Allocations Out to SDG&E	0	25	25
Allocations Out to Corp	0	31	31
Retained at SCG	0	550	550
Billed-In from SDG&E	0	5	5
Shared Services (Book Expense)	0	555	555
Total O&M	0	555	555

8
9 SCG projects that the Community Relations group will provide some Shared Services to
10 Corporate Center in TY2012 (approximately \$31,000). These Shared Services relate to planning
11 and managing events for Corporate Center, as well as to administrative support for the Volunteer
12 Incentive Program, Sempra Employee Giving Network and Sempra Energy Foundation.
13 Moreover, SCG forecasts approximately \$25,000 of Shared Services will be provided to
14 SDG&E. These Shared Services relate to planning and managing company events such as
15 community outreach events, employee events (such as informational Town Hall meetings) and
16 other business meetings. Also, SCG will receive shared services costs from SDG&E in TY2012
17 (approximately \$5,000) related to the administration of the centralized charitable giving data
18 base, the support for the Volunteer Incentive Program and the Matching Gifts Program. Further
19 details of these costs (labor, non-labor split, and cost allocation methodology) are contained in
20 my workpapers (Exhibit SCG-23-WP). The TY2012 costs shown above are attributable to the
21 activities performed by the Community Relations group on behalf of SCG, as discussed below.
22

¹ As indicated in the Compliance testimony of Andrew Steinberg (Exhibit SCG-41), SCG has addressed the Commission's Ordering Paragraph 28 in D.08-07-046 by including in workpapers information regarding outreach efforts for educational and other purposes.

1 **1. Organizational Structure**

2 This group consists of a director, 2 community relations managers, 2 specialists, and 2
3 administrative assistants. The director is responsible for providing leadership and guidance
4 governing the activities of the department and its employees. The managers are responsible for
5 designing, developing and implementing community relations plans and programs, as well as
6 contributions programs. The director and managers supported by their staff represent SCG at
7 various community events throughout the year. The Community Relations specialists are
8 responsible for researching, developing and facilitating the distribution of the California Public
9 Utilities Commission (“CPUC” or “Commission”) 77K report for charitable giving, planning and
10 managing the annual charitable giving budget, as well as planning and managing company
11 events. The administrative assistants provide general administrative support to both the
12 Community Relations and Communications (Media and Employee) groups.

13 **2. Activities**

14 The Community Relations group is the liaison between the company and the local
15 communities and is responsible for establishing partnerships with community based non-profit
16 groups to promote SCG programs and services to ratepayers and to provide financial and
17 logistical support to Company and third party programs that benefit ratepayers by indirectly
18 mitigating the impact of operational activities on communities served by SCG. Because SCG’s
19 giving programs focus on Emergency Preparedness and Safety, Environment, Education and
20 Economic Development in many low-income and diverse communities, Community Relations is
21 able to develop partnerships with groups that actively represent the interests of, and will take
22 action to bring information forward to benefit, the constituents they serve. For example, through
23 partnerships with groups such as All People’s Christian Center we are able to educate our
24 customers about SCG’s customer assistance programs. Partnerships with low-income
25 community based non-profit partners, such as the Korean Health, Education, Information and
26 Research Center enable us to provide training and educate low-income customers on our low-
27 income bill assistance, payment arrangement and weatherization programs. Partnerships with
28 environmental groups, such as the Los Angeles Conservation Corps allow us to create awareness
29 about SCG’s energy efficiency programs and weatherization programs. Also, partnerships with
30 Economic Development Councils provide the opportunity to promote energy efficiency
31 programs to help business customers lower costs and to attract more businesses to the area. Our

1 partnerships with the Los Angeles Infrastructure Academy and other educational organization
2 allow us to educate students about saving valuable resources and about jobs in the green
3 economy. Through these valuable partnerships, SCG is able to more effectively deliver available
4 services and programs to these customers.

