BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

FILED
04-16-12
04:59 PM

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.	Application No. 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.	Application No. 10-12-006 (Filed December 15, 2010)

OPENING BRIEF
OF THE DIVISION OF RATEPAYER ADVOCATES

JONATHAN BROMSON
NOEL OBIORA
NICHOLAS SHER

Attorneys for the Division of Ratepayer Advocates
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, CA 94102
Phone: (415) 703-2362
Fax: (415) 703-4432
jonathan.bromson@cpuc.ca.gov

April 12, 2012

TABLE OF CONTENTS

1. INTRODUCTION 1
   1.1. SUMMARY OF RECOMMENDATIONS 1
   1.2. PROCEDURAL BACKGROUND 3
2. EVIDENTIARY STANDARDS AND BURDEN OF PROOF 4
   2.1. BURDEN AND STANDARD OF PROOF 4
3. POLICY ISSUES 7
   3.1. FORECASTING ISSUES AND THE USE OF 2010 RECORDED COSTS 7
   3.2. JULY 2011 REVISIONS TO SDG&E AND SCG TESTIMONY 16
4. PROCUREMENT/GENERATION 16
   4.1. ELECTRIC PROCUREMENT - SDG&E-ONLY 17
      4.1.1. Long-Term Procurement 17
         4.1.1.1. Procurement and Portfolio Design 18
         4.1.1.2. Once-Through Cooling (OTC) 21
      4.1.2. Trading and Scheduling Group 23
      4.1.3. Middle and Back Office (EP003.000) 26
      4.1.4. Resource Planning (EP005.000) 29
      4.1.5. AB 32 Administrative Fees (EP004.000) 30
   4.2. GAS PROCUREMENT 31
   4.3. ELECTRIC GENERATION (NON-NUCLEAR) – SDG&E ONLY 32
      4.3.1. Generation Plant Palomar 33
         4.3.1.1. FTEs Requested In The Palomar Account 33
      4.3.2. Miramar Plant 36
         4.3.2.1. Miramar Plant Operational Elements 38
         4.3.2.2. Palomar Plant Operational Enhancements 41
         4.3.2.3. Purchase of a GSU Transformer 42
         4.3.2.4. Purchase of a Steam Turbine Gantry Crane 42
         4.3.2.5. Steam Turbine Last Stage Blade Replacement 43
         4.3.2.6. Transformer Breaker Monitoring System 44
         4.3.2.7. Cooling Water Biocide Upsize 44
         4.3.2.8. HRSG Elevator & Bridge 45
         4.3.2.9. Palomar Energy Compressor Upgrades 45

4.3.3. Renewable Generation Support 47
4.3.4. Generation-Administration 49
4.3.5. SVP Power Supply.....51
5. SONGS 52
5.1 SONGS COSTS FROM EDISON GRC 52
5.1.1. O&M 52
5.1.2. Nuclear Generation Capital Costs.....52
5.2. SDG&E'S UNIQUE SONGS COSTS 53
5.3. OTHER SONGS ISSUES.....53
6. ELECTRIC DISTRIBUTION OPERATIONS (SDG&E-ONLY).....53
6.1. O&M 53
6.1.1. Electric Regional Operations (ERO) ED011.000 55
6.1.2. Supplemental Workpapers 56
6.1.3. Maintain Improved Safety and Reliability.....58
6.1.3.1. Safety Culture Change 58
6.1.3.2. Behavior Based Safety 59
6.1.3.3. Overhead Switch Inspection and Maintenance.....59
6.3.1.4. Overhead Connector Program.....60
6.1.4. Safety and Environmental Compliance 60
6.1.4.1. PCB Reassessment of Use Authorization 60
6.1.4.2. General Order 165 Annual Patrols in Fire Zones – Repairs 61
6.1.4.3. Rule 18 Notifications and Repair of Safety Hazards 61
6.1.4.4. OII Quality Control Inspections.....62
6.1.4.5. Screening of Commercial Drivers.....62
6.1.5. Fire Preparation.....62
6.1.5.1. Red Flag Warning Operations.....63
6.1.5.2. Elevated Wind Conditions 63
6.1.5.3. Outage Patrolling during High Fire Risk Periods 63
6.1.5.4. Workforce Development.....63
6.1.6. System Growth.....64
6.1.6.1. Climbing Gear.....64
6.1.7. New Technology 64

6.1.8. Smart Grid Portfolio: 65
6.1.9. RIRAT.....65
6.1.10. Operational Excellence 20/20 On-Going Support 66
6.1.10.1. Supervisor Enablement 66
6.1.10.2. Construction Crew Dispatch.....66
6.1.10.3. Construction Work Scheduling.....67
6.1.10.4. Training.....67
6.1.10.5. O&M Drivers for T&D Impacts Due to EV Chargers.....68
6.1.10.6. Smart Meter Program or Smart Meter – Outage Management.....69
6.1.10.7. Line Capacitor Survey 69
6.1.10.8. O&C Labor Non-Work (V&S) – 69
6.1.11. Area Resource Scheduling Organization (ARSO).....69
6.1.12. Electric and Regional Operations (Troubleshooting) 71
6.1.12.1. Skills and Compliance Training ED013.000 72
6.1.12.2. Supplemental Workpapers.....74
6.1.13. Project Management ED010.000 75
6.1.14. Service Order Team ED014.000.....76
6.1.15. Regional Public Affairs ED022.000 77
6.1.16. Grid Operations ED008.000 79
6.1.17. Substation Construction and Maintenance ED015.000 80
6.1.17.1. Supplemental Workpapers.....81
6.1.17.2. Red Flag, Elevated Wind and Other Fire Related Events 81
6.1.17.3. Helicopter Utilization Expense Transferred from Fleet Department.....82
6.1.17.4. O&C Labor Non-Work V&S.....83
6.1.18. System Protection ED017.000 84
6.1.19. Electric Distribution Operations ED004.000:.....86
6.1.20. Distribution Operations (EGIM) ED003.000 88
6.1.21. Equipment Maintenance and Lab (Kearny) ED006.000.....90
6.1.22. Construction Services ED002.000 91
6.1.23. Vegetation Management (Tree Trimming).....93

6.1.24. Vegetation Management (Pole Brush) ED021.000 95
6.1.25. Management, Policy, & Oversight ED001.000 97
6.1.26. Reliability and Capacity Management ED001.001 98
6.1.27. Compliance and Asset Management ED001.002 99
6.1.28. Information Management Support & Support for Electric Distribution ED001.003 101
6.1.29. Distribution Engineering ED018.000 102
6.1.30. Officer ED009.000.....102
6.1.31. Administration and Management ED000.000 103
6.2. CAPITAL 103
6.2.1. Subcategories of Capital Projects 107
6.2.1.1. Capacity Projects.....108
6.2.1.2. Franchise Projects 108
6.2.1.3. Mandate Projects.....109
6.2.1.4. New Business Projects.....109
6.2.1.5. Reliability Projects.....111
6.2.1.6. Fire Hardening Projects 112
6.2.2. Capital Overhead Pools.....113
6.3. RELIABILITY ISSUES 114
6.4. SMART GRID.....114
6.4.1. Storage 119
6.4.2. Dynamic Line Ratings 120
6.4.3. Synchrophasors.....121
6.4.4. SCADA.....121
6.4.5. Smart Transformers 122
6.4.6. Charging Stations.....122
6.4.7. Wireless Fault Indicators 123
6.4.8. Phase Identification.....123
6.4.9. Condition Based Maintenance 124
6.4.10. Test Facility 124
6.4.11. Customer Awareness and Education 124
7. GAS DISTRIBUTION OPERATIONS.....127
7.1. SOCALGAS ISSUES 127

7.1.1. O&M 127
7.1.1.1. Locate and Mark 128
7.1.1.2. Leak Survey 130
7.1.1.3. Measurement and Regulation 130
7.1.1.4. Cathodic Protection Field 137
7.1.1.5. Main Maintenance 138
7.1.1.6. Service Maintenance 139
7.1.1.7. Field Support 140
7.1.1.8. Tools, Materials & Fittings 143
7.1.1.9. Pipeline Operations & Management Planning 144
7.1.1.10. Cathodic Protection 145
7.1.1.11. Operations Management and Training 145
7.1.1.12. Regional Public Affairs 151
7.1.2. Capital 151
7.1.2.1. New Business 151
7.1.2.2. Cathodic Protection 152
7.1.2.3. Pipeline Relocation- Franchise 153
7.1.2.4. Meters & Regulators 153
7.1.2.5. Equipment/Tools 155
7.1.2.6. Field Support 155
7.2. SDG&E ISSUES 156
7.2.1. O&M 156
7.2.1.1. Other Services 156
7.2.1.2. Leak Survey 157
7.2.1.3. Locate and Mark 158
7.2.1.4. Main Maintenance 158
7.2.1.5. Service Maintenance 159
7.2.1.6. Supervision and Training 159
7.2.1.7. Tools 160
7.2.1.8. Electric Support 160
7.2.1.9. Measurement & Regulation 160
7.2.1.10. Pipeline O&M and Planning 161
7.2.1.11. Cathodic Protection 162

7.2.1.12. Operation Management and Training 162
7.2.2. Capital 163
7.2.2.1. New Customers 163
7.2.2.2. Adds/Relocations/Retirements 164
7.2.2.3. Meters and Regulators 164
7.2.2.4. System Reinforcement 165
7.2.2.5. Easement 166
7.2.2.6. Street and Highway Relocation 166
7.2.2.7. Tools and Equipment 167
7.2.2.8. Code Compliance 167
7.2.2.9. Mains and Service Replacement 167
7.2.2.10. Cathodic Protection 167
7.2.2.11. System Reliability & Safety Improvement 168
7.2.2.12. Local Engineering 169
7.2.2.13. San Onofre 169
7.2.2.14. Smart Meter 170
8. GAS TRANSMISSION 170
8.1. SoCalGas Issues 170
8.1.1. O&M 170
8.1.1.1. Pipeline Operations and Maintenance 170
8.1.1.2. Compressor Station Operations and Maintenance 171
8.1.1.3. Technical Services 172
8.2. SDG&E Issues 173
8.2.1. O&M 173
8.2.2. Capital 173
8.2.2.1. New Construction 173
8.2.2.2. Pipeline Replacements 174
8.2.2.3. Pipeline Relocation 174
8.2.2.4. Compressor Station Addition/Replacement 174
8.2.2.5. Cathodic Protection 175
8.2.2.6. Meter & Regulator Additions/Replacements 175
8.2.2.7. Pipeline Integrity – Distribution 175
8.2.2.8. Capital Tools 175

8.2.2.9. Direct S&E Overhead 175
8.2.2.10 Distribution Integrity Management Program 175
9. GAS STORAGE AND ENGINEERING 175
9.1. GAS STORAGE (SOCALGAS-ONLY) 175
9.1.1. O&M 175
9.1.2. Capital 177
9.2. GAS ENGINEERING 179
9.2.1. SoCalGas O&M 179
9.2.1.1. Gas Engineering 180
9.2.1.2. Engineering Analysis Center 180
9.2.1.3. Planning and Analysis 181
9.2.1.4. Sustainable SoCal Program 182
9.2.1.5. Pipeline Integrity – Transmission 183
9.2.1.6. Pipeline Integrity – Distribution 183
9.2.1.7. Public Awareness 185
9.2.2. SoCalGas Capital 186
9.2.2.1. New Additions 186
9.2.2.2. Replacement and Pipeline Integrity Program 187
9.2.2.3. Compressor Stations 187
9.2.2.4. Pipeline Land Rights 188
9.2.2.5. Sustainable SoCal 189
9.2.3. SDG&E Issues – O&M 189
9.2.3.1. Gas Engineering 189
9.2.3.2. Pipeline Integrity –Transmission 190
9.2.3.3. Pipeline Integrity – Distribution 190
9.2.3.4. Public Awareness 191
9.3. GAS PIPELINE SAFETY: BALANCING ACCOUNTS AND EXPENDITURE TRACKING 191
10. CUSTOMER SERVICE 193
10.1. SMART METER POLICY, AMO AND MDO - SDG&E ISSUES 193
10.1.1. AMO 193
10.1.1.2. Efficiencies 194
10.1.1.3. Overstated Staffing Needs 196

10.1.1.4. Vacancies Without Justifications for Being Filled 197
10.1.2 MDO 198
10.1.2.1. Efficiencies 198
10.1.3. Smart Meter Enhancements Project.....198
10.1.4. Cost Recovery for Legacy Meters 199
FIELD, CALL CENTER & BRANCH OFFICES - COMMON ISSUES 204
FIELD, CALL CENTER & BRANCH OFFICES - SOCALGAS ISSUES 204
10.3.1. Customer Service Field.....204
10.3.2. Capital 208
10.4. FIELD, CALL CENTER & BRANCH OFFICES - SDG&E ISSUES 210
10.4.1. Customer Services Field Operations.....210
10.4.1.1. Drive Time 210
10.4.1.2. Carbon Monoxide Alarm Orders 211
10.4.1.3. Call Volume Estimate.....212
10.4.1.4. Op Ex Analyst.....213
10.1.4.5. Software License and Maintenance Agreements.....213
10.1.4.6. Branch Office and Authorized Payment Locations 214
10.1.4.7. SCG Will Be Closing Branch Offices; SDG&E Has Also Experienced Reduced In-Person Customer Payment Transactions 214
10.4.2. Capital Projects 214
10.5. OFFICE OPERATIONS - COMMON ISSUES 220
10.6. OFFICE OPERATIONS - SOCALGAS ISSUES 220
10.7. OFFICE OPERATIONS - SDG&E ISSUES.....222
10.7.1. Non-Shared Services.....222
10.7.1.1. Billing Services.....223
10.7.1.2. Office Credit & Collections.....225
10.7.1.3. Customer Service Technology Support 225
10.7.1.4. Customer Service Operations Other 226
10.7.2. Shared Services.....226
10.7.3. Capital Projects 227
10.8. INFORMATION - COMMON ISSUES (INCLUDING R&D).....227
10.9. INFORMATION - SOCALGAS ISSUES (INCLUDES BIOGAS).....227

