

Company: Southern California Gas Company (U 904 G)
Proceeding: 2019 General Rate Case
Application: A.17-10-____
Exhibit: SCG-24

SOCALGAS

DIRECT TESTIMONY OF R. DALE TATTERSALL

(REAL ESTATE)

October 6, 2017

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



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SUMMARY

REAL ESTATE (In 2016 \$)			
	2016 Adjusted- Recorded (000s)	TY2019 Estimated (000s)	Change (000s)
Total Non-Shared Services	2,410	2,400	-10
Total Shared Services (Incurred)	11,659	21,050	9,391
Total O&M	14,069	23,450	9,381

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3 **Summary of Requests**

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- Funding for the real estate administration and asset management functions of real property for Southern California Gas Company (SoCalGas or SCG). The proper oversight and maintenance of our real estate portfolio directly supports the enterprise and the safe and reliable delivery of natural gas for our customers.
 - Funding for the leases/rents associated with office space and branch office locations. This activity directly supports all management and field personnel as well as provides convenient payment/service locations for our customers.

1 In addition to this testimony, please also refer to my workpapers for additional
2 information on the activities described herein.

3 **B. Organization of Testimony**

4 My testimony is organized as follows:

- 5 • Section I provides an overview of both the shared and non-shared
6 activities that require funding for our continued RE operations.
- 7 • Section II describes the safety culture within our organization.
- 8 • Section III defines the non-shared costs portion of our RE portfolio.
9 Specifically, this is the rents associated with our branch offices and
10 operating base locations.
- 11 • Section IV defines the shared costs portion of our RE portfolio
12 requirements. Specifically, this is the rents associated with the Gas
13 Company Tower (GCT) and Telecom (Microwave) Tower Rents.
- 14 • Section V - Conclusion.

15 **II. SAFETY CULTURE**

16 SoCalGas is committed to the safety of its employees and customers, and consequently,
17 is dedicated to maintaining its real estate and facilities in a safe condition for everyone who uses
18 them. SoCalGas RE encourages communication between employees and management to
19 identify and manage safety risks by reporting any close calls or near misses experienced by
20 employees or customers. Specifically, SoCalGas addresses safety messages at regular intervals
21 such as at staff and/or safety meetings, taking the opportunity to share experiences and lessons
22 learned to improve how we conduct our business and enhance the safety of our facilities. Our
23 practice of regularly discussing safety issues raises our overall awareness of situations and risks
24 that could pose concerns for our employees' and customers' safety.

25 In line with SoCalGas' focus on safety, SoCalGas RE, in conjunction with the SoCalGas
26 facilities group, annually inspects the manned facilities within our portfolio to ensure that they
27 are safe for our employees and customers and compliant with any regulations or codes. For
28 example, these inspections focus on the electrical, fire/life safety, and environmental elements to
29 determine whether they are in good operational condition, whether they are code compliant with
30 applicable standards (*i.e.*, National Electrical Contractors Association (NECA), Occupational
31 Safety and Health Administration (OSHA)), and whether any site conditions could present a

1 hazard and/or danger to our customers, employees, and the general public. In addition, our
 2 internal audit teams perform environmental, health, security, and safety checks on a random
 3 basis to reinforce the need to safely and lawfully maintain all RE assets. Specific items that are
 4 routinely audited include physical site security measures, documentation for maintenance on
 5 safety systems such as fire extinguishers, and the overall effectiveness of our safety-related
 6 processes, protocols, and equipment to support the continued safety of our operations. The
 7 results of the audit(s) are shared internally with the Real Estate, Land and Facilities group. The
 8 group then acts to (1) make corrections that are required by code or regulations or (2) incorporate
 9 industry best practices. This is an example of how we use continuous improvement
 10 opportunities to reinforce our safety culture.

11 There are no items related to the November 30, 2016 Risk Assessment Mitigation
 12 Proceeding (RAMP) Report included in my testimony.

13 **III. NON-SHARED COSTS**

14 Non-shared services are activities that are performed by a utility solely for its own
 15 benefit. Corporate Center provides certain services to the utilities and to other subsidiaries. In
 16 this general rate case, SoCalGas treats costs for services received from Corporate Center as non-
 17 shared services costs, consistent with any other outside vendor costs incurred by the utility.

18 The non-shared services consist of a single category: Branch Office Rents. Overall, our
 19 costs have remained relatively flat due to branch office closures and offsetting rent increases.

20 Additional details for the costs are contained in my work papers (Ex. 24-WP SCG).

21 The summary of my non-shared O&M requested costs is shown in Table RDT-2:

22 **TABLE RDT-2**

23 **Non-Shared O&M Summary of Costs**

REAL ESTATE (In 2016 \$)			
Categories of Management	2016 Adjusted-Recorded (000s)	TY2019 Estimated (000s)	Change (000s)
A. Branch Offices	2,199	2,194	-5
B. CORPORATE REAL ESTATE	211	206	-5
Total Non-Shared Services	2,410	2,400	-10

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1 **A. Branch Offices & Operating Bases Rent – SCG**

2 **1. Description of Costs and Underlying Activities**

3 SoCalGas’ non-shared rents are associated with 37 leased branch office leases (7 offices
4 are owned and their costs are not part of this testimony). The leased branch offices are customer
5 payment offices to support bill payment and customer service walk-in inquiries.

6 In general, contracted rents have been relatively flat, including base rent and any
7 operating expense escalation required from the landlord. SoCalGas has reduced the costs for the
8 TY 2019 forecast, which is consistent with the actual incurred costs over the five-year period
9 from 2012 through 2016.

