Company:	Southern California Gas Company (U 904 G)/San Diego Gas & Electric Company (U 902 M)
Proceeding:	2019 General Rate Case
Application:	A.17-10-007/008 (cons.)
Exhibit:	SCG-222/SDG&E-220

SOCALGAS/SDG&E

REBUTTAL TESTIMONY OF JOSEPH CHOW AND SYDNEY L. FURBUSH

(SUPPLY MANAGEMENT, LOGISTICS, & SUPPLIER DIVERSITY)

JUNE 18, 2018

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

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SOCALGAS/SDG&E REBUTTAL TESTIMONY OF JOSEPH CHOW AND SYDNEY L. FURBUSH (SUPPLY MANAGEMENT, LOGISTICS, & SUPPLIER DIVERSITY)

I. SUMMARY OF DIFFERENCES

TOTAL O&M (SDG&E) - Constant 2016 ($000)			
	Base Year 2016	**Test Year 2019**	**Change**
SDG&E	**13,930**	**13,769**	**-161**
ORA	**13,930**	**13,769**	**-161**
NDC	**13,930**	**13,481**	**-449**
SBUA	**13,930**	**12,543**	**-1,387**

TOTAL O&M (SoCalGas) - Constant 2016 ($000)			
	Base Year 2016	**Test Year 2019**	**Change**
SOCALGAS	**17,551**	**16,723**	**-828**
ORA	**17,551**	**15,456**	**-2,095**
NDC	**17,551**	**16,301**	**-1,250**
CFC	**17,551**	**15,533**	**-2,018**

II. INTRODUCTION

This rebuttal testimony regarding Southern California Gas Company's (SoCalGas) and San Diego Gas & Electric Company's (SDG&E) (collectively the Companies or the Utilities) request for Supply Management, Logistics, and Supplier Diversity addresses the following testimony from other parties:

- The Office of Ratepayer Advocates (ORA), as submitted by Mr. Mark Waterworth, dated April 13, 2018.
- The National Diversity Coalition (NDC), as submitted by Ms. Faith Bautista, dated May 14, 2018.
- The Consumer Federation of California Foundation (CFC), as submitted by Mr. Tony Roberts, dated June 4, 2018.
- The Small Business Utility Advocate (SBUA), as submitted by Ms. Lillian Rafii and Mr. Michael Brown, dated May 13, 2018 and May 14, 2018.

As a preliminary matter, please note that the fact that we have not responded to every issue raised by others in this rebuttal testimony does not mean or imply that the Companies agree with the proposal or contention made by these or other parties. The forecasts contained in SoCalGas/SDG&E's direct testimony, performed at the project level, are based on sound estimates of its revenue requirements at the time of testimony preparation.

The direct testimony of witness Denita A. Willoughby (Exhibit SCG-22/SDG&E-20)[1] is being adopted by Joseph Chow for SoCalGas matters and Sydney L. Furbush for SDG&E matters. Witness qualifications follow at the end of this testimony.

A. ORA

ORA issued its report on SoCalGas' Supply Management & Logistics and Supplier Diversity on April 13, 2018.[2] The following is a summary of ORA's position(s):

- ORA opposes SoCalGas' proposal for a new Logistics Warehouse.
- ORA proposes a $484,000 reduction in SoCalGas' Office Services' request.

ORA issued its report on SDG&E's Supply Management and Logistics and Supplier Diversity on April 13, 2018.[3] The following is a summary of ORA's position(s):

- ORA does not oppose SDG&E's Supply Management & Logistics and Supplier Diversity 2019 forecast.

B. NDC

NDC submitted testimony on May 14, 2018.[4] The following is a summary of NDC's position(s):

[1] October 6, 2017, Prepared Direct Testimony of Denita Willoughby (Supply Management & Logistics and Supplier Diversity), Exhibit SCG-22/SDG&E-20.

[2] April 13, 2018, Prepared Direct Testimony of Mark Waterworth on the Report on the Results of Operations for San Diego Gas & Electric Company and Southern California Gas Company Test Year 2019 General Rate Case – SCG – Supply Management & Logistics and Supplier Diversity; Fleet Services; Real Estate, Land Services and Facilities; and Environmental Services, Exhibit ORA-19.