10.10. INFORMATION - SDG&E ISSUES 233
10.10.1. Customer Assistance 234
10.10.1.1. NGAT 234
10.10.1.2. Medical Baseline.....235
10.10.1.3. TEAM Collaborative 235
10.10.2. Clean Energy Programs 236
10.10.2.1. Sustainable Communities Program.....236
10.10.3. Electric Clean Transportation 237
10.10.4. Communication, Education & Outreach.....237
10.10.5. PEV Engineering Support Expenses.....237
10.10.6. Incremental Market Assessment & Planning Expenses.....238
10.10.7. Customer Communications and Research Services.....238
10.10.7.1. Mass Communications.....239
10.10.7.2. Website Management 240
10.10.7.3. Corporate Center Transfer 240
10.10.8. RD&D 240
10.10.9. O&M Shared Services 241
10.10.10. Capital Expenditures 242
10.10.10.1. My Account Products and Services 243
10.10.10.2. My Account Mobile Services 243
10.10.10.3. My Account Additional Environment 244
10.10.10.4. Customer Contact and Notification System.....244
10.10.10.5. Customer Relationship Management System Upgrade 245
10.10.10.6. Customer Energy Network – Phase 3 246
10.10.10.7. Energy Innovation Center (EIC).....246
10.11. SMART METER POLICY, AMO AND MDO - SDG&E ISSUES 248
11. OTHER CUSTOMER ISSUES (E.G. DISABILITY).....248
12. INFORMATION TECHNOLOGY 248
12.1 SDG&E ISSUES 248
12.1.1. O&M 248
12.1.2. Capital Expenditures.....249
12.2 SOCALGAS ISSUES 249
12.2.1. O&M 249

12.2.2. Capital Expenditures 249
13. BUSINESS SOLUTIONS/SUPPORT SERVICES 250
13.1 COMMON ISSUES 250
13.2. SOCALGAS ISSUES 250
13.3. SDG&E ISSUES 250
14. ADMINISTRATIVE AND GENERAL – UTILITY SHARED AND NON-SHARED SERVICES 250
14.1 SUPPLIER SERVICES AND DIVERSE BUSINESS ENTERPRISES 250
14.1.1. SDG&E Issues 250
14.1.2. SoCalGas Issues 250
14.1.3. Shared Services 251
14.2. ENVIRONMENTAL SERVICES 252
14.2.1. SoCalGas & SDG&E Issues 252
14.2.2. O&M Non-Shared Services Cost Center-1EV000.000-Environmental 252
14.2.2.1. DRA's Recommendation for TY 2012 for Non-Shared Services-Cost Center 1EV000.000 252
14.2.2. O&M Shared Services Cost Center 2100-(0206, 0632, 3022, 3035, 3282, 3588, 3589).000, Dir. Environmental Services 253
14.2.2.1. DRA Recommendation for TY 2012 for Shared Services-Cost Center 2100-(0632, 3035, 3282)000, Dir. Environmental Services 253
14.3. FLEET SERVICES 254
14.3.1. SDG&E Issues 254
14.3.2. SoCalGas Issues 256
14.4. REAL ESTATE, LAND AND FACILITIES 259
14.4.1. SDG&E and SoCalGas Issues 259
14.4.2. O&M Non-Shared Services Cost Centers: 1RE003.000, 1RE001.000 and 1RE002.000-REL&F 259
14.4.3. O&M Shared Services Cost Centers for Shared Rents, Shared Facility Operations, Shared Facility Capital Programs and Shared Land Services & ROW 260
14.4.4. Real Estate, Land and Facilities Capital Expenditures 261
14.5. EMERGENCY PREPAREDNESS & SAFETY 267
14.5.1. SDG&E and SoCalGas Issues 267

14.6. HUMAN RESOURCES, DISABILITY AND WORKERS' COMPENSATION.....269
14.6.1. SDG&E Issues 269
14.6.2. SoCalGas Issues.....271
14.7. CONTROLLER, REGULATORY AFFAIRS AND FINANCE 273
14.7.1. SDG&E Issues 273
14.7.2. SoCalGas Issues.....274
14.8. LEGAL AND EXTERNAL AFFAIRS 275
15. CORPORATE CENTER COSTS ALLOCATED TO UTILITIES.....275
15.1. COMMUNICATIONS AND INVESTOR RELATIONS/ REORGANIZATION.....276
15.1.1. Corporate Center Reorganization And 2010 Data 276
15.1.2. Corporate Center Reorganization And Business Unit Control 277
15.2. FINANCE 278
15.2.1. Cost Center 1100-0039 – Executive VP & CFO 278
15.2.2. Accounting Shared Services (A-2) 280
15.2.2.1. Cost Center 1100-0338 SVP Controller and 1100-0054 Assistant Controller 280
15.2.2.2. Cost Center 1100-0012 Corporate Acct Special Projects 281
15.2.2.3. Cost Center 1100-0347 Accounting Research.....282
15.2.2.4. Cost Center 1100-0047 Financial Reporting Director.....283
15.2.2.5. Cost Center 1100-0048 Financial Reporting 283
15.2.2.6. Cost Center 1100-0219 Financial Reporting D&T Fees 284
15.2.2.7. Accounting Shared Services Allocation Adjustment.....284
15.2.3. Tax Services (A-3).....284
15.2.3.1. Cost Center 1100-0046 VP of Corporate Tax 284
15.2.3.2. Cost Center 1100-0373 Domestic Tax Compliance 285
15.2.3.3. Cost Center 1100-0374 International Tax 286
15.2.3.4. Cost Center 1100-0399 Tax Law Group.....287
15.2.3.5. Tax Services Allocation Adjustment 288
15.2.4. Treasury (A-4) 288
15.2.4.1. Cost Center 1100-0224 Corporate Cash Management 288
15.2.4.2. Treasury Allocation Adjustment.....289

15.2.5. Investor Relations/Shareholder Services (A-5) 290
15.2.5.1. Cost Center 1100-0375 VP Investor Relations.....290
15.2.5.2. Investor Relations/Shareholder Services Allocation Adjustment.....290
15.2.6. Corporate Planning (A-6) 291
15.2.6.1. Cost Center 1100-0342 Financial Systems.....291
15.2.7. Risk Management (A-7) 292
15.2.7.1. Cost Center 1100-0010 VP Risk Analysis & MGMT 292
15.2.7.2. Risk Management Allocation Adjustment.....292
15.2.8. Financial Leadership Program (A-8) 292
15.2.8.1. Cost Center 1100-0340 Acctg & Finance Rotation 293
15.2.9. Summary of Finance (A) 293
15.3. HUMAN RESOURCES (D).....294
15.3.1. Human Resources Senior VP (D-1).....294
15.3.2. Compensation & Benefits (D-2) 295
15.3.2.1. Cost Center 1100-0136 Executive Compensation 295
15.3.2.2. Compensation Benefits Allocation Adjustment 296
15.3.3. MyInfo-Payroll & HR Information Systems (D-3) 296
15.3.4. Corporate Staffing & Development (D-4) 296
15.3.4.1. Cost Center 1100-0130 HR Business Partner.....297
15.3.4.2. Employee Programs (D-5) 298
15.3.4.3. Cost Center 1100-0155 Corp Comm Partnerships 298
15.3.4.4. Cost Center 1100-0170 Internal Communications 298
15.3.4.5. Summary of Human Resources (D).....299
15.4. LEGAL.....299
15.4.1.1. General Counsel (C-1) 301
15.4.1.2. Cost Center 1100-141 Executive VP & General Counsel 301
15.4.2. Corporate Center Law Department (C-2) 301
15.4.2.1. Cost Center 1100-0144 Legal 301
15.4.3. Outside Legal (C-3) 302
15.4.3.1. Cost Center 1100-0145 Outside Legal.....302
15.4.4. Summary of Legal (C-3).....303

15.5. EXTERNAL AFFAIRS (GOVERNANCE (B)) 303
15.5.1. Communications (E-1) 303
15.5.2. Government Affairs (E-2) 304
15.5.2.1. Cost Center 1100-0150 VP Corp Relations 304
15.5.2.2. Cost Center 1100-0157 Govt Programs & Corp Responsibility 305
15.5.3. Summary of External Affairs (E) 305
15.6. EXECUTIVE (GOVERNANCE (B)) 305
15.6.1. Internal Audit (B-1) 306
15.6.1.1. Cost Center 1100-0041 Audit Fin & OPS 306
15.6.1.2. Cost Center 1100-0050 Audit Quality Assurance 307
15.6.1.3. Internal Audit Allocation Adjustment 307
15.6.2. Corporate Secretary (B-2) 308
15.6.2.1. Cost Center 1100-0143 Corporate Secretary 308
15.6.3. Summary of Executive/Governance (B) 309
15.6.4. Executive Compensation 309
15.7. FACILITIES/ASSETS (F) - DEPRECIATION & RATE OF RETURN 309
15.7.1. Depreciation/Rate of Return (F-1) 309
15.7.2. Property Taxes (F-2) 310
15.7.3. Corporate Security Services (F-4) 310
15.7.4. Summary of Facilities/Assets (F) 310
15.8. PENSIONS & BENEFITS (G) 311
15.8.1. Employee Benefits (G-1) 312
15.8.1.1. Cost Center 1100-0802 P&B Overhead 312
15.8.1.2. Cost Center 1100-0814 BOD Pension 312
15.8.2. Payroll Taxes (G-2) 312
15.8.2.1. Cost Center 1100-0803 Payroll Taxes 313
15.8.3. Incentive Compensation (G-3) 313
15.8.3.1. Cost Center 1100-0800 Executive ICP 313
15.8.3.2. Cost Center 1100-0801 ICP Overheads 313
15.8.4. Long-Term Incentives (G-4) 314
15.8.5. Supplemental Retirement (G-5) 314
15.8.6. Summary of Pension & Benefits (G) 316

15.9. INSURANCE 316
15.9.1. Differences in Escalation Rates 317
15.9.2. $13.486 MILLION DOLLARS OF SEMPRA'S LIABILITY INSURANCE SHOULD NOT BE ALLOCATED TO SDG&E AND SOCALGAS 320
15.9.3. Wildfire Liability 321
15.9.4. SDG&E Wildfire Property Reinsurance 321
15.9.5. Board of Directors Insurance 322
15.9.6. Excess Workers Compensation Insurance 323
15.9.6.1. Cost Center 1100-0429 – Excess Workers 323
15.9.6.2. Cost Center 1100-0439 –Global Workers 324
15.9.7. SONGS Nuclear Liability 324
15.9.8. DRA's Audit Adjustments 325
15.9.9. Cost Center 1100-0433 – Group Executive 325
15.9.10. Recap of DRA's Proposals On Sempra's Liability Insurance Forecasts 326
15.10. $887,000 FOR CORPORATE PROPERTY INSURANCE SHOULD NOT BE ALLOCATED TO SDG&E'S AND SCG'S TY 2012 328
15.10.1. Excess Property All-Risk 329
15.10.2. SONGS Nuclear Property Insurance 330
15.10.3 Property Insurance Allocation Adjustment 331
15.10.4. Recap of DRA's Recommendations for Property Insurance 331
16. SHARED SERVICES AND ASSETS 333
16.1. SHARED SERVICES POLICY AND BILLING 333
17. EMPLOYEE ISSUES (GENERIC EMPLOYEE-RELATED ISSUES) 335
17.1. 2012 STAFFING LEVELS 335
17.1.1. SoCalGas 335
17.1.2. SDG&E 335
17.2. COMPENSATION AND BENEFITS 335
17.2.1. SoCalGas 335
17.2.1.1. Compensation 335
17.2.1.2. Benefits 340
17.2.2. SDG&E 340
17.2.2.1. Compensation, ...340

17.2.2.2. Benefits 342
17.3. Diversity....342
17.3.1. SoCalGas....342
17.3.2. SDG&E 342
17.4. Pensions 342
17.4.1. SDG&E and SoCalGas 342
17.5. PBOPs....343
17.5.1. SDG&E and SoCalGas 343
18. RATEBASE....344
18.1. COMMON ISSUES....344
18.2. WORKING CASH....345
18.3. SOCALGAS ISSUES 345
18.4. SDG&E ISSUES 345
19. DEPRECIATION 346
19.1. COMMON ISSUES....347
19.1.1. The Commission Should Reject Sempra's Proposed Net Salvage Rates for SDG&E's Underground Electric Conduit and for Both of Sempra's Regulated Utilities' Gas Mains 347
19.1.2. The Commission Should Direct Sempra To Offset Ratebase With The Difference of Approximately $133 million, Between Contributions in Aid of Construction (CIAC) Money Received and Spent 352
19.2. SOCALGAS ISSUES 357
19.3. SDG&E ISSUES 357
20. TAXES....358
20.1. COMMON ISSUES....358
20.1.1. Sempra's Offsets Of Future Taxable Income Using NOLs From Bonus Tax Depreciation 359
20.1.2. Payroll Taxes 361
20.1.3. DRA Recommends that the Commission Remove Entertainment Costs from Sempra's Revenue Requirement and Replace Sempra's 100% Allowance for Business Travel Meals with the 50% Allowance 362
20.2. SOCALGAS ISSUES 363
20.3. SDG&E ISSUES 363

20.3.1. Franchise Fees 363
20.3.2. Electric Department 363
21. MISCELLANEOUS REVENUES 364
21.1. COMMON ISSUES 364
22. SALES AND CUSTOMERS 364
22.1. COMMON ISSUES 364
22.2. SOCALGAS ISSUES 364
22.3. SDG&E ISSUES 365
23. REGULATORY ACCOUNTS 366
23.1. COMMON ISSUES 366
24. ESCALATION 367
24.1. COMMON ISSUES 368
24.1.1. Test Year 2012 370
24.1.2. Post-Test Year 370
24.2. SOCALGAS ISSUES 370
24.3. SDG&E ISSUES 370
25. AUDIT & ACCOUNTING ISSUES (INCLUDES COST CENTER-FERC MAPPING AND SEGMENT/ASSIGN RATES) 370
25.1. COMMON ISSUES 371
25.1.1. Corporate Center Shared Services 371
25.1.2. International Taxes 372
25.1.3. Allowance for Funds Used During Construction (AFUDC) 373
25.2. SOCALGAS ISSUES 378
25.3. SDG&E ISSUES 378
25.3.1. DWR Sales 378
25.3.2. Gross Value for SONGS 382
25.3.3. Gross Plant Assets vs. Net Plant Assets 382
26. SUMMARY OF EARNINGS/REGULSTS OF OPERATIOSN MODEL 383
26.1. COMMON ISSUES 383
26.2. SOCAL ISSUES 383
26.3. SDG&E ISSUES 383

27. POST TEST YEAR REVENUE REQUIREMENT ISSUES.....383
28. NON TARIFFED PRODUCTS AND SERVICES 385
29. BIOGAS PILOT PROGRAM.....385
30. CONCLUSION.....387