5 This group also manages company policies, increasing employee engagement and
6 volunteerism in the community, utility charitable contributions, memberships in business
7 organizations and support for diverse, low-income and hard to reach communities. The
8 charitable activity requires the coordination, accounting and tracking of all grants in a centralized
9 grant tracking system to ensure compliance with state and federal laws and tax requirements.

10 Providing support to SCG employees in their community involvement efforts such as
11 their involvement with non-profit boards, including the United Way, benefit many hard to reach
12 customers. Community Relations also plans and coordinates specific charitable initiatives such
13 as “Helping People in Need.” Through specific charitable initiatives coordinated by this group,
14 such as “We CARE,” SCG is able to reach out to low-income customers with basic services and
15 educate them on SCG’s low-income bill assistance programs and energy efficiency programs.

16 In addition, by being actively involved in the communities SCG serves, employees are
17 better able to understand customer concerns. Community involvement also helps improve
18 employee morale and motivation. In turn, employee satisfaction helps to positively impact
19 recruiting, employee retention, and productivity, which benefits ratepayers.

20 Community Relations also manages the Community Advisory Council (“CAC”), which
21 is made up of a diverse group of community leaders and stakeholders who represent a cross-
22 section of the ethnic, geographic and customer interests served by the utility. As a group, the
23 CAC acts as a community “sounding board” on the Utility’s proposed and existing policies and
24 programs, offers advice and expertise on how the Utility can maintain and expand its leadership
25 in areas that will benefit customers, provides feedback on how to best communicate changes
26 within the industry and other issues of potential interest to the general public, and provides
27 community perspective and insight, advising on emerging issues that can impact both SCG and
28 the communities we serve. This feedback is useful for improving program design and outreach
29 efforts. Community Relations also supports the California Utilities Diversity Council, a
30 committee created with the endorsement of the Commission’s President. This committee is a
31 collaborative effort among businesses, consumers, utility companies, and the Commission aimed

1 at creating greater opportunities for low-income and diverse community based non-profit
2 organizations through the supplier diversity and charitable support programs.

3 Community Relations is responsible for building, sustaining, and enhancing relationships
4 with community leaders, consumer groups, and opinion leaders, as well as various charitable and
5 civic organizations within SCG's service territory. These relationships are critical in reaching
6 underserved constituents and furthering the philosophy, policies, goals, and programs endorsed
7 by the Commission in better serving customers. Through active participation in community
8 events and strong business relationships in the communities served by SCG, Community
9 Relations is able to provide important information about energy industry issues and raise
10 awareness of SCG's programs and services, as well as receive timely and relevant feedback on
11 how to better serve its customers.

12 **C. Challenges Facing Operations**

13 In order to meet the increasing demands on the department resulting from the rapid
14 expansion of new media, increasing customer demand for information through these
15 communications channels, and the increasing number of issues with multiple channels of
16 communications needed to cover an increasingly complex industry, the External Affairs
17 Department requests incremental labor and non-labor funding for one additional full-time
18 equivalent ("FTE") in its Communications (Media and Employee) group. This will enable the
19 department to keep on top of the rapidly-evolving new media industry, to remain abreast of
20 emerging communications tactics, and to better meet the information needs of our customers
21 along with the various constituents in the communities we serve.

22 **V. LEGAL DEPARTMENT**

23 SCG's Legal Department, which is headed by a SVP & GC, who also serves as SCG's
24 SVP of External Affairs, provides legal services to SCG primarily through in-house attorneys
25 and staff and, where needed, through outside counsel and attorneys and resources that reside at
26 Corporate Center and SDG&E. Prior to the reorganization, the legal function was performed by
27 a consolidated law department which resided at Sempra Energy, and which provided legal
28 service to all the subsidiaries of the parent, including the Utilities. The Utilities were then billed
29 for services and resources provided by Sempra Energy. After the reorganization, SDG&E and
30 SCG established their own dedicated Legal Departments, and a portion of the existing attorney

1 workforce transferred to various business units (including SDG&E and SCG), while others
2 stayed at Sempra Energy at the Corporate Center Law Department (“CCLD”).