[3] April 13, 2018, Prepared Direct Testimony of Mark Waterworth on the Report on the Results of Operations for San Diego Gas & Electric Company Southern California Gas Company Test Year 2019 General Rate Case – SDG&E – Supply Management & Logistics and Supplier Diversity, Fleet Services; Real Estate, Land Services and Facilities; and Environmental Services, Exhibit ORA- 18.

[4] May 14, 2018, Prepared Direct Testimony of Faith Bautista on the 2019 General Rate Case Application of San Diego Gas & Electric Company and Southern California Gas Company on behalf of the National Diversity Coalition and National Asian American Coalition, Exhibit NDC-01.

- NDC proposes to reduce SDG&E's and SoCalGas' supplier diversity forecasts to be largely based on 2016 recorded costs.
- Alternatively, NDC proposes that if the Commission adopts the Companies' forecasts, the Commission should condition approval on increases in the Companies' General Order (GO) diverse business enterprises spending goals.

C. CFC

CFC Foundation submitted revised testimony on June 4, 2018.[5] The following is a summary of CFC's position(s):

- CFC proposes to reduce SoCalGas' 2019 Office Services forecast by $1.19 million, from $2.91 million to $1.72 million.

D. SBUA

SBUA submitted testimony on May 13, 2018[6] and May 14, 2018.[7] The following is a summary of SBUA position(s):

- SBUA proposes that the Commission order SDG&E and SoCalGas to track and report on their spending on non-diverse small businesses, just like the Companies track and report on their spending on diverse business enterprises pursuant to GO 156 and the California Public Utilities Code.
- SBUA also proposes that the Commission reduce SDG&E's 2019 supply management forecast by $1.225 million, which consists of a $.238 million reduction to SDG&E's Non-Shared Services request and a $.987 million reduction to SDG&E's Shared Services request.

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[5] June 4, 2018, Prepared Direct ERRATA Testimony of Tony Roberts on SDG&E 2019 General Rate Case Application A-17-10-007; SCG 2019 General Rate Case Application A-17-10-008 – A&G: Office Services on behalf of the Consumer Federation of California Foundation, Exhibit CFC-05-R.

[6] May 13, 2018, Prepared Direct Testimony of Michael Brown, Expert Report on the Issues Affecting Small Business (Sempra GRC Phase I) on behalf of Small Business Utility Advocates, Exhibit SBUA/Brown.

[7] May 14, 2018, Opening Testimony of Lillian Rafii on behalf of Small Business Utility Advocates, Exhibit SBUA/Rafii.

III. REBUTTAL TO PARTIES' O&M PROPOSALS

NON-SHARED O&M - Constant 2016 ($000)			
	Base Year 2016	**Test Year 2019**	**Change**
SDG&E	**9,673**	**9,081**	**-592**
ORA	**9,673**	**9,081**	**-592**
NDC	**9,673**	**8,793**	**-880**
SBUA	**9,673**	**8,842**	**-831**

NON-SHARED O&M - Constant 2016 ($000)			
	Base Year 2016	**Test Year 2019**	**Change**
SoCalGas	**17,058**	**16,203**	**-855**
ORA	**17,058**	**14,963**	**-2,122**
NDC	**17,058**	**15,781**	**-1,277**
CFC	**17,058**	**15,533**	**-2,045**
SBUA	**Did Not Address**		

SHARED O&M - Constant 2016 ($000)			
	Base Year 2016	**Test Year 2019**	**Change**
SDG&E	**4,257**	**4,688**	**431**
ORA	**4,257**	**4,688**	**431**
NDC	**Did Not Address**		
SBUA	**4,257**	**3,701**	**-556**

SHARED O&M - Constant 2016 ($000)			
	Base Year 2016	**Test Year 2019**	**Change**
SoCalGas	**493**	**520**	**27**
ORA	**493**	**520**	**27**
NDC	**Did Not Address**		
CFC	**Did Not Address**		