TABLE OF AUTHORITIES

CPUC Decisions

D.46876 6
D.90462 7
D.92496 4
D.82-12-054 364
D.83-05-036 4
D.84-05-036 ..... 359, 30, 361, 362
D.84-09-089 200
D.85-08-046 200
D.85-12-108 201
D.87-12-067 5
D.89-12-057 ..... 323, 334
D.92-08-036 202
D.92-12-057 201
D.95-12-055 ..... 337, 341
D.95-12-063 203
D.96-01-011 ..... 203, 322, 346
D.97-11-074 203
D.00-02-046 ..... passim
D.01-10-031 6
D.04-03-034 ..... 6, 322
D.04-07-022 52
D.04-12-015 ..... 94, 118, 343
D.06-05-016 ..... passim
D.07-11-046 50
D.08-07-046 ..... passim
D.08-11-031 ..... 234, 235
D.09-01-016 363
D.09-03-025 ..... passim
D.09-06-052 337
D.09-08-029 ..... passim
D.09-09-011 ..... 343, 344
D.09-09-047 247
D.10-04-027 208
D.10-05-008 21
D.10-12-002 234
D.10-12-026 ..... passim
D.10-14-047 62
D.11-01-025 21

D.11-05-018 ..... 199, 201, 338, 344
D.11-07-029 ..... 68, 122

California Public Utilities Code

§ 314.5 370
§ 451 4
§ 454 4

General Order

GO 95 ..... passim
GO 165 55
GO 166 86

Assembly Bill

AB 32 ..... passim

Federal Regulations

18 C.F.R. part 101 349
40 C.F.R. § 98 131
40 C.F.R. § 98.230 131
40 C.F.R. § 98.230 subpart W ..... passim
49 C.F.R. § 192.616 185

76 Fed. Reg. 80554 132
76 Fed. Reg. 80559 ..... 132, 133

Other Authorities

Mojave Desert Air Quality Management District Rule 1160 ..... 171, 181, 187

1. INTRODUCTION

Pursuant to Rule 13.11 of the Rules of Practice and Procedure of the California Public Utilities Commission (CPUC or Commission), and the schedule set by Administrative Law Judge (ALJ) John Wong, the Division of Ratepayer Advocates (DRA) submits this Brief for the General Rate Case (GRC) Applications of San Diego Gas & Electric Company (SDG&E) and Southern California Gas Company (SCG or SoCalGas) for Test Year (TY) 2012. As the record in this case shows, the Applicants have not met their burden of proof as to all elements of their requested rate increases. This Brief addresses the areas in dispute.[1]

1.1. Summary of Recommendations

In its application filed on December 15, 2010, SDG&E requested a base margin[2] of $1.842 billion,[3] $1.523 billion for electric operations[4] and $319 million for gas operations,[5] an increase of $329 million (21.7%) over authorized base margin.[6] In its application, SCG requested a base margin of $2.021 billion,[7] an increase of $306 million over authorized base margin.[8] SDG&E asserts in its application that its proposal would increase a typical inland residential customer's monthly winter bill by $3.62 (4.5%) for electricity and $2.93 (6.7%) for gas, assuming 500 kWh and 33 therms of usage,[9]

---

[1] Silence on any argument should not be interpreted as assent.

[2] Base margin is equal to revenue requirement less miscellaneous revenues.

[3] Exh. 501, p. 4.

[4] *Id.*, p. 6.

[5] *Id.*, p. 8.

[6] Exh. 500, Table 1-1, p. 2.

[7] Exh. 531, p. 3.

[8] Exh. 530, Table 1-1, p. 1.

[9] In its previous rate case application, SDG&E projected a rate increase based on 40 therms of usage per month, and does not explain in this application why it has reduced its monthly usage calculation. Had SDG&E used the same calculation in this rate case, the monthly gas bill would increase by $3.55 (8.1%).

respectively. SCG asserts that its proposal would increase a typical residential customer's monthly bill by $3.35 (7.7%), assuming 38 therms of usage.[10]

SDG&E also requests additional annual revenue increases of $49 million in 2013, $64 million in 2014 and $81 million in 2015. SDG&E has asked for additional Smart Meter-related revenue in 2013-2015 in addition to the annual attrition increases.[11] SCG also asked for additional revenue in Attrition years 2013-2015: $55 million in 2013, $62 million in 2014 and $51 million in 2015.[12]

DRA filed its testimony September 1, 2011. Based on its independent analysis, DRA recommends for SDG&E that the CPUC approve a base margin of $1.497 billion,[13] a rate decrease for SDG&E of $345 million (or -23%) in 2012. DRA recommends annual attrition revenue increases for SDG&E of $25 million in 2013, $32 million in 2014 and $40 million in 2015.[14] For SCG, DRA recommends base rate revenues of $1.660 billion, which represents a reduction of $361 million from SCG's proposed 2012 revenues.[15] DRA recommends annual attrition revenue increases for SCG of $32 million in 2013, $34 million in 2014 and $34 million in 2015.[16]

The following summarizes DRA's major recommendations relative to SDG&E's requests:

- DRA recommends $209 million in Operations and Maintenance (O&M) expense reductions, including shared services adjustments, reassignments, FERC transaction costs, escalation and franchise fees and uncollectibles.

---

[10] In its previous rate case application, SCG projected a rate increase based on 50 therms of usage per month, and does not explain in this application why it has reduced its monthly usage calculation. Had SCG used the same calculation in this rate case, the monthly gas bill would increase by $4.41 (10.1%).

[11] Exh. 500, p. 1.

[12] Exh. 521, p. 6.

[13] Exh. 501, p. 4.

[14] Exh. 501, p. 3.

[15] Exh. 530, p. 3.

[16] *Id*.

- DRA recommends $37 million in depreciation and amortization expense reductions.
- DRA recommends $40 million in income tax reductions.
- DRA recommends $710 million in rate base reductions.
- DRA recommends $60 million reduction to return on rate base.[17]

The following summarizes DRA's major recommendations relative to SCG's requests:

- DRA recommends $230 million in Operations and Maintenance (O&M) expense reductions, including shared services adjustments, reassignments, escalation and franchise fees and uncollectibles.
- DRA recommends $54 million in depreciation expense reductions.
- DRA recommends $55 million in income tax reductions.
- DRA recommends $281 million in rate base reductions.
- DRA recommends a $24 million reduction to return on rate base.[18]

1.2. Procedural Background

On August 6, 2010, SDG&E and SCG each tendered a Notice of Intent (NOI) for a General Rate Case (GRC) covering the 4-year period from 2012 through 2015. On December 15, 2010, SDG&E filed A.10-12-005, and SCG filed A.10-12-006. On December 16, 2010, the applications were noticed on the Commission's Daily Calendar. On December 16, 2010, SDG&E and SCG filed a joint motion to consolidate the two GRCs. A joint Prehearing Conference (PHC) was held January 31, 2011 for Southern California Edison Company on their Application, A.10-11-015, SCG and SDG&E in order to coordinate schedules.

DRA staff propounded 298 sets of formal data requests and numerous informal data requests, met with Sempra's witnesses and support staff, audited the Utilities'

---

[17] Exh. 501, p. 4.

[18] Exh. 530, p. 3.

financial records, conducted research and analysis and consulted with its three assigned counsel to develop their testimonies. DRA ultimately served 49 exhibits on September 1, 2011, and took part in six weeks of evidentiary hearings in December 2011 and January 2012.

2. EVIDENTIARY STANDARDS AND BURDEN OF PROOF

2.1. Burden and Standard of Proof

The Commission is charged with the responsibility of ensuring that all rates demanded or received by a public utility are just and reasonable; "no public utility shall change any rate... except upon a showing before the Commission, and a finding by the Commission that the new rate is justified."[19] Thus, in ratemaking applications, the burden of proof is on the applicant utility.[20]

In a 1980 decision, the Commission stated what has become a frequently quoted position on the burden of proof:

> Of course the burden of proof is on the utility applicant to establish the reasonableness of energy expenses sought to be recovered through ECAC. We expect a substantial affirmative showing by each utility with percipient witnesses in support of all elements of its application, including fuel costs and plant reliability.[21]

In a later ECAC proceeding, the Commission confirmed:

> ...the fundamental principal involving public utilities and their regulation by governmental authority that the burden rests heavily upon a utility to prove it is entitled to rate relief and not upon the Commission, its Staff, or any interested party or protestant, such as TURN, to prove the contrary.[22]

---

[19] Public Utilities Code §§ 451, 454.

[20] *See, e.g,* Application of Pacific Gas and Electric Company (2000) D. 00-02-046, mimeo, p. 36, 2000 Cal. PUC LEXIS 239.

[21] Re Energy Cost Adjustment Clauses, (1980) 4 CPUC 2d 693, 701; D.92496.

[22] Re Southern California Edison Company, (1983) 11 CPUC 2d 474, 475; D.83-05-036.

The same burden of proof applies to the utility in a general rate case. As the Commission noted in a PG&E GRC decision, there is no distinction between types of ratemaking cases with respect to the utility's burden of proof:

> The inescapable fact is that the ultimate burden of proof of reasonableness, whether it be in the context of test-year estimates, prudence reviews outside a particular test year, or the like, never shifts from the utility which is seeking to pass its costs of operations onto ratepayers on the basis of the reasonableness of those costs.[23]

In its decision in SCE's TY 2006 GRC, the Commission confirmed that the burden of proof is on the utility:

> As the Applicant, SCE must meet the burden of proving that it is entitled to the relief it is seeking in this proceeding. SCE has the burden of affirmatively establishing the reasonableness of all aspects of its application. Intervenors do not have the burden of proving the unreasonableness of SCE's showing.[24]

The Applicants in this rate case, SDG&E and SCG, have the burden of proving that each of their proposals is reasonable.

With the burden of proof placed on the Applicant in rate cases, the Commission has variously held that the standard the Applicant in a GRC must meet is "clear and convincing evidence"[25] or "preponderance of the evidence." [26] According to the alternate decision on the TY 2009 GRC for Southern California Edison:

> ... the Commission has held that the standard of proof the applicant must meet is that of a preponderance of evidence, which the Commission has, at times, incorrectly referred to as "clear and convincing" evidence. Evidence Code 190 defines proof as the establishment by evidence of a "requisite degree

---

[23] Application of Pacific Gas and Electric Company (2000) D. 00-02-046, mimeo, p. 36, 2000 Cal. PUC LEXIS 239 citing Re Pacific Bell (1987) 27 CPUC 2d 1, 21, D.87-12-067.

[24] Opinion on Southern California Edison Company's Test Year 2006 General Rate Case IncreaseRequest (2006) D.06-05-016, mimeo, p. 7.

[25] Alternate Decision of President Peevey on Test Year 2009 General Rate Case for Southern CaliforniaEdison Company (2009) D.09-03-025, p. 8.

[26] Application of Pacific Gas and Electric Company (2000) D. 00-02-046, mimeo, p. 36.

> of belief." We have analyzed the record in this proceeding within these parameters.[27]

Thus, in one paragraph, D.09-03-025 goes against a long line of other Commission decisions that find the standard of proof to be "clear and convincing evidence." D.09-03 025 offered no explanation of why "clear and convincing evidence" is the "incorrect" standard to apply. General rate increase proceedings going back at least as far as 1952 have held that "...a utility seeking an increase of rates has the burden of showing by clear and convincing evidence that it is entitled to such increase."[28] In fact, the Commission applied this standard in PG&E's last contested GRC Application,[29] and reiterated it in an opinion deciding applications for rehearing:

> We have historically, although not wholly consistently, applied the clear and convincing burden of proof to utilities seeking general rate increases. We applied the clear and convincing standard to PG&E in this case. This standard is applicable to all aspects of PG&E's showing. The Decision contains six pages (pp. 34-40) discussing at length both the clear and convincing standard and the substantial evidence standard. Moreover, the Decision explicitly reiterates later that "we must insist upon PG&E demonstrating, for each component of its proposed revenue requirements, that it produce **clear and convincing evidence.** To the extent it fails to do so, we **cannot grant its requested revenue** increase.[30]

In a recent GRC decision for a Southwest Gas Corporation, the Commission explicitly stated that clear and convincing evidence was necessary for a utility to meet its burden of proof:

> ... it is [the utility's] direct showing that must provide the clear and convincing evidence. Without establishing that basis, [the utility] will not have met its burden of proof.[31]

---

[27] D.09-03-025, p. 8.

[28] *See, e.g.,* Southern Counties Gas Company of California (1952) 51 CPUC 533, 534; D.46876.

[29] D.00-02-046, p. 36.

[30] Order Granting Rehearing, D.01-10-031, 2001 Cal LEXIS 917 at *5 - *6 (emphasis added).

[31] Opinion Regarding Proposed General Rate Increase, (2004) D.04-03-034, mimeo, p. 7.

Why D.09-06-025 suddenly departed from this long line of precedent is not explained. DRA recommends that the Commission affirm that the proper standard of proof for GRCs is clear and convincing evidence, as it has been consistently for decades.

To meet the "clear and convincing evidence" standard, "... the applicant must produce evidence having the greatest probative value."[32] As the Commission further explained, clear and convincing evidence is "proof by evidence that is clear, explicit and unequivocal; that is so clear as to leave no substantial doubt; or that is sufficiently strong to demand the unhesitating assent of every reasonable mind."[33]

Regardless how the standard is defined, however, SDG&E and SCG have failed to prove that their requested $635 million increase for 2012, and $362 million dollar increase in attrition year increases for 2013-15, almost a $1 billion increase, is reasonable after the largest recession this nation has suffered in eighty years. The areas DRA disputes are discussed below.

3. POLICY ISSUES

3.1. Forecasting Issues and the Use of 2010 Recorded Costs

As the Commission has noted in prior GRC decisions, "there are a number of acceptable methodologies for forecasting test year costs."[34] In this TY 2012 GRC, DRA, SCG, SDG&E and other parties have used averages and trends of recorded costs, the most recent recorded costs, and forecasts based on budgets. In the past, in these situations, the Commission has found that:

> [d]epending on circumstances, one method may be more appropriate than others. Under other circumstances, two or more methods may be equally appropriate. In general, the parties' testimony should explain (1) why its proposed methodology is appropriate, (2) why it is better than

[32] See Application of Pacific Gas and Electric Company, (2000) D.00-02-046, mimeo, p. 38, quoting from Application of PT&T Co. for A General Rate Increase, (1970) 2 CPUC 2d 89, 98-9 D.90462.