3 The creation of utility-level Legal Departments and the transfer of attorneys and support
4 staff to the Utilities are consistent with the goals of the reorganization. Because utility
5 operations of a combined (gas and electric) utility are operationally different from a gas-only
6 utility such as SCG, giving rise to distinct legal issues, and because SDG&E’s service territory is
7 unique from SCG’s service territory, management determined that it was appropriate and
8 beneficial to have legal staff dedicated to each of the Utilities as part of the restructuring efforts.
9 Under this structure, each utility can also handle its in-house and outside staffing needs with
10 greater autonomy and management.

11 In determining which attorneys to transfer to SCG, management took into account the
12 expertise and relationships that the attorneys had established with each Utility. Under the new
13 structure, the attorneys working in SCG’s Legal Department will continue to expand their gas
14 utility business expertise, and to build even stronger working relationships with SCG’s operating
15 and general administration groups.

16 SCG’s in-house attorneys and staff will provide the bulk of legal services to SCG. Some
17 of the attorneys at CCLD, however, will continue to provide important legal and management
18 services, as well as non-labor resources (e.g., legal research tools) to SCG in those areas where it
19 is most efficient and practical to do so. For example, SCG’s Legal Department intends to use
20 CCLD attorneys for matters involving governance, securities, real estate, labor/employment, and
21 certain environmental related matters. CCLD attorneys will also be available to provide legal
22 services in work overflow situations. Moreover, Sempra Energy’s General Counsel will also
23 continue to provide corporate governance for business unit legal departments. Exhibit SCG-17
24 (witness B. Folkmann) discusses the activities and associated costs that the Utility Legal
25 Departments will receive from CCLD. Those costs are not presented or sponsored in this
26 testimony.

27 SCG also intends to share legal resources with SDG&E where it is efficient to do so. The
28 sharing of legal services will be primarily limited to the co-staffing of matters where both
29 utilities are parties and their interests are aligned (e.g., the Commission’s General Order 156
30 Order Instituting a Rulemaking), or where a particular legal expertise needed by one utility
31 resides at the other Utility’s Legal Department. SCG may also use an SDG&E attorney in a

work overflow situation rather than hire outside legal counsel. Table SCG-CAS-7 below presents the total O&M costs for the Legal Department being requested for TY2012.

Table SCG-CAS-7

Legal

Total O&M Costs

(Thousands of 2009 dollars)

LEGAL	2009 Adjusted-Recorded	TY2012 Estimated	Change
A. General Counsel (SVP & GC)	0	668	668
B. Law Department	0	4,856	4,856
Total	0	5,524	5,524

The TY2012 forecast was developed using a zero-based methodology, which included transferred costs from Corporate Center of \$5.059 million, since in 2009 the functions did not exist at SCG. See Table SCG-CAS-1a. The TY2012 costs shown above are attributable to the activities performed by the SVP & GC and the Law Department as discussed below.

A. General Counsel (SVP & GC)

In addition to serving as the SVP of the External Affairs Department, the SVP & GC oversees the entire legal operations at SCG, and serves as the company’s legal advisor and officer. Given the goals of the reorganization, the SVP & GC is able to provide dedicated services to, and legal counsel on behalf of, SCG and its specific needs and interests. Table SCG-CAS-8 below shows the TY2012 forecast for total O&M costs contained in the cost center for the SVP & GC.