A. ORA

1. SoCalGas' Proposed Logistics Warehouse

ORA opposes SoCalGas' proposal for a Logistics Warehouse.[8] ORA argues that the current facility, "although antiquated, appeared adequate and functional" during an ORA tour of

[8] Ex. ORA-19 (Waterworth) (at 7-8 and 26-29).

the current facility.[9] ORA also argues that the current facility satisfies existing requirements and that SoCalGas' estimates of $2 million in annual savings from a new facility are speculative.[10]

For the reasons set forth below, SoCalGas opposes ORA's proposal.

a. Although SoCalGas' Existing Facilities Meet Current Requirements, They Are Not Optimized for Logistics

Although SoCalGas' Logistics Warehouse operations are currently meeting regulatory requirements, the current documentation process lacks automation and centralized integration. SoCalGas believes a centralized data and inventory management system will create efficiencies and reduce supply chain risks. As SoCalGas explained in its direct testimony, Material Traceability is required to improve inventory management and keep up with new regulations. Material Traceability is a scalable, end-to-end solution for tracking high pressure (HP) pipes, values, fittings, and equipment to improve compliance with new and upcoming regulations mandating the maintenance of "traceable, verifiable, and complete records [that are] readily available."[11]

b. The Current Facility Is Inadequate for Materials Above 12 Inches in Diameter and the Pico Facility Is at Capacity

Although the current warehouse facility is adequate for materials under 12 inches in diameter, the Pico facility is currently at capacity for processing materials over 12 inches in diameter. Materials that are 12 inches in diameter and above should flow through the inventory management system in addition to current materials already in inventory. Centralizing inventory in fewer locations is required to effectively manage inventory and strengthen business controls. SoCalGas has had to contract with a third-party warehouse firm to manage inventory above 12 inches in diameter. The agreement with this third party is in place as a temporary remediation effort to allow time to build the warehouse described in direct testimony.

[9] *Id*. (at 29).

[10] *Id*.

[11] Ex. SCG-22 (at 13).

c. SoCalGas' Future Inventory Management Will Increase

Contrary to ORA's understanding, SoCalGas' total inventory managed in a centralized facility will increase beyond the capacity of the current Pico warehouse.

d. A Capital Investment Will Be Cheaper for Ratepayers in the Long Run

ORA asserts that SoCalGas' estimate of savings from a new Logistics Warehouse is speculative because SoCalGas may choose to forego this project for another.[12] SoCalGas disagrees. Notwithstanding ORA's assertion, SoCalGas plans to construct the Logistics Warehouse if the Commission approves it in this GRC proceeding. Once the warehouse is operational, SoCalGas will realize savings of approximately $2 million per year by eliminating the need to continue with the third-party contracted storage solution.

In summary, for the reasons set forth above, SoCalGas believes that additional warehousing storage space (and the personnel to operate it) is needed to accommodate large diameter materials. Materials are currently physically located at other SoCalGas company facilities, third-party logistics provider warehouses, and various lay down yards across our service territory with no systematic visibility. Currently our facilities are at full capacity; therefore, new space is required. Thus, the Commission should approve the O&M request set forth in this testimony (totaling $0.783 million) and the capital forecast of $18.75 million identified in the Fleet and Facilities testimony of Carmen Herrera (Ex. SCG-23).

2. SoCalGas' Office Services

ORA proposes a reduction of $484,000 of SoCalGas' Office Services forecast, from $2.910 million to $2.486 million. ORA asserts there has been a downward trend in spending in Office Services, so the Commission should use SoCalGas' 2016 recorded costs as the basis for the 2019 forecast, not the five-year average SoCalGas employed.

SoCalGas opposes ORA's proposal. As SoCalGas explained in its direct testimony, SoCalGas' Office Services funding request is needed to maintain the group's operational functions, specifically for third-party service contractors that provide document services such as: (1) operating and maintaining three copy centers and distributed multifunctional copier/fax/printer machines; (2) distributing U.S. Mail, other document/package delivery

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[12] *Id.*

services and interoffice mail; (3) conducting courier services; and (4) facilitating mass mailings. Office Services also manages the third-party service provider that handles archives and records management, offsite storage of records, retention policy, retention schedules, data management and shared services. Office Services also manages the Utilities' third-party travel services provider that handles travel reservations and bookings, onsite travel agent services, airline contracts, hotel contracts, and car rental agreements. Lastly, Office Services manages contracts for onsite food service providers for employee dining services.