[33] Application of Pacific Gas and Electric Company, (2000) D.00-02-046, mimeo, pp. 36-37, 2000 Cal. PUC LEXIS 239. Any doubts "...must be resolved against the party upon whom rests the burden of proof." Application of PT&T Co. for A General Rate Increase, (1970) 2 CPUC 2d 89, 98-9, D.90462.

[34] *See, e.g.*, D.06-05-016, *mimeo*, p. 10.

> methodologies proposed by other parties, and (3) why the results are reasonable.[35]

However, in connection with forecasts using budget-based methodologies, the Commission has cautioned that:

> While incremental budgets may capture anticipated increases over historic levels it is not always clear that (1) additional productivity from past year or current projects are also being properly cast on a forward basis, (2) that certain historic costs will be necessary in future years and can, instead, be used to offset new costs, and (3) that the proposed budgeted costs are not included in another form in the embedded recorded data. *When these types of issues are raised, the utility has the responsibility to demonstrate the reasonableness of its estimates, even if it means identifying and justifying all costs embedded in the base year amount.*[36]

As discussed in prior Commission decisions, "… there are a number of acceptable methodologies for forecasting test year costs."[37] For example, in the TY 2006 Edison GRC decision, the Commission noted that the parties "… used averages and trends of recorded costs, *most recent recorded costs*, as well as forecasts based on budgets or incremental budgets over recorded amounts."[38] In fact, in its final decision on the Edison GRC, the Commission explicitly cited and relied upon recorded data, not just from the base year,[39] but from one and two years beyond as well.[40]

---

[35] *Id.* at pp.10-11.

[36] *Id.* at 11 (emphasis added).

[37] Opinion on Southern California Edison Company's Test Year 2006 General Rate Increase Request, (2006) D.06-05-016, mimeo, p. 10.

[38] *Id.* (emphasis added).

[39] The "base year" in the Edison TY 2006 GRC was 2003. (D.06-05-016, mimeo, p. 14.)

[40] *See, e.g.,* D.06-05-016, mimeo, p. 95: "We will compromise by using the most recent five-year historic average (2000 – 2004) to forecast test year revenues ..."; p. 104: "We do not anticipate that decline will continue, since recorded information for 2004 indicates that the decline may be flattening out..."; p. 226: "DRA points out that due to the increased number of linemen from 2003 (647 linemen) to 2006 (828 linemen), overtime embedded in the 2004 recorded CPM [cost per meter] would be reduced and would offset cost escalation associated with other CPM activities... We are persuaded by DRA's argument to hold the CPM at $2,922 for 2006 and will incorporate it in determining the test year estimate ... for this capital activity."

This circumstance is not new to SDG&E and SCG, as use of recorded 2006 data was an issue in their prior GRC proceeding. In the final decision approving settlement agreements that determined the revenue requirement, the Commission ruled that, "[w]e disagree with SDG&E and SoCalGas on whether the updating exceeds the permissible rate case updates: the issue with using 2006 data is whether it is compatible with the other years of recorded data in order to derive trends and forecasts."[41] The Commission rejected use of 2006 data because of the incompatibility between the unadjusted 2006 data and the adjusted data for 2005 and prior years.[42] Unlike that proceeding, however, in this proceeding DRA has provided adjusted 2010 data in a format compatible with the adjusted data for 2009 and prior years.

In this proceeding, there is a similar issue with SDG&E's and SCG's insistence on the use of no data more recent than the end of 2009 to estimate their 2012 Test Year revenue requirements, but there is an additional compelling reason to use actual 2010 data that was absent in the prior proceeding, namely the deep recession that started in 2008 and intensified in 2009 and 2010. Global Insight forecasts referenced by SCG in its rebuttal testimony show that economic forecasting for the Southern California region for 2012 made after 2009 grew more negative.[43] Many SDG&E and SCG predictions for 2010 spending based on 2009 data were thus wildly overoptimistic. Because many 2012 predictions either build on 2010 spending, or in some cases the entire increase from 2009-2012 was "predicted" for 2010,[44] such errors for 2010 persist in 2012 Test Year estimates.

In addition, some 2012 areas of spending did not exist in 2009 and are newly introduced in this rate cycle, and comparing actual spending to predicted spending in these areas is necessary to assess the reasonableness of the request. This is particularly

---

[41] Decision on the Test Year 2008 Rate Cases, for San Diego Gas & Electric Company and Southern California Gas Company, D.08-07-046, mimeo, p. 9.

[42] *Id.*

[43] *See* Table SCG-GOM-3-R, Exh. 29 (Mejia-Orzoco) p. 17.

[44] *See, e.g.,* RT 3435:25 – 3436:10.

the case when the spending in many areas is informed mainly by internal judgment and not on objective, reviewable factors, SDG&E and SCG pre-filed their rate cases in August, 2010, and officially filed their applications in December 2010, when it was apparent that their full year 2010 estimated costs would be incorrect, yet they insist that use of actual, adjusted 2010 expenses for the entire year is improper.

The Commission cannot ignore evidence admitted in this proceeding showing that the economic downturn in 2010 and 2011 was far more severe than anticipated, with carry over impacts into the economic activity in 2012, in order to determine a reasonable revenue requirement for 2012. Just because a complete calendar year of data was not available prior to their December application is no reason to ignore evidence that 2010 costs were seriously overestimated.

Moreover, although SDG&E and SCG decry use of 2010 actual costs, not only did they fail to move to strike such evidence from the record, but they offered numerous instances of 2010 actual and even 2011 costs to support their 2012 estimates in rebuttal testimony. Just because they claim to have offered such 2010 and 2011 information only in response to the use of 2010 data by DRA and other interveners – which is not correct, as in many areas they introduced such evidence when 2010 data was not referenced by DRA – is no reason to ignore such data. On the contrary, SDG&E and SCG cannot have it both ways, by offering such 2010 and 2011 data in numerous instances and also arguing that use of such data by DRA and interveners is improper. Also, SDG&E and SCE considered events in 2010 in the application's request for 2012, such as actual hires during 2010.[45]

SDG&E and SCG witness Gina Orozco-Mejia offered numerous arguments against the consideration of 2010 actual costs. Ms. Orozco-Mejia stated: "The introduction of 2010 recorded data for forecast development is inappropriate because it creates imbalances between parties' presentations, general inconsistencies between

[45] *See,e.g.,* RT 3993 (number of actual analysts hired in 2010 impacted application);

witness treatment of the data, and disparate treatment of forecast development."[46] However, those statements can be true even if 2010 data were not included. SDG&E and SCG's multiple, varying approaches to using 2005-09 data – trend analyses, 3-year averages, 5-year averages, etc. – are not necessarily consistent with each other, and do not use all years in the data set for their forecast. Intervenors are obviously permitted to analyze data differently than applicants.

SDG&E and SCG also selectively use 2010 and 2011 data to support their forecasts, "in response to intervenors' introducing new data."[47] But they use such data to justify their forecasts, even if they do not adjust their forecasts to account for such data. For example, with respect to a new Area Resource Scheduling Organization, part of gas distribution Field O&M spending, on rebuttal Ms. Mejia-Orozco stated: "Full deployment of the system was completed in 2011 and the total number of Scheduling Advisors currently projected to manage the work is 14. SCG's request here for six Advisors is thus reasonable."[48] Ms. Mejia-Orozco did not deny that the Utilities referred to 2010 and 2011 evidence to argue their forecasts were reasonable, but instead noted it was in response to the intervenors introducing new data.[49] But even though SDG&E and SCG don't use 2010 and 2011 data to modify their original forecast, and regardless of why they claim they offered such data, SDG&E and SCG cannot complain about the use of 2010 data by intervenors while they use 2010 and more recent data to justify their forecasts. SDG&E and SCG did not move to strike estimates using 2010 data, and did not object to the introduction of any intervernor testimony with such data.

One of SCG's arguments in rebuttal does address the actual 2010 data, but rather than acknowledging the general trend that its forecasts of 2010 overstated actual 2010 costs, SCG tried to disclaim the accuracy and predictive value *of its own 2010 forecasts*,

---

[46] Exh. 29, p. GOM-5; *see* RT 1221:18-26.

[47] *See* RT 1227:3-9.

[48] Exh. 29, p. 71; *see* RT 1225:26 – 1226:9

[49] *See* RT 1227:3-9.

which Ms. Mejia-Orozco argues are included merely to support the Test Year 2012 figure:

> The presentation of SCG's 2010 forecast does not always facilitate a direct comparison to 2010 actual data. Caution is required in drawing conclusions from any comparison of the 2010 forecast to 2010 actual costs. In preparing the O&M and Capital forecasts, SCG first conducted an analysis that included the review of historical 2005 to 2009 spending and the consideration of the underlying cost drivers. Dependent on future expectations for underlying cost drivers, SCG selected an overall forecast methodology and then, where applicable, applied additions to reflect incremental work elements not captured in the base forecast. This concept is described in my revised direct testimony.[fn. omitted] However, the focus was on determining the reasonable estimate for TY2012 or expenditures over the three year capital period and not the interim years. *Thus, there is not a clear comparison between SCG Gas Distribution's 2010 forecast and 2010 actual spending.*[50]

Even though the practice of the General Rate Case references a base period in order to calculate Test Year rates, and SDG&E and SCG estimate 2010 and 2011 costs as building blocks in various methods of estimating the 2012 Test Year revenue requirement, they disclaim a "clear comparison" between forecast and actual spending for 2010. Such a remarkable admission underlines the frustration intervenors have had in analyzing this application. Importantly, in these arguments SDG&E and SCG do not address why their estimates of 2010 spending based upon their 2005-2009 data were generally far above actual spending throughout their application, and whether such mistakes call into question the methodology and results of the 2012 Test Year estimates. Instead, they merely claim they did the best they could, no adjustments to their estimates should be made, and 2010 data should not be used in forecasts, although it is apparently permissible for them to reference such data in their rebuttal testimony. The use of 2010 data was not a choice made in a vacuum, but resulted from the wide disparities between

[50] Exh. 29, p. 6 (emphasis added).

the 2010 estimates contained in the December 2010 application and 2010 actual spending. If SDG&E's and SCG's methodologies overestimated 2010 spending by such a significant amount, how valid are they for 2012? The logical inference is that there is also "not a clear comparison" between SDG&E and SCG's 2012 forecast and 2012 actual spending.

Indeed, data measuring the economic activity of Southern California showed that predictions of the economic downturn made in late 2009/early 2010 seriously underestimated the strength of the recession in 2009 and beyond, as compared to estimates made in late 2010/early 2011. The following chart was included in Ex. 29, p. 17:

Table SCG-GOM-3-R

Nonfarm Employment Index

"SCG6" is the aggregated "Big 6" counties that account for about 90% of economic activity in SoCalGas' service area: Kern, Los Angeles, Orange, Riverside, San Bernardino and Ventura counties.

Source: Global Insight Regional Forecast

	Feb. 2010 Forecast		Feb. 2011 Forecast	
	(millions)	(%change)	(millions)	(%change)
2000	6,918			
2001	7,000	1.2%	7,000	1.2%
2002	6,982	-0.3%	6,982	-0.3%
2003	7,003	0.3%	7,003	0.3%
2004	7,111	1.5%	7,111	1.5%
2005	7,249	1.9%	7,249	1.9%
2006	7 410	2.2%	7,410	2.2%
2007	7,444	0.5%	7,444	0.5%
2008	7,305	-1.9%	7,305	-1.9%
2009	6,995	-4.2%	6,838	-6.4%

2010	6,961	-0.5%	6,720	-1.7%
2011	7,089	1.8%	6,775	0.8%
2012	7,272	2.6%	6,899	1.8%
2013	7,445	2.4%	7,046	2.1%
2014	7,549	1.4%	7,171	1.8%
2015	7,615	0.9%	7,282	1.5%

SCG introduced this chart just to show that despite the introduction of the later forecast, there still would be upward growth in 2012, and that this upward direction supported its proposal to use a five-year average to estimate the base level of Mark and Locate tickets.[51] SCG witness Ms. Mejia-Orozco explained their use of the above table:

> SCG's intent on introducing the index was purely to assess the general direction of the economy – not as a strict correlation measure. At the time of preparing this forecast, IHS Global Insight projected the rate of change in non-farm employment to be comparable to that seen in the 2005-2006 period. This was the best information available when preparing this forecast. However, even the more recent IHS Global Insight forecast, as referenced by DRA, continues to show positive growth and therefore continues to support SCG's assumption of an overall upward direction for the economy.[52]

However, this chart also shows clearly shows why updated economic data is important to estimate 2012 costs accurately, and not just in Locate and Mark spending, or gas distribution more generally. SDG&E and SCG have utilized Global Insight, an economic forecasting firm, and find it a reputable company.[53] SDG&E and SCG claim they utilized the "best information available," but the February 2010 forecast was itself based on actual employment information only through the end of 2008, as indicated by

[51] Exh. 29, p. 16. *See infra* Section 7.1.1.1 for a discussion of Locate and Mark costs.

[52] *Id.*, pp. 16-17.

[53] RT 1228:15-20.

the line in Table SCG-GOM-3-R.[54] The February 2011 forecast relies on actual employment information through the end of 2009,[55] so even though it was made after the application in December 2010, it is based on data from the same time period which SDG&E and SCG assert is part of the proceeding. While the February 2010 forecast had predicted a strong drop in 2009 employment of 4.2%, the actual 2009 decrease of 6.4% was over 50% larger, a drop of 467,000 jobs in one year rather than the predicted 310,000. The decline in 2010 in the earlier forecast was only 0.5%, while the February 2011 forecast has a substantial 1.7% decline in 2010. The earlier forecast predicted higher growth levels for 2011-13 than the later forecast. Most importantly, employment levels comparable to those seen in the 2005-06 period are not in the later forecast until 2015, rather than 2012, as noted in the SCG testimony. Employment in 2012 was only supposed to recover to slightly higher levels than in 2009, which was after the huge year of decline in 2009 and the beginning of the recession and a decline in 2008. These numbers indicate that a prediction for 2012 incorporating actual 2009 data from Global Insight should rely upon the February 2011 forecast, as the February 2010 forecast relying upon 2008 data underestimated the depth of the recession in 2009. The actual 2010 SDG&E and SCG spending, so much lower than estimated in the application, confirms this economic prediction, and because it incorporates the most recent data from a recession that was deeper than initially foreseen, its use is often necessary in making an accurate prediction for 2012.