Table SCG-CAS-8

General Counsel (SVP & GC)

O&M Costs

(Thousands of 2009 dollars)

GENERAL COUNSEL (SVP & GC)	2009 Adjusted-Recorded	TY2012 Estimated	Change
Non-Shared Services	0	668	668
Shared Services	0	0	0
Total O&M	0	668	668

1 The SVP & GC position at SCG did not exist prior to the reorganization, and is a
 2 necessary component of the new leadership structure at the Utility. As described above, this
 3 position is responsible for overseeing two distinct organizations. This cost center was designated
 4 as a Non-Shared Service cost center, as it strictly supports SCG and no other entities. Further
 5 details of these costs (labor, non-labor split) are contained in my workpapers (Exhibit SCG-23-
 6 WP).

7 **B. Law Department**

8 SCG's Law Department relies on a staff of in-house attorneys, support staff, and
 9 resources to handle the company's regulatory, litigation, commercial, and environmental matters.
 10 In-house attorneys develop extensive knowledge of the company's policies, operations, and
 11 organization, and establish close and effective working relationships with operating departments.
 12 This knowledge base allows in-house attorneys to handle, or assist in handling, the wide range of
 13 assignments pertaining to the company's legal and business needs. Table SCG-CAS-9 below
 14 shows the TY2012 forecast for total O&M costs for the Law Department cost centers.

15 **Table SCG-CAS-9**

16 **Law Department**

17 **O&M Costs**

18 (Thousands of 2009 dollars)

LAW DEPARTMENT	2009 Adjusted-Recorded	TY2012 Estimated	Change
Shared Services Incurred Costs	0	4,856	4,856
Allocations Out to SDG&E	0	150	150
Allocations Out to CORP	0	0	0
SCG Retained Costs Subtotal	0	4,706	4,706
Billed-In from SDG&E	0	150	150
Shared Services (Book Expense)	0	4,856	4,856

19
 20 As described throughout this testimony, the Law Department is classified as a Utility
 21 Shared Services functional area to account for the ability of the Utilities' respective legal
 22 organizations to share resources where needed. Almost all of the incurred costs forecasted for
 23 TY2012 (\$4.856 million) are for dedicated legal services at SCG, which are described below.
 24 SCG forecasts approximately \$150,000 in O&M costs will be billed to SDG&E in TY2012 to

1 account for the sharing of legal services described earlier in this testimony.² Also, SCG expects
2 to receive billed-in costs from SDG&E related to the limited use of attorneys at SDG&E on an
3 as-needed basis. This forecast reflects SCG's expectation that by 2012, the sharing of legal
4 resources with SDG&E will decrease significantly from current levels so that each of the
5 Utility's Legal Departments will over time function independently of one another, sharing
6 services only in those circumstances where it is most efficient to do so, such as when both
7 Utilities are parties to a proceeding, or where specific expertise on a given legal matter resides
8 within the other Utility's Legal Department. Further details of these costs (labor, non-labor split)
9 are contained in my workpapers (Exhibit SCG-23-WP).

10 SCG's Law Department is currently made up of 19 attorneys and is organized into the
11 following practice areas: (1) Regulatory, (2) Litigation, (3) Commercial, and (4) Environmental.
12 There are also currently 3 legal research attorneys, 3 paralegals, and 5 administrative assistants
13 supporting the department. Assistant General Counsels ("AGCs") oversee the Regulatory and
14 Commercial and Environmental sections, and a Managing Attorney oversees the Litigation
15 section. The AGCs and Managing Attorney report to SCG's SVP & GC.

16 Although in-house attorneys are assigned to one of the practice areas listed above, they
17 may be asked to assist in a different practice area. For example, litigation, commercial, and
18 environmental attorneys are often assigned to assist in ongoing regulatory matters. Conversely,
19 regulatory attorneys are sometimes asked to review commercial contracts or environmental
20 regulations to ensure compliance with regulatory decisions, rules, or tariffs. Each of these legal
21 practice areas is described below.