In summary, the Commission should reject ORA's proposal to reduce SoCalGas' reasonable forecast for Office Services.

B. NDC

NDC proposes reductions to both SDG&E's and SoCalGas' supplier diversity departments. In particular, NDC proposes to reduce SDG&E's 2019 forecast by $.288 million, from $1.142 million to $.854 million.[13] NDC proposes to reduce SoCalGas' 2019 forecast by $.421 million, from $1.151 million to .730 million.[14] NDC argues that the Companies' 2019 forecasts should largely be based on 2016 recorded costs.[15]

SDG&E and SoCalGas oppose NDC's proposed reductions. SDG&E and SoCalGas are very concerned that use of 2016 recorded costs would not adequately fund the important technical assistance, supplier outreach, supplier development, and mentoring programs needed to sustain the growth of existing suppliers and the recruitment of new suppliers. SDG&E's and SoCalGas' use of a five-year average of their 2012 through 2016 costs more reasonably reflects the funding required. SDG&E and SoCalGas respectfully request that the Commission approve their 2019 forecast amounts, less a $.100 million adjustment that the Companies identified during the course of discovery. As such, SDG&E is now requesting $1.042 million for the 2019 test year and SoCalGas is requesting $1.051 million for the 2019 test year.

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[13] Ex. NDC-01 (Bautista) (at 30).

[14] *Id*. (at 32).

[15] *Id*. (at 30 and 32).

Alternatively, NDC argues that if the Commission adopts SDG&E's and SoCalGas' 2019 forecasts, the Commission should condition its approval on increases in the Companies' GO 156 diverse business enterprises spending goals.[16]

As the Companies explained in direct testimony, we are very proud of the fact that after 25 years of concerted effort, we are nearing parity between majority and diverse suppliers in our supply chains.[17] Notwithstanding this achievement, our mission is to continue to improve the effectiveness and quality of the technical assistance and supplier outreach programs to ensure suppliers have the financial acumen and skills needed to be competitive.

C. CFC

CFC proposes that the Commission reduce SoCalGas' 2019 forecast for Office Services by $1.19 million, from $2.91 million to $1.72 million.[18] CFC argues that its proposed reduction better reflects a slight downward trend in Office Services expenditures and anticipated reductions in spending for paper copies.[19]

SoCalGas' disagrees with CFC's proposal and underlying assumptions, particularly that efficiencies in printing costs would result in a significant reduction of Office Services as a whole. Printing and copy services account for less than 5% of the overall Office Services budget. Any assumed efficiencies presented by the CFC would apply only to this small portion of the budget.[20] Approximately 90% of Office Services funds are spent on courier and mail services, which continue to see upward pressures in significant part due to fuel charges, tied to the U.S. Energy Information Administration, which have increased year over year by 21.4%. In addition, Office Services continues to experience upward pressures of 3% per year in contracted labor, impacting service costs. These upward pressures greatly outweigh any small efficiencies in copy and print costs. In summary, the Commission should reject CFC's proposal and adopt

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[16] *Id*. (at 28).

[17] Ex. SCG-22/SDG&E-20 (Willoughby) (at 14).

[18] Ex. CFC-05-R (Roberts) (at 4).

[19] *Id*. (at 3-4).

[20] SoCalGas also notes that since late 2016, costs associated with multi-function printers have been pushed out to director and department-level cost centers. This decentralization resulted in a 20% decrease in Office Services multi-function printer spend, but merely shifted the costs to other areas of the company, providing no overall company-wide reduction.

SoCalGas' $2.9 million Office Services forecast, which more reasonably reflects a five-year average of expenditures.