10 **2. Forecast Method**

11 A zero-based forecast method is used for the branch offices and operating bases. Lease
12 commitments are generally contractually set, making the zero-based forecast methodology the
13 most reasonable alternative. A three-year average forecast method is used for the Corporate Real
14 Estate group, as the forecasted costs are expected to remain consistent over the three-year
15 historical average.

16 **3. Cost Drivers**

17 Costs are driven by both contractual rental obligations as well as annual increases in
18 property operating expenses. While those discrete contractual terms are used as a zero-based
19 component in forecasting, SoCalGas’ RE administrative expenses consist of two full time
20 equivalents (FTEs), with oversight from the Manager – Facilities at SDG&E.

21 **IV. SHARED COSTS**

22 As described in the testimony of James Vanderhye (Ex. SCG-34), shared services are
23 activities performed by a utility shared services department (*i.e.*, functional area) for the benefit
24 of: (i) SDG&E or SoCalGas, (ii) Sempra Energy Corporate Center, and/or (iii) any unregulated
25 subsidiaries. The utility providing shared services allocates and bills incurred costs to the entity
26 or entities receiving those services.

27 The shared services portion of RE includes the support that the organization provides for
28 its shared facilities and services. The organizations within RE that provide shared services
29 include the following:

- 30 • Rents
- 31 o GCT Rents

o Telecom (Microwave) Tower Rents

Table RDT-3 summarizes the total shared O&M forecasts for the listed cost categories.

TABLE RDT-3

Shared O&M Summary of Costs

REAL ESTATE (In 2016 \$)			
(In 2016 \$) Incurred Costs (100% Level)			
Categories of Management	2016 Adjusted-Recorded (000s)	TY2019 Estimated (000s)	Change (000s)
A. GCT RENTS	10,212	19,539	9,327
B. SCG TELECOM (MICROWAVE) TOWER RENTS	1,447	1,511	64
Total Shared Services (Incurred)	11,659	21,050	9,391

A. GCT Rents

The GCT lease represents the largest lease within the RE portfolio. The cost increases are based upon the annual escalation in the base rent and certain operating expenses, such as parking.¹ Variable expenses such as utilities, insurance, and landlord-provided maintenance for the GCT are zero-based. In 2010, as part of the lease renewal negotiations with the owner of the GCT, SoCalGas received lease incentives that were to occur under certain contractual provisions. SoCalGas received these incentives as lease credits starting in 2016 and extending through the remainder of the lease term; most of these credits were realized in 2016. The overall recorded costs for rents reflects these credits.

B. Telecom (Microwave) Tower Rents

In this category I have used a forecast value that is based upon 4 percent annual inflation, which accurately reflects likely future costs.

¹ Due to a change in accounting rules, SoCalGas expects to modify how it records leases in 2019, as required by U.S. Generally Accepted Accounting Principles (GAAP). In general, most leases are expected to be recorded on the balance sheet as lease assets with offsetting lease liabilities, as opposed to current accounting treatment that has no such balance sheet recognition of operating leases. For example, this accounting change is expected to impact both real estate and fleet leases, and could result in more contractual arrangements meeting the U.S. GAAP definition of a lease. Since this change will not occur until 2019 and the implementation of the new standard is not complete, SoCalGas anticipates providing updated numbers during the GRC update phase in 2018.

1 **V. CONCLUSION**

2 This testimony describes the activities of SoCalGas' Real Estate department, and presents
3 the forecast for both existing and reasonably anticipated new expenses for TY 2019. This
4 testimony and my workpapers demonstrate the justification for the requested funding so that
5 SoCalGas can continue to meet its obligations to provide safe and reliable service.

6 This concludes my prepared direct testimony.

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1 **VI. WITNESS QUALIFICATIONS**

2 My name is R. Dale Tattersall, Manager – Facilities for SDG&E, with management
3 oversight and reporting responsibilities for SoCalGas RE. My SoCalGas RE responsibilities
4 encompass all RE transactions specific to our manned facilities and lease administration. My
5 SDG&E responsibilities include the management for all the RE transactions and lease
6 administration, facilities operations, maintenance, capital construction improvements and/or
7 repairs, and the acquisition of rights to access land containing electric and/or gas utility assets.

8 I have a Bachelor’s Degree (BS) from the University of Arizona, Tucson majoring in
9 Public Administration and a Masters of Business Administration (MBA) Finance from California
10 Lutheran University, Thousand Oaks. I have a broad background in construction, contracting,
11 project management, and the energy engineering field.

12 At Sempra Energy, I have held numerous key technical and managerial positions with
13 increasing responsibility in Commercial and Industrial Customer Services, Supply Management
14 – Electric/Gas Portfolio, and Facilities Operations. In these various positions, I was responsible
15 for energy efficiency projects at federal facilities and managing the sourcing, contracts and
16 spending for the utility in all electric- and gas-related purchasing, and the daily operations of our
17 facilities, including capital improvements, repairs, and land services responsibilities.

18 I have held my current position as the Manager – Facilities since December 20, 2014.

19 I have not previously testified before the Commission.

APPENDIX A
Glossary of Terms

GAAP:	Generally Accepted Accounting Principles
GCT:	Gas Company Tower
O&M:	Operations and Maintenance
RE:	Real Estate
SDG&E:	San Diego Gas & Electric Company
SoCalGas or SCG:	Southern California Gas Company
TY:	Test Year