22 **1. Regulatory**

23 The Regulatory section consists of an AGC and 8 attorneys. This section represents SCG
24 in regulatory proceedings at the Commission and at the Federal Energy Regulatory Commission
25 ("FERC"), and advises management and operational groups within SCG on new and existing
26 rules, regulations, tariffs, rate issues, initiatives, and investigations at the Commission, FERC,
27 California Energy Commission, and more recently, the California Air Resources Board.
28 Regulatory attorneys are also often involved in commercial matters where those transactions
29 have a regulatory basis. Further, regulatory attorneys are frequently asked to comment or advise

² There are no forecasted billings out to Sempra Energy or the non-utility affiliates for TY2012.

1 on legislation where regulatory ramifications may exist (e.g., state or federal environmental
2 bills).

3 The volume and complexity of regulatory work have been impacted by the expansion of
4 proceedings requiring regulatory legal staffing. In addition to the traditional, recurring
5 proceedings such as GRCs, cost of capital applications, gas portfolio filings, and cost
6 allocation/rate design proceedings, SCG's regulatory attorneys are involved with emerging types
7 of proceedings driven by environmental initiatives (e.g., new greenhouse gas initiatives and
8 environmental compliance requirements³), fire prevention and other safety measures,⁴ and
9 customer billing and collection issues.⁵ In addition, there are matters related to changes in
10 SCG's infrastructure and service, including advanced metering initiative ("AMI"), storage
11 expansion, and pipeline safety and integrity, which will require legal support.

12 **2. Litigation**

13 The Litigation section consists of a Managing Attorney and 5 attorneys. The Litigation
14 section principally represents SCG in civil litigation proceedings, ranging from the defense of
15 personal injury and property damage lawsuits to more complex commercial, environmental, and
16 business litigation.

17 Most company litigation matters are handled in-house, from initial filing to trial, using
18 outside counsel only when in-house resources are insufficient. The company's increased
19 \$5 million self-insured retention is expected to increase the litigation workload as more company
20 resources must be expended before insurance resources become available. Additionally, more
21 aggressive litigation tactics, including expanding theories of liability, and increased monetary
22 demands and punitive damages claims, are making litigation practice more rigorous and
23 increasing the section's caseload.

24 In addition, litigation attorneys' role has expanded to provide advice to support the
25 company's emphasis on loss prevention as well as public and employee safety.⁶ They are also
26 increasingly being called upon to provide a "litigator's perspective" with regard to a broad
27 spectrum of company operations and undertakings. Examples include review and revision of
28 SCG's policies and procedures, standards, and tariff rules; preparation of safety communications

³ See e.g., testimony of Lisa P. Gomez (Exhibit SCG-15).

⁴ See e.g., testimony of Scott D. Drury (Exhibit SCG-16).

⁵ See e.g., testimony of Edward Fong (Exhibit SCG-07).

⁶ See Exhibit SCG-16 (witness S. Drury).

1 and public awareness programs; regulatory compliance; conducting training programs for safety
2 and for incident response; pre-litigation investigation of significant incidents; and legislative
3 analysis.

4 **3. Commercial and Environmental**

5 The Commercial and Environmental sections consist of an AGC and 3 attorneys. SCG
6 also currently receives services from CCLD and SDG&E attorneys with specific environmental
7 expertise to assist in the areas of hazardous materials and substances, air and water quality
8 regulation, federal and state environmental litigation, environmental legislation and compliance
9 strategy.