For the above reasons, the Commission should consider forecasts made by DRA and other intervenors that utilize 2010 actual costs. DRA did not in all cases rely on 2010 actual costs as part of estimates for 2012, and sometimes the actual 2010 costs were only used to inform how to utilize 2005-2009 costs. All such references were made by witnesses according to their best professional judgment and should be considered by the Commission. SDG&E and SCG witnesses use many different techniques to estimate

---

[54] RT 1235:11 – 1236:2; *see* Table SCG-GOM-3-R, *supra*.

[55] RT 1236:3-9.

2012 costs from 2005-2009 data, where such data exists, and did not use all data from all years, and thus DRA estimates taking into account 2010 data in various ways should similarly be considered by the Commission.

3.2. July 2011 Revisions to SDG&E and SCG testimony

In July 2011, without any prior notice, SDG&E and SCG filed substantial revisions to their direct testimony filed in December, 2010. Such revisions were not provided in time for most DRA witnesses to incorporate such revisions into DRA testimony on September 1, 2011, and compromised DRA's effort to analyze the application. The Rate Case Plan does not provide for any schedule for revised testimony, let alone revised testimony filed so close to DRA's testimony. Numerous comments in SDG&E's and SCG's rebuttal testimony take DRA to task for allegedly ignoring the revised testimony, without any recognition that the late date of such revisions precluded a full evaluation. DRA believes such comments criticizing DRA for failing to incorporate SDG&E's and SCG's late revised testimony into account should be ignored given the context. DRA urges the Commission to adopt a rule requiring that applicants provide notice of their intent to file revisions at least a week in advance, that such revisions be filed no later than two months prior to the due date of DRA's testimony, and that DRA and intervenors have the right to request extensions of the procedural schedule in response to revisions that for some areas can be tantamount to a new application.

4. PROCUREMENT/GENERATION

The electric and fuel supply procurement and administration activities conducted by SDG&E's Electric Procurement and the Resource Planning Departments ensure that SDG&E plans for and obtains resources so that supply is available when needed by commodity customers. These organizations are responsible for front office functions including long-term planning and procurement, short-term planning and procurement, scheduling, dispatching resources and middle- and back-office functions including risk management, settlements, contract administration, and resource planning.[56]

[56] Exh. 109, p. 1.

SDG&E's Electric Generation organization includes three main groups: Generation Plant, Renewable Generation Support, and Generation Administration.

4.1. Electric Procurement - SDG&E-Only

DRA makes the following recommendations for adjustments to SDG&E's electric procurement expense forecasts for test year 2012:

1. DRA recommends $1,785,000 for Long Term Procurement for Test Year 2012. This is $726,000 less than SDG&E's estimate of $2,511,000.
2. DRA recommends $2,478,000 for Trading and Scheduling for Test Year 2012. This is $692,000 less than SDG&E's estimate of $3,170,000.
3. DRA recommends $3,088,000 for Middle- and Back-Office functions for Test Year 2012. This is $357,000 less than SDG&E's estimate of $3,445,000.
4. DRA does not take issue with SDG&E's request for $938,000 for Resource Planning for Test Year 2012.
5. DRA recommends $0 for Gas Procurement for Test Year 2012. This is $378,000 less than SDG&E's estimate of $378,000.

4.1.1. Long-Term Procurement

SDG&E is requesting $2.511 million in its Test Year 2012[57] Long-Term Procurement expense forecast. Long Term Procurement is responsible for negotiation and execution of agreements for both Power Purchase Agreements (PPAs) and ownership to meet SDG&E's long term energy and capacity needs.[58] It includes the Procurement and Portfolio Design (P&PD) section, the Generation and Supply Project Management (G&SPM) section and the Vice President – Electric Procurement. SDG&E developed its forecast by utilizing 2009 Base Year recorded data for Labor and Non-Labor.[59] No non-standard escalation (NSE) items were included in this forecast. The corresponding

[57] Exh. 110 p. 5.

[58] Exh. 110p. 5.

[59] Exh. 110, p. 5.

DRA estimate for Long Term Procurement is $1.785 million, which is $726,000 less than SDG&E's forecast.

4.1.1.1. Procurement and Portfolio Design

SDG&E asserts that 6 new Full Time Equivalents (FTEs) will be added to the P&PD section to handle original activities and one new FTE will be added to the G&SPM section to handle the increase of new conventional and renewable generation coming on line, for a total of 7 new FTEs. SDG&E also uses the state's phasing out of once-through-cooling (OTC) to justify the addition of these new employees.

SDG&E states:

> Staff is not adequate to address the growing number of contracts and newly imposed regulatory challenges. SDG&E must continue to negotiate and administer more contracts to meet its 33% renewable obligations. In addition, various new regulatory proceedings are anticipated to create additional workload in the area of combined heat and power procurement, FITs and GHG compliance activities."[60]

(Exh. 476, p.4.)

SDG&E does not need any new employees to support the activities to meet the state's new renewable portfolio standard target of serving 33% of retail customers needs with renewable resource generation. DRA recommends that SDG&E receive none of its requested 7 new FTEs in Long Term Procurement. On cross-examination, it became clear that Sempra's witness supporting the testimony on Electric Procurement was speculating on these projections of FTE needs with very little actual participation in Long-Term Procurement.

> Q. How did you measure and compare the complexity of implementing the 33 percent by 2020 as a ratio of the full-time equivalent positions you are projecting to add?
>
> A. We did not necessarily perform that type of analysis.
>
> (RT, Vol. 18, p.2002:7 – 12.)

[60] Exh. 109, p. 10.

Data compiled by the Energy Division further shows the progression of SDG&E acquisition of renewable energy resources from the inception of the Renewal Portfolio Standard (RPS) in 2003 to the target date of 2010. This progression compellingly shows that SDG&E does not need additional employees to procure for and manage California's new RPS target of 33% by 2020.

Table 13-2

Large Investor Owned Utilities' RPS Procurement Data, 2003-2010[61]

		2003	2004	2005	2006	2007	2008	2009	2010
PG&E	Target (GWh)	7,022	7,733	8,454	9,178	9,941	10,732	11,547	15,554
	RPS-Eligible Procurement (GWh)	8,686	8,660	8,707	9,118	9,044	9,817	11,493	13,760
	RPS GWh as % of Bundled Sales	11.5%	12.2%	12.1%	12.6%	11.8%	12.4%	14.1%	17.7%
	Cumulative Deficit/Surplus (GWh)	1,664	2,592	2,844	2,785	1,888	973	919	-876
		2003	2004	2005	2006	2007	2008	2009	2010
SCE	Target (GWh)	11,254	11,960	12,690	13,440	14,228	15,023	15,833	15,028
	RPS-Eligible Procurement (GWh)	12,421	13,182	12,822	12,486	12,261	12,574	13,622	14,548
	RPS GWh as % of Bundled Sales	16.6%	18.7%	17.6%	16.6%	15.5%	15.8%	16.8%	19.4%
	Cumulative Deficit/Surplus (GWh)	1,167	2,390	2,522	1,569	-399	-2,848	-5,058	-5,538
		2003	2004	2005	2006	2007	2008	2009	2010
SDG&E	Target (GWh)	296	447	605	765	933	1,104	1,278	3,257
	RPS-Eligible Procurement (GWh)	550	678	825	900	881	1,047	1,784	1,940
	RPS GWh as % of Bundled Sales	3.7%	4.5%	5.2%	5.6%	5.2%	6.1%	10.2%	11.9%
	Cumulative Deficit/Surplus (GWh)	254	485	706	841	788	732	1,239	-78
		2003	2004	2005	2006	2007	2008	2009	2010
TOTAL	Target (GWh)	18,572	20,139	21,748	23,382	25,102	26,859	28,658	33,839

[61] http://www.cpuc.ca.gov/PUC/energy/Renewables

	RPS-Eligible Procurement (GWh)	21,657	22,520	22,354	22,504	22,185	23,438	26,900	30,249
	RPS GWh as % of Bundled Sales	13.8%	14.0%	13.7%	13.1%	12.6%	13.0%	15.4%	17.9%
	Cumulative Deficit/Surplus (GWh)	3,085	5,466	6,072	5,194	2,277	-1,143	-2,901	-6,492

The table above shows that SDG&E's current PP&D employees were fully equipped and able to procure renewable resources of almost 2% of SDG&E's retail services in one year from 2009-2010. SDG&E's renewable resources as a percentage of its retail sales increased from 10.2% to 11.9% in that period. Increasing SDG&E's procurement and management of renewable resources as a percentage of retail sales from 11.9% in 2010 to 33% in 2020 would require SDG&E to add only 2.11% of new renewable resources each year, and SDG&E's existing employees have been able to exceed this level of procurement for most of the years since Renewable Portfolio Standard (RPS) program implementation began in 2003.

Notwithstanding this fact, SDG&E's is request for FTEs in this rate case would amount to the largest workforce this department has had since the utilities returned to procurement after the electricity crisis.

> Q. Your projection for the test year would amount to the largest workforce this department has had since 2005; is that correct?
>
> A. That's correct.
>
> (RT, Vol. 18, p.2000:23 – 27.)

The fact that there is currently an economic recession in much of the State makes this admission remarkable. Further, the integration of large renewable resources into the grid creates operational complexities, which the system operator must deal with and has been successfully doing; there is no additional analytic complexity that a financial analyst at SDG&E's Long Term Procurement must deal with, beyond what they are already doing with existing resources. In the Commission's Long-Term Procurement Planning proceeding, the Commission employed consultants to explore the kinds of scenarios and

resource mixes that would allow the state to integrate 33% renewable to the grid. Much of the integration complexity that the study found had to do with access to transmission and the implications of the location of new renewable for permitting, cost effectiveness, and policies limiting out of state development of these resources. The issue of transmission is primarily being addressed in the CAISO's transmission planning process with stakeholder input and SDG&E has been involved in that process for years. Similarly, developers primarily deal with the implications of the availability of renewables in certain locations for permitting, cost-effectiveness and other policies.

SDG&E has not provided sufficient evidence to support its claim that it needs additional employees for its Long Term Procurement based on the rationale that these employees are needed for renewable integration and the complexities of managing 33% of retail services with renewable resources.

In the seven years since the Commission began implementing the RPS program, much of what the Commission has done is to simplify the process for meeting the RPS target. Recently, the Commission authorized utilities to use Tradable Renewable Energy Credits (TRECs) purchased from out-of-state renewable generators and developers to meet their RPS obligations rather than execute the complex firming and shaping arrangements that the large Investor Owned Utilities (IOUs) have been using to procure out-of-state renewable energy resources to meet their obligations.[62]

4.1.1.2. Once-Through Cooling (OTC)

SDG&E also claims that the state's program to phase out plants that use once-through-cooling (OTC) technology support the addition of these new employees:

> The State Water Resources Control Board recently decided to phase out once-through cooling for seaside power plants. Although the policy may be contested by energy companies concerned about the cost of compliance, including fitting new infrastructure into existing facilities, SDG&E must proceed as

[62] D.11-01-025, Decision Resolving Petitions for Modification of Decision 10-03-021 Authorizing Use of Renewable Energy Credits for Compliance with California Renewable Portfolio Standard and Lifting Stay and Moratorium imposed by D.10-05-008.

> though these local facilities will be phased out and conduct RFOs to replace these power plants.[63]

(Exh. 476, p.7.)

Like all utilities in the State, SDG&E has been developing and executing plans that deal with the replacement of the OTC plants since 2006 or earlier. These OTC plants were listed in the California Energy Commission's (CEC) Integrated Energy Policy Report (IEPR) as scheduled for retirement as far back as 2005.[64] Thus, in preparing its long term plans for the period, SDG&E used the IEPR schedule of retirements and has always planned for these OTC plants being retired and replaced or completely phased out. SDG&E does not own or operate any of the OTC plants, except for 20% of the San Onofre Nuclear Generating Station (SONGs), and while SONGS is water-cooled and listed with the OTC plants, it is not scheduled for retirement on the basis of OTC mitigation.[65]

On examination SDG&E's witness supporting this rationale also admitted that she was not familiar with proceedings where planning for OTC has been primarily addressed or considered.

> Q. Are you familiar with the resource adequacy proceeding?
>
> A. Generally.
>
> Q. Were you involved in the implementation of the resource adequacy proceeding?
>
> A. I was not.
>
> Q. So you were not familiar with the challenges that were imposed by that proceeding in 2005/2006?
>
> A. I was not involved in that proceeding.
>
> Q. But that proceeding would have been implemented by this department that you are representing right now; is that correct?

---

[63] **Power plants face closures** Sea cooling ban to cause retrofits or retirement for energy stations by Mike Lee, UNION-TRIBUNE STAFF WRITER, May 11, 2010

[64] See: 2005 Integrated Energy Policy Report, Appendix A.

[65] See: Joint Staff Agency Staff Paper, Implementation of Once-through-cooling Mitigation Through Energy Infrastructure Planning, Appendix B.

A. Yes. Our department implemented.

Q. Were you involved in the long-term procurement planning proceeding in 2004?

A. I was not.

Q. How about in 2006?

A. I was not.

(RT, Vol. 18, Garcia pp.2002:13 – 2003:5)

Q. Are you familiar with the 2010 long-term procurement proceeding?

A. No, I am not.

(RT, Vol. 18, pp. 2004:2- 4.)

A reduction of Labor cost in the forecast will also reduce the need for non-labor cost. Given the lack of support for SDG&E's request, DRA recommends the Commission deny all new employees and associated costs to the Long Term Procurement group.

Table 13-3
O&M Expenses for TY2012
For Long Term Procurement
(In Thousands of 2009 Dollars)

Description (a)	DRA Recommended (b)	SDG&E Proposed[66] (c)	Amount SDG&E>DRA (d=c-b)	Percentage SDG&E>DRA (e=d/b)
Long Term Procurement EP 001.000	$1,785	$2,511	$726	41%

4.1.2. Trading and Scheduling Group

SDG&E is requesting $3.170 million in Test Year 2012 forecast for its Trading and Scheduling Division.[67] Trading and Scheduling is responsible for short term planning, trading and scheduling functions to serve bundled commodity customers. SDG&E developed its forecast for Trading and Scheduling by utilizing 2009 Base Year

[66] Exh. 110, p. 5.

[67] Exh. 110, p. 16-17.

recorded data for Labor and Non-labor. No non standard escalation (NSE) items were included in this forecast. The corresponding DRA estimate is $2.478 million, which is $692,000 less than SDG&E forecast.