D. SBUA

SBUA argues that the Commission should order SDG&E and SoCalGas to track and report on their spending on non-diverse "small businesses," just like the Companies track and report on their spending on diverse business enterprises pursuant to GO 156 and the Public Utilities Code.[21] GO 156 is titled "Rules Governing the Development of Programs to Increase Participation of Women, Minority, Disabled Veteran and Lesbian, Gay, Bisexual and Transgender (LGBT) Business Enterprises in Procurement of Contracts from Utilities As Required by Public Utilities Code Sections 8281-8286."

SBUA acknowledges that SDG&E's diverse business enterprises procurement program pursuant to GO 156 already benefits many small businesses. For example, SBUA states:

> GO 156 *does* include many types of businesses which may be small businesses (Women-owned business, Minority-owned business, Disabled veteran-owned business, LGBT-owned business).[22]

Notwithstanding the above, SBUA argues that GO 156 should be revised to do more specifically for small businesses:

> GO 156 does not encourage or mandate contracting with the small business community as a whole, which includes non-diverse businesses.[23]

SDG&E and SoCalGas appreciate the concerns SBUA has raised, but SBUA itself appears to acknowledge that its proposals are outside the scope of this General Rate Case (GRC) proceeding. For example, SBUA argues that "the Commission [should] incentivize Sempra to increase the small business receiving contracts from its tier 1 suppliers" but goes on to concede that "[t]he most appropriate venue for this change would be a change to GO 156."[24] For these reasons, the Commission should reject SBUA's tracking and reporting proposal.

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[21] SBUA/Rafii (at 17).

[22] SBUA/Brown (at 18).

[23] *Id*. (at 18).

[24] *Id*. (at 16).

SBUA also proposes to reduce SDG&E's 2019 test year supply management forecast by $1.225 million, which consists of a $.238 million reduction to SDG&E's Non-Shared Services request and a $.987 million reduction to SDG&E's Shared Services request.[25] SBUA argues that these reductions are necessary to "delay or prevent Sempra from enacting policies which further harm the contracting opportunities for local small businesses by reducing the diversity of Sempra's supplier base."[26] SBUA also alleges that SDG&E's contracting practices "discriminate" against small businesses and that new incentives should be put in place to encourage different practices.[27]

SDG&E strongly disagrees with these allegations, which have no basis. As with SBUA's proposal to track and report on spending on small businesses, SDG&E's understands SBUA's assertion that "GO 156 does not encourage or mandate contracting with the small business community as a whole,"[28] but, again, SDG&E believes this GRC proceeding is not the proceeding in which to address SBUA's broader concerns.

In terms of the bases for SBUA's more specific proposed disallowances, SDG&E addresses these as follows.

For example, with respect to SBUA's proposal to reduce SDG&E's funding of Inventory Management from $5,038,000 to $4,800,000 (a reduction of $.238 million), SBUA argues that a decrease is warranted because of the installation of smart meters[29] However, the request for an increase in funding for Inventory Management is not tied to the installation of Smart Meters but required to support improvements in material traceability. As identified in our direct testimony,[30] the request for an increase in funding is required to support Material

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[25] SBUA/Brown (at 8). SBUA also asserts that there is a discrepancy between SDG&E's 2019 forecast for non-shared services shown in SDG&E's testimony ($9.978 million) and the amount shown in SDG&E's workpapers ($9.081 million), but the $.897 million difference simply reflects the amount of Company-wide Fueling Our Future (FOF) savings that Supply Management is sponsoring. See Table DW-3 in Ex. SCG-22/SDG&E-20 (Willoughby) (at 6).

[26] SUBA/Brown (at 9).

[27] *Id*. (at 15).

[28] *Id*. (at 18).

[29] *Id*. (at 15).

[30] Ex. SCG-22/SDG&E-20 (Willoughby) (at 13).

Traceability. As described in detail above, Material Traceability is a scalable, end-to-end solution for tracking high pressure (HP) pipes, valves, fitting, and equipment to improve compliance with new and upcoming regulations mandating the maintenance of traceable, verifiable, and complete records. Additionally, one supervisor is needed to meet the increasing demands in inventory management as requested and supported in our direct testimony (Exhibit SGC-22/SDG&E-20).