10 SCG's Environmental section manages and represents the company in the areas of
11 environmental compliance, litigation, enforcement, and permitting. The environmental attorneys
12 represent the company in matters before governmental agencies overseeing air, water quality,
13 species protection, land use, and environmental review. Furthermore, they provide guidance and
14 representation in regulatory proceedings where environmental review is mandated by the
15 Commission or another federal, state or local agency, or where administrative or governmental
16 permits are required for a regulatory-approved capital project, pipeline integrity project, or
17 routine operations and maintenance activities, particularly in environmentally sensitive areas
18 where the company has facilities, such as wetlands, the Coastal Zone, the California desert and
19 other sensitive habitats and ecosystems. Further, as noted below, changes in environmental
20 regulations or laws require these attorneys to develop a corresponding expertise so that they can
21 then advise the company on a variety of matters.⁷ The company's ability to handle the volume
22 and diversity of commercial and environmental matters is currently constrained. This is due in
23 part to the fact that SCG has a service territory that encompasses approximately 20,000 square
24 miles of diverse terrain and includes over 230 local governments and agencies throughout
25 Central and Southern California. It is also due to the fact that, environmental laws, regulations,
26 and policies that apply to the company and the gas industry continue to evolve, placing
27 additional substantive requirements on the company at the federal, state, and local level.⁸
28 Similarly, environmental litigation and enforcement actions are on the rise.

⁷ See Id.

⁸ See Exhibit SCG-15 (witness L. Gomez).

1 SCG's Commercial section handles commercial transactions of all types, including
2 contracts for physical and financial commodity transactions, storage and hub transactions;
3 interstate pipeline capacity; utility system interconnections, general services and operations
4 procurement; maintenance and new construction; licensing, intellectual property and technology
5 contracts; municipal franchises, permitting, right-of-way acquisition and land use matters; new
6 business structuring; research and development investment; energy efficiency program contracts,
7 rebates and incentives, federal and state government contracts, customer services agreements;
8 and tariff-based contracts.

9 **4. Support Staff**

10 SCG's Law Department currently has 3 legal research attorneys, 3 paralegals, and 5
11 administrative assistants supporting the in-house attorneys. Legal research attorneys are licensed
12 practitioners that support the staff attorneys on an array of matters, offering legal research and
13 writing, and provide litigation support (e.g., depositions, court appearances, etc.). Paralegals
14 provide case planning, development, and management; research legal and factual issues; conduct
15 interviews; engage in fact gathering and retrieval of information; draft and analyze legal
16 documents; and review and proofread various filings prior to submittal. The administrative
17 assistants provide general administrative support as well as specialized support depending on
18 practice areas. They are required to be knowledgeable and proficient in civil and regulatory
19 rules, practice, and procedures, and to constantly enhance their skills as technologies and the
20 business practices change.

21 **C. Outside Counsel**

22 SCG will use outside counsel to handle certain matters requiring special skills, or when
23 the needs of particular cases require additional resources. The CCLD will continue to coordinate
24 retention and oversight of outside firms on behalf of the Utilities, for reasons described in
25 Exhibit SCG -17 (witness B. Folkmann).

26 **D. Challenges Facing Operations**

27 Due to the demands on the various in-house sections, as described above, SCG is
28 requesting 3 additional FTEs: 2 experienced attorneys and 1 administrative assistant. The cost
29 increase is reasonable and necessary to allow SCG to meet the increasing demands on the Law
30 Department and to attract experienced attorneys in the job market.

1 **E. Timekeeping Proposal**

2 Currently, attorneys use a customized timekeeping system to track their time. Tracking
3 attorney time prior to the reorganization was necessary when the legal function was performed
4 by a consolidated law department at Sempra Energy. The timekeeping data are used as the basis
5 for allocating legal costs to the various business units, including SCG, using the
6 Causal/Beneficial method.⁹ Now that SCG has established its own dedicated Legal Department
7 to provide the bulk of its legal services, the need to track attorney time no longer exists.
8 Accordingly, the continued requirement for attorneys to track their time would be an unnecessary
9 drain on resources. Moreover, other work groups that are shared between SDG&E and SCG do
10 not track their time. There is no legitimate rationale for establishing a specific requirement
11 unique to the in-house attorneys.¹⁰ To the extent an attorney at SCG performs work on behalf of
12 SDG&E, there are existing policies and accounting processes in place to ensure those costs are
13 appropriately billed to SDG&E.¹¹