SDG&E is requesting 4 additional FTE's for the 24 hour scheduling desk, 1 additional employee for GHG cap and trade program, and 2 FTE's currently or soon to be charging MRTUMA in Trading and Scheduling to Test Year 2012. In Exhibit 110 [SDG&E 09 Workpapers], SDG&E included a schedule that identifies the incremental staffing along with the major regulatory activities driving the need for additional resources. SDG&E states:

> The FTEs will be working on the ES&D section's RT (Real Time) desk to staff two people around the clock to manage the increasing CAISO requirements and the increased portfolio generation. Having the RT desk staffed in this manner will allow one employee to focus on CAISO communications and one employee to focus on generation rather than one employee doing both functions which is what often happens with the current staff. An additional FTE is required to administer the policies of the GHG compliance activities.[68]

(Exh. 476, p.9.)

SDG&E's recorded labor and non-labor for 2009 was $2,478,000 and 19 FTEs. SDG&E seeks to add new employees and asserts "It is expected to rise to $3,170,000 and 26 FTEs in 2012 for a 24% increase, due mainly to increases in labor to support the New Market and the GHG compliance activities."[69]

DRA recommends the Commission remove AB 32 Administrative Fees from this rate case. D.10-12-026 states that utilities cannot collect AB 32 implementation costs in a GRC until the Commission determines in the next phase of the proceeding that such costs are recoverable.[70] The language used in D.10-12-026 is as follows:

---

[68] Exh. 109, p. 15.

[69] Exh. 109, p. 15.

[70] D.10-12-026, mimeo, p. 2.

> This decision authorizes the establishment of the AB 32 Fee memorandum accounts proposed by the Joint IOUs. We defer to a subsequent phase of this proceeding determination of whether costs incurred and recorded in the memorandum accounts prior to each of the Joint IOUs' next general rate case will be recoverable in rates, and the appropriate manner in which any approved costs will be recovered.

(Exh. 476, p.9.)

Thus, DRA recommends that the Commission deny SDG&E's request for new incremental employees for AB 32 Administrative Fees or GHG Cap and Trade Program.

In Resolution E-4093, dated June 7, 2007, the Commission established the MRTU Memorandum Account (MRTUMA) to record SDG&E's incremental capital-related revenue requirement and incremental operations and management (O&M) expenses associated with implementing the CAISO's MRTU initiative.[71] SDG&E states:

> On June 7, 2007, Commission Resolution E-4093 approved the MRTUMA, in which SDG&E was authorized to record the revenue requirement associated with incremental New Market expenditures, less the amount previously approved in the last GRC for the New Market. Under the MRTUMA, SDG&E can recover any revenue requirements recorded in the memorandum account in rates after SDG&E has demonstrated the reasonableness of the underlying expenditures in a Commission proceeding. SDG&E recently requested to recover the costs through December 2009 recorded in the MRTUMA in the ERRA 2009 proceeding. SDG&E will continue to request recovery of MRTUMA expenses in ERRA through the year 2011. After 2011, SDG&E plans to shift the O&M and capital from the MRTUMA to this 2012 GRC.[72]

(Exh. 476, p.10.)

This Resolution states "[i]ncremental in this context means that the amounts SCE will record in the MRTUMA will be in addition to that portion of SCE's current

[71] Resolution E-4093, dated June 7, 2007, p. 1.

[72] Exh. 109, p. 7.

authorized revenue requirements for funding the CAISO's MRTU initiative."[73] In test year 2009 SCE GRC, DRA interpreted this Resolution to apply to all MRTU related programs and costs, including O&M, A&G and Capital. D.09-03-025 denied SDGE's request to fund MRTU capital expenditures and related O&M expenses recoverable in rates through GRC and directed SDG&E to record all MRTU-related costs in the MRTU Memorandum Account.[74]

DRA recommends that the Commission deny SDG&E's request for new employees in the Trading and Scheduling Division as part of this GRC. DRA recommends that SDG&E's forecast of $3,170,000 for its Trading and Scheduling Division be adjusted by removing the sum of $692,000 that is related to the MRTU and GHG Cap and Trade Program.[75] A reduction of labor costs in the forecast also will reduce the need for non-labor costs. DRA has used the 24% or $692,000 increase related to the CAISO MRTU changes in electricity markets to calculate the reduction.

Table 13-4
O&M Expenses for TY2012
For Trading and Scheduling
(In Thousands of 2009 Dollars)

Description (a)	DRA Recommended (b)	SDG&E Proposed[76] (c)	Amount SDG&E>DRA (d=c-b)	Percentage SDG&E>DRA (e=d/b)
Trading and Scheduling EP 002.000	$2,478	$3,170	$692	28%

4.1.3. Middle and Back Office (EP003.000)

In account number EP003.000, Middle and Back Office, SDG&E is requesting $3.445 million in its Test Year 2012.[77] Middle and Back Office is responsible for settlement and risk management functions associated with procuring electricity for

[73] Resolution E-4093, p. 3.

[74] D.09-03-025, Conclusions of Law 203 and 204.

[75] Resolution E-4093, p. 3.

[76] Exh. 110, p. 14.

[77] Exh. 110, p. 23.

bundled commodity customers and with procuring gas for SDG&E's power plants or tolling plants. It includes Settlements and Systems (S&S) section and Energy Risk (ER) section. SDG&E developed its forecast by utilizing 2009 Base Year recorded data for Labor and Non-labor. No NSE items were included in this forecast.

SDG&E's total recorded labor and non-labor for 2009 was $3,088,000, with 27.4 FTEs and is forecasted to rise to $3,445,000 with 31.4 FTEs in 2012 due mainly to increased contracts and GHG compliance activities.[78] Regarding the requested increase for 4 new FTEs, SDG&E states:

> One FTE will be added to perform the invoice and reporting associated with the GHG compliance. Specifically, S&S will be required to perform the contract administration, contract monitoring and settlement functions for GHG allowance transactions, procured in relation to SDG&E's GHG producing utility-owned generation and gas tolling contracts. One FTE will be added to perform Systems Administration related to the Allegro System. This position is needed due to increase complexity of CAISO requirements and PPAs and the ongoing implementation of system enhancements and upgrades to improve system functionality. Two FTEs will be added to perform settlements and contract administration due to the increase of number of contracts as well as the complexity of the contracts resulting in more complex and increased billing, settlement and administration obligations.[79]

As discussed above in Long Term Procurement, SDG&E does not need additional employees to procure and manage California's RPS of 33% by 2020. DRA also notes that there is overlap between these areas. For example, increases in renewable procurement results in reduced need for AB32 activities and OTC is managed and resolved through integrated resource planning. Moreover, for every percentage of renewable added, one can expect that a proportional percentage of fossil fuel resources is replaced.

---

[78] Exh. 109, p. 18.

[79] Exh. 109, p. 18.

Similarly, as new regulatory proceedings and policy filings arise, old ones are resolved. In the last two or three years, the Commission was intensively invested in developing Resource Adequacy (RA) standards and capacity products for California's electricity market. This required the Investor Owned Utilities (IOU) to make numerous filings, attend many workshops and participate in many proceedings, such that SDG&E has assigned Middle and Back Office employees permanently to RA as it claims to have done in LTPP (Long Term Procurement Plan). However, RA issues are substantially resolved. While the Commission waits for additional studies, very little regulatory activity has taken place. If the addition of new regulatory policies support SDG&E's request for new employees, then the completion of old regulatory proceedings should negate the need for new employees and allow employees previously working on the completed proceedings to take on new obligations.

Also, as discussed in Trading and Scheduling, DRA recommends the Commission remove AB 32 Administrative Fees from this rate case. D.10-12-026 states that utilities cannot collect AB 32 implementation costs in a GRC until the Commission determines in the next phase of the proceeding that such costs are recoverable.[80]

For these reasons, DRA recommends that SDG&E's forecast of $3,445,000 for its Middle and Back Office Division be reduced by $357,000, which represents the cost for additional employees that are related to GHG Cap and Trade Program Compliance, Systems Administration, and Contract Administration and Settlements. A reduction of labor costs in the forecast also will coincidentally reduce the need for non-labor costs. DRA estimates $3,088,000 for the Middle and Back Office group, which is $357,000 lower than SDG&E's 2012 Test Year forecast.

[80] D.10-12-026, mimeo, p. 2.

Table 13-5
O&M Expenses for TY2012
For Middle and Back Office
(In Thousands of 2009 Dollars)

Description (a)	DRA Recommended (b)	SDG&E Proposed[81] (c)	Amount SDG&E>DRA (d=c-b)	Percentage SDG&E>DRA (e=d/b)
Middle and Back Office EP003.000	$3,088	$3,445	$357	12%

4.1.4. Resource Planning (EP005.000)

In Account number EP005.000, Resource Planning, SDG&E is requesting $938,000 in its Test Year 2012.[82] Resource Planning is responsible for planning the long-term electric generation needs of SDG&E's bundled customers, as well as evaluation of future policy options. The department is responsible for assessing how customers needs will be impacted by both changes in the market and generation additions and how the impacts of meeting State's resource loading order and the implication associated with the changing market. They review the supply of generating resources available to meet SDG&E's resource adequacy obligations and the staff supports numerous proceedings for SGD&E before the CPUC and the CEC (California Energy Commission).

The total recorded for labor and non-labor for 2009 was $938,000, with 6.8 FTEs. No incremental changes over the 2009 Base Year Level have been forecasted for 2012 as the workload is expected to remain the same for the Resource Planning Department over the next GRC cycle. DRA reviewed SDG&E's testimony, workpapers, data request responses, and historical expense levels for this line item and the forecast appears to be reasonable.

[81] Exh. 110, p. 23.

[82] Exh. 110, p. 31.

Table 13-6
O&M Expenses for TY2012
For Resource Planning
(In Thousands of 2009 Dollars)

Description (a)	DRA Recommended (b)	SDG&E Proposed[83] (c)	Amount SDG&E>DRA (d=c-b)	Percentage SDG&E>DRA (e=d/b)
Resource Planning EP005.000	$938	$938	$0	0%

4.1.5. AB 32 Administrative Fees (EP004.000)

In account number EP004.000, AB 32 Administrative Fees, SDG&E is requesting $378,000 for administrative fees associated with California Air Resource Board (CARB) Greenhouse Gas (GHG) emissions. CARB GHG emission fees of AB 32 require electric generating units in California to pay annual fees for each megawatt-hour (MW-hr) of net generated by combustion of natural gas and reported pursuant to CARB's mandatory GHG reporting rule.[84] SDG&E asserts that fees for imported electricity in 2010, 2011, and 2012 will be approximately $94,000 based on 2007 direct fossil fuel purchases SDG&E imported from out of state.[85] Also, SDG&E used $213,000, 2008 reported GHG emissions from European Geosciences Union (EGU) emissions for 2010-2012.[86] SDG&E plans to aquire El Dorado in 2011 and it expects EGU emissions in 2012 to increase to $107,000. The total SDG&E is requesting for AB 32 Administrative Fees is $378,000 in 2012.[87]

DRA recommends the Commission remove AB 32 Administrative Fees from this rate case. D.10-12-026 says that utilities cannot collect AB 32 implementation costs in a

[83] Exh. 110, p. 31.
[84] Exh. 109, p. 20.
[85] Exh. 109, p. 20.
[86] Exh. 109, p. 20.
[87] Exh. 109, p. 20.

GRC until the Commission determines in the next phase of the proceeding that such costs are recoverable.[88] The language used in D.10-12-026 is as follows:

> This decision authorizes the establishment of the AB 32 Fee memorandum accounts proposed by the Joint IOUs. We defer to a subsequent phase of this proceeding determination of whether costs incurred and recorded in the memorandum accounts prior to each of the Joint IOUs' next general rate case will be recoverable in rates, and the appropriate manner in which any approved costs will be recovered.

(Exh. 476, p.16.)

Thus, DRA recommends that the Commission deny SDG&E's request for AB 32 Administrative Fees.

Table 13-7
O&M Expenses for TY2012
For AB 32 Administrative Fees
(In Thousands of 2009 Dollars)

Description (a)	DRA Recommended (b)	SDG&E Proposed[89] (c)	Amount SDG&E>DRA (d=c-b)	Percentage SDG&E>DRA (e=d/b)
AB 32 Admin Fees EP004.000	$0	$378	$378	NA

4.2. Gas Procurement

SCG forecasts $3.6 million in expenses for Gas Procurement for TY 2012, an increase of $95,000 above the 2009 recorded amount of $3.5 million. SCG's request is based on the use of 2009 labor costs and a five-year average of spending from 2005-2009 for non-labor costs.[90]

Table 4.2, reproduced from DRA witness Dao Phan's testimony, presents SCG's 2005-2010 recorded expenses for gas procurement:

[88] D.10-12-026, mimeo, p. 2.

[89] Exh. 110, p. 37.

[90] Exh. 536, p. 2.

Table 4.2
2005-2010 Gas Procurement Recorded Expenses
(In Thousands of 2009 Dollars)

Description	2005	2006	2007	2008	2009	2010
Labor	$2,827	$2,903	$2,982	$3,059	$3,113	$3,039
Non-labor	$568	$584	$574	$477	$431	$472
Total	$3,395	$3,487	$3,556	$3,536	$3,544	$3,510

DRA's review of SCG's 2005-2009 recorded expenses and 2010 recorded expenses does not corroborate SCG's requested increase. The non-labor component had been declining steadily from 2006 – 2009, with a minimal non-labor increase in 2010 above the 2009 level. Labor costs in 2010 decreased to below the level seen in 2008, and overall spending in 2010 decreased from 2009. Given the recent history of SCG's non-labor costs for Gas Procurement, DRA concludes that SCG's methodology of using a 5-year average for the non-labor cost component is unjustified. For these reasons, DRA recommends that the 2009 level of spending be adopted for TY 2012, with no increase for Gas Procurement expenses for TY 2012 relative to 2009 recorded levels.[91]

4.3. Electric Generation (Non-Nuclear) – SDG&E Only

DRA makes the following recommendations for adjustments to SDG&E's non-nuclear electric generation operations and maintenance forecasts for test year 2012:

1. DRA recommends $27,557,000 for Generation Plant Palomar. This is $2,051,000 less than SDG&E's request of $29,608,000 for its 2012 Test Year.
2. DRA recommends $928,000 for Generation Plant Miramar. This is $579,000 less than SDG&E's request of $1,507,000 for its 2012 Test Year.
3. DRA recommends $512,000 for Renewable Generation Support. This is $450,000 less than SDG&E's request of $962,000 for its 2012 Test Year.
4. DRA recommends $628,000 for Generation Plant Administration. This is $424,000 less than SDG&E's request of $1,052,000 for its 2012 Test Year.
5. DRA takes no issue with the $558,000 requested by SDG&E for SVP Power Supply for its 2012 Test Year.