With respect to SBUA's proposal to reduce SDG&E's funding of Category Management from $2,688,000 to $1,900,000 (a reduction of $.788 million), SBUA argues that the goals of Category Management are contrary to the goals of small businesses trying to do business with SDG&E. Contrary to this assertion, SDG&E continues to utilize a diverse base of suppliers - including small businesses - thus increasing vendor competition, which lowers overall costs for ratepayer benefit. The forecasted and requested funding also will be used to obtain analytical systems that will allow our procurement professionals to better assess market conditions and obtain competitive pricing data, thus lowering our overall costs.

Finally, with respect to SBUA's proposal to reduce SDG&E's funding of Policy Management (which SBUA calls Supply Chain) from $.720 million to $.500 (a reduction of $.220 million), SBUA argues that the Commission should disallow these costs because this group is "partially responsible for implementing policies that have the impact of excluding small businesses from contracting."[31] However, as set forth above, and contrary to SBUA's assertions, there are no policies in place to exclude small businesses. The Policy Management group provides important supplier intelligence, department compliance and our enterprise wide procurement system, all of which warrant funding at the levels requested.

In summary, for the reasons set forth above, the Commission should reject SBUA proposed reductions in SDG&E's supply management department.

This concludes our prepared rebuttal testimony.

[31] *Id*. (at 16).

IV. WITNESS QUALIFICATIONS

JOSEPH CHOW

My name is Joseph Chow. I assumed sponsorship of the SoCalGas portions of this testimony from Denita Willoughby. My business address is 555 West 5th Street, Los Angeles, CA. My title is Supplier Diversity Manager.

I have managed the Supplier Diversity group at Southern California Gas Company for the past three years. Prior to managing the Supplier Diversity group, I was the Supply Chain Strategy and Planning Manager in which I managed the Supplier Relational Management group, Supply Management Sustainability and a group of Supply Management Analyst. I have worked for Southern California Gas Company for 28 Years. I have a Bachelor of Science degree in Accounting from Saint Mary's University in Kansas. I have not previously testified before the Commission.

SYDNEY L. FURBUSH

My name is Sydney L Furbush. I assumed sponsorship of the SDG&E portions of this testimony from Denita Willoughby. My business address is 8306 Century Park Court, San Diego, California, 92123-1593.

Since August of 2013, I have served as Manager of Supplier Diversity for SDG&E. I started my career with SDG&E in 1990. During that time, I held several Analyst and Manager positions for the Companies. Prior to my current position, I was Manager of Fleet Services for SDG&E where I oversaw the Acquisition, Maintenance and fueling of SDG&E's fleet assets. Prior to that, I served as Manager of Advanced Metering Operation & Meter Reading where I led the development and implementation of SDG&E Smart Meter Operations Center. Before that, I held the position of Major Market Billing Manager, where I was responsible for the Billing of the key customer accounts. Before that, I held the position of Measurement Data Operations Manager for SDG&E and SoCalGas. In this position, I led both utilities' automatic meter data collection centers for the large gas and electric meters. I hold a Bachelor of Science degree in Computer Information System from DeVry University and a Master of business administration from National University. I am a co-chairman for the San Diego Chapter for the American Lung Association. I testified before the Commission in 2016 as a witness for SDG&E Supply Management.

APPENDIX A - ERRATA

Exhibit	Witness	Page	Revision Detail
Discovery	*J. Chow and S. Furbush*	*Data Request NDC-SEU-007 Question 3 and 4*	*$100,000 should be removed from the forecast at each company for Supplier Diversity non-labor.*

APPENDIX B – GLOSSARY OF TERMS

California Public Utilities Commission	CPUC/Commission
Consumer Federation of California Foundation	CFC
General Order	GO
General Rate Case	GRC
High Pressure	HP
Multi-Function Printer	MFP
National Diversity Coalition	NDC
Office of Ratepayer Advocates	ORA
San Diego Gas & Electric Company	SDG&E
Small Business Utility Advocate	SBUA
Southern California Gas Company	SoCalGas
Test Year	TY