14 As mentioned above, the Legal Department has used the timekeeping data for the purpose
15 of allocating costs between business units. Legal Department management does not use these
16 data as a management tool – another purported use of tracking attorney time. This is because the
17 raw time data collected through timekeeping are not a reliable indicator for assessing individual
18 attorney work loads or work performance. The data are also not a reliable tool to forecast future
19 attorney workload. According to the Legal Department management, little if any insight can be
20 gained into attorney workloads or the value an attorney provides to the company relative to
21 another attorney by comparing the recorded hours of one in-house attorney to another. In fact,
22 such a comparison can be misleading since a high level of recorded time can just as easily
23 indicate inefficiency as it can reflect extraordinary efforts on complex matters.

24 SCG’s Legal Department management’s experience with respect to the limited usefulness
25 of timekeeping data as a management tool is consistent with the findings of a study Southern
26 California Edison Company (“SCE”) undertook for its last rate case regarding time tracking for

⁹ See Exhibit SCG-17 (witness B. Folkmann) for a description of this method.

¹⁰ The CCLD will continue to use a time keeping system, as described in Exhibit SCG-17 (witness B. Folkmann), as the basis to allocate CCLD attorney time devoted to working on SCG matters. As required by law, all employees, including attorneys, will track time spent lobbying.

¹¹ As noted earlier, although SCG’s Law Department does not anticipate performing any services for Sempra Energy or non-utility affiliates in TY2012, to the extent a situation occurs where an SCG attorney does provide services to Sempra Energy or a non-utility affiliate, the costs associated with those services will accordingly be billed out to the entity receiving the services.

1 its in-house counsel. The study concluded that implementing and operating an attorney
2 timekeeping system was unwarranted.¹² In particular, the study noted the considerable financial
3 and non-financial costs associated with maintaining a timekeeping system.¹³ Additionally, the
4 study noted that, as of 2006, only 18% of corporations reported having a formal timekeeping
5 system for their lawyers, down from 28% in 2001.¹⁴ The Commission agreed with the findings
6 of the study and declined to require SCE to implement a timekeeping system for its legal
7 department.¹⁵ Although there is an existing timekeeping system in place for attorneys at SCG,
8 the underlying findings in SCE's study are equally applicable to SCG. Indeed, the estimated
9 one-time cost of establishing a timekeeping system for SCE was negligible compared to the
10 recurring time and costs of maintaining such a system.¹⁶

11 For the reasons provided above, SCG recognizes the inherent value in eliminating in-
12 house timekeeping, and respectfully requests the Commission's adoption of this proposal.

13 **VI. CONCLUSION**

14 SCG's TY2012 O&M costs are reasonable in light of the vital functions that are
15 performed by the External Affairs and Legal Departments. Further, the staffing level increases
16 proposed by each department are modest and reasonable. As such, the TY2012 cost estimates
17 should be adopted.

18 This concludes my prepared direct testimony.

¹² See Appendix B, SCE-07, Volume 2, A. 07-11-011.

¹³ *Id.*

¹⁴ *Id.* at 6.

¹⁵ See D.09-03-025 (mimeo) p. 151, Finding of Fact No. 199, and Conclusion of Law No. 132.

¹⁶ SCE Study at B-7, 8.

1 **VII. WITNESS QUALIFICATIONS**

2 My name is Cheryl A. Shepherd. My business address is 555 W. Fifth Street, Los
3 Angeles, California, 90013. I am employed by SCG as the Director of Finance. My current
4 position provides financial support to the executive leadership of SCG. I have been in this
5 position since April, 2010.

6 I received a Bachelor of Science degree in Economics from the University of California
7 at Los Angeles, where my area of emphasis was accounting and finance. I have been employed
8 by SCG in various positions and responsibilities since 1981. My experience is in numerous areas
9 including Cost Accounting, Treasury, Financial Planning, Market Services and Human
10 Resources, Accounting Operations, Real Estate, and Customer Operations.

11 I have previously testified before the California Public Utilities Commission.