[91] *Id.*, p. 3.

4.3.1. Generation Plant Palomar

SDG&E is requesting $29,608,000 in O&M expenses for its test year 2012.[92] Palomar comprises of the operation and maintenance costs for the Combined Cycle Generation Plant at Palomar Energy Center. Labor Costs include supervision, maintenance, and operations personnel.[93] Non-labor costs include items such as industrial gases, chemicals, water, and maintenance parts and activities. SDG&E developed its forecast for Labor and non Labor using 2009 Base Year recorded methodology. NSE (non standard escalation) was calculated using a Zero Based methodology.[94] The corresponding DRA estimate is $27,557,000, which is $2,051,000 less than SDG&E's request.

4.3.1.1. FTEs Requested In The Palomar Account

SDG&E forecast labor costs for the Palomar Plant in test year 2012 is $3.530 million based on the estimated need for 9 full time equivalents (FTEs). However, upon review DRA found that none of these employees are actually needed at the Palomar Generation Plant. Therefore, DRA recommends that the Commission approve only $2.539 million of these costs.

SDG&E asserts that 9 new full time equivalents (FTEs) are needed for the Palomar Plant: 5 maintenance Technicians, 3 Operation technicians, and 1 Plant Manager.[95] The addition of 3 Operations Technicians will support an operating crew to shift their schedule allowing for full-time on-site operation of the Miramar facility. The addition of 5 Maintenance Technicians is for maintenance and repairs at both the Palomar and Miramar facilities and the plant manager's responsibilities will be for daily

[92] Exh. 99, p. 5.
[93] Exh. 99, p. 5.
[94] Exh. 99, p. 5.
[95] Exh. 97, p. 9.

operations and maintenance of Palomar and Miramar facilities.[96] In 2009, only 2.3 FTE's were recorded at the Miramar Plant.[97]

However, in explaining the duties of the new employees SDG&E stated: "The new crew will be used to provide full time coverage at the Miramar facility."[98] SDG&E also admits that the Miramar facility can be remotely operated from the Palomar location.[99] DRA maintains that the Commission should not approve new Miramar Generation Plaint employees in a Palomar Generation Plant account. Further, DRA takes issue with all new employees requested for the Miramar plant because this plant is operated remotely and because normal demand peak hours can be operated single handedly by one operator.[100] Comparatively, the Palomar facility operates sufficiently with its current staff of 3-person operating crews with two 12-hour shifts.[101] There are 4 operating crews rotating through the shift schedule with an additional operator working weekdays for support.[102] If additional employees are needed for the rare[103] major outage expected in 2012, SDG&E can use outside services.

The Palomar Energy Center was bought by SDG&E through a Turnkey Acquisition Agreement (TAA) between SDG&E and Palomar Energy, LLC. The TAA, as approved by the Commission, contains a provision to assign the Long-Term Service Agreement (LTSA) to SDG&E.[104] The LTSA was purchased through General Electric Corporation (GE) and SDG&E makes payments to GE to cover items such as engineering support, remote equipment monitoring by GE's Monitoring and Diagnostic Center, major

---

[96] Exh. 97, p. 9.

[97] Exh. 99, p. 17.

[98] Exh. 97, p. 9.

[99] Exh. 97, p. 4.

[100] Exh. 97, p. 4.

[101] Exh. 97, p. 4.

[102] Exh. 97, p. 4.

[103] Once every few years

[104] Exh. 97, p. 10.

component refurbishment and replacement, replacement parts, labor for major outages and inspections, as well as on-site administration and technical support.[105] Major factors influencing the cost and payment schedule are the number of starts trips and operating hours.[106]

The NSE amount represents the LTSA to address maintenance of the prime components of the turbines.[107] SDG&E states "These factors can change significantly from year to year and do not follow normal year to year trending."[108] DRA takes issue with SDG&E's use of zero-based methodology because it does not capture fluctuations from year to year. DRA recommends a 4 year average from 2006-2009 to normalize the fluctuations from year to year and excludes 2005, when invoices were first provided.[109]

Table 4-2
O&M Expenses for TY 2012
For Generation Plant Palomar

In 2009$ (000)						
Adjusted- Recorded						
	2005	2006	2007	2008	2009	2012
Labor	6	1,836	2,298	2,413	2,547	2,539
NL	4	4198	7,655	9,613	14,190	16,295
NSE	0	6589	9,414	9,037	9,850	8,723
Total	10	12,623	19,367	21,063	26,587	27,557

DRA's corresponding estimate for NSE in SDG&E's Test Year 2012 is $8,723,000.

[105] Exh. 97, p. 10.

[106] Exh. 97, p. 10.

[107] DRA-SDG&E-010-LJL #1b.

[108] DR-SDG&E-010-LJL, #1b.

[109] Exh. 97, p. 10.

Table 4-3
O&M Expenses for TY2012
For Generation Plant Palomar
(In Thousands of 2009 Dollars)

Description (a)	DRA Recommended (b)	SDG&E Proposed[110] (c)	Amount SDG&E>DRA (d=c-b)	Percentage SDG&E>DRA (e=d/b)
Generation Plant Palomar EG003.000	$27,557	$29,608	$2,051	7%

4.3.2. Miramar Plant

SDG&E is requesting $1,507,000 for the Miramar Generation Plant Test Year 2012 O&M forecast.[111] DRA recommends that the Commission approve only $928,000 of those costs, which recommendation is $570,000 less than SDG&E's recommendation. Much of the difference between SDG&E's recommendation and DRA's adjustments lie in SDG&E's use of a Base Year expense methodology for its forecast and the lack of justification for any new employees associated with the anticipated increase in the operation of the Miramar Generation Plant.

Miramar has two peaker turbines located at the Miramar Energy facility.[112] SDG&E has owned one peaker since 2005 and the second became operational in August of 2009.[113] However, SDG&E states:

> The actual recording of the expenses for the Miramar facility are not broken down on a per-turbine basis. Rather, the base year data represents the expenses associated with operating one turbine for 12 months plus expenses to operate the second turbine for 5 months, basically the equivalent of running one turbine for 17 months. To determine the cost of running both turbines for 12 month, the total Base Year expenses were divided by 17 (months) then multiplied by 12 (months) resulting in the forecast for running one turbine for 1 year. That total was then doubled to represent the total expenses for

[110] Exh. 110, p. 14.

[111] Exh. 97, p. 8.

[112] Exh. 99, p. 17.

[113] Exh. 97, p. 12.

> operating both turbines for 1 year. Each of the forecast years was then increased by the percentage of change in the projected forecast year service hours. This methodology has the effect of averaging the expenses over all equipment and compensating for seasonal or individual equipment variations."[114]

SDG&E's argument that "actual recording of the expenses for the Miramar facility are not broken down on a per-turbine basis,"[115] is unimpressive and disingenuous. Since SDG&E owned one turbine long before it acquired the other, SDG&E clearly had practice of recording the expense for one turbine separate from the other, and upon the acquisition of the second turbine could easily breakdown expenses for each of the turbines based using its historical records. Further, the fact that SDG&E failed or refused to keep adequate records should not justify making ratepayers incur additional unnecessary costs. Therefore, DRA takes issue with this Base Year expense methodology.

Labor costs for the Miramar Generation Plant include supervision, maintenance, and operations personnel.[116] Non-labor costs include items such as industrial gases, demineralized water and maintenance parts and activities. SDG&E uses Base Year recorded data for Labor and non-Labor forecasts.[117]

SDG&E asserts the addition of a Second Turbine at Miramar (online since August 2009) and Planned Outages and Inspections are the main cost drivers for its requested increase.[118] DRA recommends that the Commission should not approve any costs for Miramar Plant Operational enhancements in the Capital portion of Generation expenses and now also recommends that the Commission should not approve additional employees for all items related to the adjustment increase for the operation of 2 units at Miramar.

---

[114] Exh. 97, p. 12.

[115] *Id.*

[116] Exh. 99, p. 17.

[117] Exh. 99, p. 17.

[118] Exh. 97, p. 12.

DRA does not oppose the $300,000 requested for each of the years 2010-2012 for the addition for extended maintenance outage.

Table 4-4
O&M Expenses for TY2012
For Plant Miramar
(In Thousands of 2009 Dollars)

Description (a)	DRA Recommended (b)	SDG&E Proposed[119] (c)	Amount SDG&E>DRA (d=c-b)	Percentage SDG&E>DRA (e=d/b)
Generation Plant Miramar EG002.000	$928	$1,507	$579	62%

4.3.2.1. Miramar Plant Operational Elements

SDG&E's non-nuclear generation workpapers for Miramar plant operational enhancements (under budget code 8) suggest that this budget request is geared towards the engineering and installation of a water treatment plant for both combustion turbines and an upgrade of the continuous emissions monitoring system (CEMS).[120] Bear in mind that Miramar's two 46.5 MW CT's have only been on line since 2005 and 2009.

Under the caption of schedule, the workpaper reads as follows, "Capital additions and improvements are continuous at the Miramar energy facility. All capital projects are conducted with the intent of increasing the overall reliability, efficiency and safety of the plant. Capital projects of this nature are ongoing and will be selected and completed on an as needed basis."

SDG&E's workpapers[121] suggest that CEMS is software. Therefore, it is not clear why this portion of the proposed upgrades isn't in SDG&E's IT exhibit. Under the project justification heading, SDG&E discloses that it is seeking to replace its current software with the software used at the Palomar facility. Its best reason for such a replacement is the proclaimed dissatisfaction of the San Diego Air Pollution Control

[119] Exh. 99, p. 14.

[120] Exh. 82, p. DSB-CWP-1 CEMS monitors emissions output. By law, every plant must perform a yearly RATA (relative accuracy test audit) on their CEMS.

[121] In the project justification section of the workpaper for budget code 8.

District (SDAPCD). However, no documentation of said dissatisfaction or emissions related outages is presented. No letters or notices from the SDAPCD are included in the workpapers to substantiate the need for replacement software. While SDAPCD may be dissatisfied with the presentation of data from the plant, archiving and accuracy, it has not been shown that replacement is the best solution. Were modules or post-processing of the data from the current software done to cure the problem? Nor has it been shown that the product at the Palomar facility is the least-cost option. What other vendor products have been considered? The effort given to support the request barely passes the smell test. This comes across as a project that is potentially helpful but not necessary. It certainly hasn't been demonstrated that alternative solutions were considered and that the Palomar software was the least-cost solution.

As for the water treatment plant installation, a cost-benefit analysis is not presented. While asserting that the current process from an outside vendor is costly and inefficient, no numbers were presented for validation or comparison with the proposed solution. It was not shown that SDG&E has a thorough understanding of the design and construction of the water treatment facility. Nor did SDG&E include supporting drawings, specifications or vendor documents in the workpapers. Of greater concern, though, was the lack of a cost-benefit analysis on an upgrade to a company-owned facility. There was no showing that labor costs plus capital and the O&M associated with a water treatment plant, loaded with all the overheads, is the least-cost option.

It is difficult to understand how these projects are the best capital projects capable of increasing reliability, efficiency and safety. Based upon SDG&E's showing or lack thereof, DRA recommends zero dollars for this budget code.

SDG&E has owned one CT from Miramar since 2005 and the second CT became operational in 2009. The Miramar units are identified as peakers. The combined capacity of the two units is 92 MW. These are units that were expected to operate at a low capacity factor and to primarily meet summer peaking needs and to mitigate

intermittent resources.[122] Because the second unit came on line in the third quarter of 2009, it is best to analyze years 2006-2008 to assess what historically was happening. Production in years 2006-2008[123] show a large increase in 2008. The plant ran for 500 hours in 2006.[124] In 2008, though, the plant ran 45% more than it did in 2006. Looking at the doubling of capacity that took place in 2009, the total production at the site was 75% more than the prior year and that was assuming a third quarter doubling of capacity. Recorded production for 2010 was not available.

SDG&E presents forecasted production at Miramar for years 2010-2012 in the Master Data Request. This information suggests that the plant is being targeted for more and more production. Why the increases after 2010? While it is reasonable for SDG&E to want to recoup its purchase costs sooner rather than later, a careful budgeting of capital and expenses is also warranted. DRA recommends that Miramar's production levels should be evaluated in future GRC's, particularly given what witness Baerman said in his April 2007 testimony, "Since Miramar is a peaking plant and as such only sees a few hours of operation per month, that facility is not expected to require any major maintenance or overhauls for several years."[125] A review of more granular production levels is warranted. Because there are a lot of potential generating sources being considered for tolling or acquisition or RPS and the estimated date of Sunrise Powerlink completion is currently June 2012, the production of the peakers ought to be given serious consideration when evaluating capital projects. If excess supply situations materialize,[126] capital investments towards upgrades ought to be given the strictest scrutiny. It is also worth mentioning that ISO reports suggest that load forecasts are down[127] for the San Diego sub-area for 2011; there was an increase in generation for the

---

[122] http://docs.cpuc.ca.gov/efile/A/84280.pdf pp. 10 and 13.

[123] Master Data Request, ch. 2, Q.1.

[124] http://ag.ca.gov/globalwarming/pdf/comments_Miramar.pdf p. 2.

[125] A.06-12-009, Exh. SDG&E-2-E dated April 2007.

[126] California Energy Markets #1137, summary of the ISO filing in R.10-05-006 related to 33% RPS, p. 5.

[127] http://www.caiso.com/2788/2788ab565da00.pdf see page 4.

southern region of 1106.5 MW;[128] and the release of South Bay units from their reliability must run (RMR) status.[129] Therefore, DRA cannot support the capital request SDG&E is positing for generation.

4.3.2.2. Palomar Plant Operational Enhancements

SDG&E's workpapers suggest that this budget request is geared towards plant and facility enhancements to the Palomar Energy Facility.[130]

Under the caption of schedule, the workpaper reads as follows, "Capital additions and improvements are continuous at the Palomar Energy Center and are conducted as issues with specific equipment arise or as time permits."

With regard to details on the proposed projects for consideration, SDG&E's workpapers describe ten projects and show the combined cost of the ten projects in 2009-2012. A subsequent data request[131] revealed an amount of $11,880,000 for these 10 projects. This doesn't harmonize with the workpapers that show total costs for the 10 projects to be $28,310,000. Since the TY amount requested is $4,900,000, it is difficult to extrapolate the meaning of the data request response. Nevertheless, DRA uses it as a guide when determining its ultimate recommendation for this budget code.

Based upon SDG&E's workpapers, there is not a detailed showing of the individual costs of the ten projects. DRA requested further granularity of the cost information related to the projects in this budget. However, what DRA received was an estimated cost for 10 projects that did not add up to the number that was cross referenced with the GRC workpapers. If DRA were to accept every project request (which is does not) but would apply the ratio of test year amounts to total amounts for 2010–2012, DRA would support a recommendation of $2.461 million for this budget code (20.72% x $11.88 million.) Instead DRA is left to decipher the paltry descriptions proffered in the

---

[128] http://www.caiso.com/2777/27778a322d0f0.pdf see table 2.5.

[129] http://www.caiso.com283c/283c82eb2b9a0.pdf

[130] Exh. 99 (SDG&E-7 workpapers), p.DSB-CWP 2 through 4.

[131] Exh. 486, p. 9.

testimony for $23.65 million in potential capital investments for 2010–2012. DRA discusses the ten projects in order of decreasing costs.

4.3.2.3. Purchase of a GSU Transformer

The estimated cost of this item is $4 million.[132] The purported need for this item is to have a backup transformer on hand in case of failure and the assertion that there is a minimum of one year lead time for the replacement or repair of a failed transformer unit. What is not offered is whether or not having a replacement transformer on hand is a standard practice, the probability of a failure, or what repair times are typically needed for different types of failure. One must develop a better record for having a $4 million asset sitting idly by. When SDG&E purchased Palomar from a third party in 2006, why was there not a spare transformer in the deal? What record evidence is there to show the risk and reward of having or not having a spare transformer? Are there transformers at nearby power plants that could be borrowed or exchanged? Are there other arrangements beside outright ownership that could work? What is the average lifetime of a transformer? Does a spare make sense in the early phase of a transformers' life? With the best maintenance practices, what is the expected longevity of a new transformer? Does early loss of a new transformer suggest inferior maintenance? Is there a rebuilt market for transformers? In this economy, is a year really the time frame for finding a suitable replacement? For the above reasons, DRA opposes SDG&E's transformer request.

4.3.2.4. Purchase of a Steam Turbine Gantry Crane

The estimated cost of this item is $2 million.[133] The two sentence discourse on the acquisition states that "The steam turbine gantry crane will be utilized for all lifting work associated with the STG, including the lifting during minor and major outages. Purchase of the gantry crane will eliminate the need for crane rental for STG repairs." While this may be true, there were no workpapers to substantiate the claim. Even a hypothetical

---

[132] *Id*. at p. 11.

[133] *Id*. at p. 12.

rental estimate of hours and rates would have been helpful, but no such effort was made to help the reader understand the necessity to have a $2 million asset sit idly by. DRA opposes SDG&E's request to purchase a steam turbine gantry crane.

4.3.2.5. Steam Turbine Last Stage Blade Replacement

The estimate for this item is $2 million. Again, there is another two sentence write up about the project. "The current STG last stage blades are eroding due to normal wear and tear and must be replaced when wear is beyond acceptable limits. Replacement of the blades is necessary to restore proper functioning and design efficiency of the steam turbine." While DRA agrees with the logic (i.e., hardware degrades, it needs to be replaced), the state of the blades has not been proven. How often do inspections of the blades take place? When was the most recent observation taken? Is there rust, chipping, buildup or some other form of disrepair? Are patches or other forms of life extension available? Where are the inspection findings about the state of the blades in question? If so, could documents or photos have been presented to show the current physical state? Where are the root cause analyses that correlate outages to this blade erosion? The mere statement that blades are eroding is an obvious statement of fact that does not warrant an immediate $2 million action. Isn't this a fairly new plant? Do revised maintenance practices need to occur? SDG&E has made no showing as to a normal frequency of blade replacements, nor has it impressed upon DRA that normal wear and tear is troublesome. Is there a standard practice that relates to blade replacement? (i.e., a standard practice for what level of attenuated efficiency or outage frequency is reasonable for taking a unit offline for blade replacement). Could this effort be better timed to other capital projects on the same unit? There are many questions not yet answered by the applicant and as such, DRA recommends no dollars. SDG&E has made no presentation as to what defines acceptable limits of wear nor of what the plant manuals prescribe for the operations of a plant with increasing wear on the last stage blades.

4.3.2.6. Transformer Breaker Monitoring System

The description of this item estimated to cost around $1.5 million suggests that the money would procure and install dynamic rating monitors on the transformers and breakers at Palomar Energy Center. The monitors allow for continuous real-time monitoring of the transformers and breakers. While SDG&E says that the technology will help to maintain the longevity of the equipment and will help to avoid unanticipated and costly outages, it does not describe how this is accomplished. DRA had to read about it in the Smart Grid Deployment Plan.[134] There were no specification sheets offered on dynamic rating monitors. There was no identification as to how many transformers or breakers were going to be equipped with this technology. There was no cost-benefit analysis showing assumptions regarding outages averted or capital replacement costs deferred. How does this relate to smart grid investments -- how can we be assured that cost duplication is not represented? DRA opposes SDG&E's request for a transformer and breaker monitoring system at this time.

4.3.2.7. Cooling Water Biocide Upsize

This project, estimated at $680,000,[135] would replace the "undersized" sodium hypochloride and sodium bromine tanks and pump skids with new larger tanks and pump skids. How has the plant been functioning for the past 5 years? If the Palomar cooling system is a 1.3 million gallon system, what is the current sizing of the tanks in question? What are the proposed new sizes? What is to be done with the abandoned plant? How do the estimates compare with other tank replacement costs? Were estimates derived from bids, unit cost data, water company estimates? DRA opposes SDG&E's request for Palomar cooling water biocide improvements.

---

[134] *See* page 77 and 310 of SDG&E's Smart Grid deployment Plan; http://sdge.com/regulatory/documents/a-11-06-006/Deployment%20Baseline.pdf

[135] Exh. 486, p. 14.

4.3.2.8. HRSG Elevator & Bridge

This project, estimated at $500,000, would install an industrial elevator from ground level to the top of HRSG 2 and would construct a permanent bridge between HRSG 1 and HRSG 2. SDG&E's testimony suggests that the installation would, among other things, address aging workforce issues and reduce the likelihood of injury or heat stress. It appears that the primary reason relates to the plant being in SDG&E's blackstart/system restoration plan. It has not been shown how this is necessary. Not all plants have this convenience. This projects' necessity has not been shown. DRA opposes SDG&E's request for a HRSG elevator and bridge.

The remaining 4 projects are upgrade projects that cost under $500,000 each. For instance, the current security system should comply with NERC standards, so the MARK IV system has not been justified or explained. Are the "new cyber security regulations" alluded to related to Critical Infrastructure Protection (CIP)? Is the MARK IV, the least-cost solution for meeting security needs? Is the MARK IV the best product for data gathering? Why is a new control system necessary? Where are the examples on how the current system is limited and MARK IV provides those limitations?

Based upon the presentations given, DRA recommends $0 for the remaining 4 projects.

4.3.2.9. Palomar Energy Compressor Upgrades

In its testimony, SDG&E presents only the following three sentences to substantiate a $10 million investment in 2012:

> The gas turbine compressor upgrades will be completed as part of the major maintenance outage in the 4th quarter of 2012. The purpose of these upgrades is to correct known deficiencies in the compressor design that may result in catastrophic compressor failures and turbine damage. In addition, the upgrades will improve the gas turbine compressors' overall operating reliability.

SDG&E workpapers give more details on the upgrades that SDG&E is proposing to install, but not a great deal more. Piecing together the workpaper section called

"project justification," the responses from the master data request, responses to DRA data request 72, and information from the CEC, the turbine manufacturer has identified technical concerns with their product, some of which concern the compressor (in the F class series.) Periodic notifications come from the vendor to the purchasers that give guidance about a variety of concerns (i.e., inspection recommendations, maintenance advice/warnings, etc.) Also contained in the notifications are "levels of concern" and various timeframe suggestions as to how soon an owner should investigate or address a concern (i.e. at the next shut down, during the next inspection cycle, etc).

Given the paucity of documentation, SDG&E has not proven the need for this $10 million expenditure. Upgrades should not be necessary on a plant that became operational in 2006. The technical notices made the case for testing.[136] Furthermore, SDG&E offered no explanation as to why it selected a particular upgrade package versus others. Could a lesser package be selected?

While it may make some sense to take advantage of the "major outage in 4th quarter 2012" in terms of 2012 activity, SDG&E did not discuss what it has been doing with regard to these notices in its annual 3 week maintenance outage events. What evidence is there as to the derating of the plant related to the "weaknesses and deficiencies[137] or other negative implications of the weaknesses?" What were the statistics cited by the vendor related to the probability of these deficiencies? Would improved O&M also cure the problem? What is the operational curve of a compressor in terms of performance and age? If the vendor has information about the fleet of installed 7FA compressors, how does the age of SDG&E's site compare with the average age of the fleet the vendor has analyzed? Do all of the proposed actions need to be taken during the major outage? What can be deferred? DRA would not recommend the full amount of $10 million for 2012. Without proper detailed cost information for each of the activities or alternative packages that might have been considered, DRA recommends $0.

---

[136] Sempra response to DRA data request 72, Q.12; SDG&E asserts this information is confidential.

[137] "Deficiencies and weaknesses" were referenced in the workpaper of budget code 9031 in SG&E-07-CWP. (Exh. 98).

Note, for the two remaining capital projects in 2010, DRA recommended the recorded 2010 amounts: $741,000 for budget code 8028 (Palomar Energy Center critical services engine) and $0 for budget code 8029 (Escondido Black Start.) DRA doesn't oppose the small expenditures made in 2010 because they relate to emergencies. Scenarios were not posited to show the benefits of the investments nor were cost benefit analyses presented to show the reasonableness of these ratepayer investments.

SDG&E has fairly new generation and consequently, DRA supports only limited investments in them at this time. If regulatory concerns from other jurisdictions are of concern, SDG&E has the burden of proof to show these concerns warrant the investment option SDG&E is selecting. Furthermore, SDG&E has the burden to show that the option it selected is among a set of reasonable choices considered.

4.3.3. Renewable Generation Support

SDG&E requests $962,000 for Test Year 2012 Renewable Generation Support.[138] Renewable Generation Support provides support for solicitations, contract negotiations, and contract administration for renewable and conventional generation, as well as providing technical support to resource planning, regulatory and others internally.[139] It also provides due diligence of renewable energy bilateral offers as it pertains to technical or developmental viability.[140] SDG&E utilizes a 3 year average for Labor and non labor. No NSE items were included.[141] DRA's corresponding estimate is $512,000 which is $450,000 less than SDG&E's request.

About $250,000 of DRA's recommended adjustment to SDG&E's forecast of Renewable Generation Support is for the denial of SDG&E's request for a consultant SDG&E claims it would need in 2012. In a data request response from SDG&E regarding the new position, SDG&E responded:

---

[138] Exh. 99, p. 26.

[139] Exh. 99, p. 26.

[140] Exh. 99, p. 26.

[141] Exh. 99, p. 26.

> The proposed salary for the external consultant/technical advisor for San Onofre Nuclear Facility (SONGS) is $250,000 ~ 1000 hours at $250/hour. This position is necessary to further increase SDG&E's oversight of Southern California Edison's (SCE) activities. This additional resource, having extensive knowledge of practices at other nuclear facilities, will provide SDG&E industry insight that it is not exposed to by its activities at SONGS or trade publications. The consultant will review SONGS operations at a high level and then select specific areas where SONGS was not following "Best in Class" processes/operations and make recommendations to SDG&E management on how to mitigate risk and improve SONGS operations. The enhanced oversight is pursuant to the SGRP [Steam Generator Replacement Project] settlement agreement between SCE and SDG&E that was filed as part of A. 06-04-018.[142]

(Exh. 476, p.8)

A.06-04-018 is an application filed by SDG&E in 2006 for recovery of SGRP costs and other costs related to SONGS Units 2 and 3. DRA was unable to find any language for "enhanced oversight" in the application. Furthermore, SCE already has experienced analysts with extensive knowledge of practices at other nuclear facilities that review SONGS operations at a high level. It is not necessary for SDG&E to have a consultant duplicate SCE's efforts on the same Generation Plant. SDG&E only has a 20% share of the facility; it is excessive for SDG&E to request a consultant for SONGS at $250 an hour plus an additional $200,000 for consulting costs to address efforts assessing opportunities brought to SDG&E outside of the procurement process.[143] Thus, DRA recommends that Commission deny SDG&E's request for an additional consultant in the Test Year 2012.

DRA also takes issue with the $200,000 proposed in 2012 non labor for the need of consulting costs to address efforts assessing opportunities brought to SDG&E outside of the procurement process.[144] D.10-12-026 says that utilities cannot collect AB 32

---

[142] DRA-LJL-010 #8.

[143] Exh. 99, p. 28.

[144] Exh. 99, p. 28.

implementation costs in a GRC until the Commission determines in the next phase of the proceeding that such costs are recoverable.[145] The language used in D.10-12-026 is as follows:

> This decision authorizes the establishment of the AB 32 Fee memorandum accounts proposed by the Joint IOUs. We defer to a subsequent phase of this proceeding determination of whether costs incurred and recorded in the memorandum accounts prior to each of the Joint IOUs' next general rate case will be recoverable in rates, and the appropriate manner in which any approved costs will be recovered.

(Exh. 476, p.9.)

Because this item is not necessary and AB 32 is going to be delayed a year, DRA recommends $0 for consulting costs to address efforts assessing outside opportunities brought to SDG&E outside of the procurement process.

Table 4-5
O&M Expenses for TY2012
For Renewable Generation Support
(In Thousands of 2009 Dollars)

Description (a)	DRA Recommended (b)	SDG&E Proposed[146] (c)	Amount SDG&E>DRA (d=c-b)	Percentage SDG&E>DRA (e=d/b)
Renewable Generation Support EG004.000	$512	$962	$450	88%

4.3.4. Generation-Administration

SDG&E requests $1,052,000 in Generation Plant Administration for its Test Year 2012. Generation Plant Administration provides managerial support, plant cost analysis, budgeting engineering and workforce administration. Expenses in this area include administrative labor, training, safety equipment, computers, office supplies and equipment, and employee travel.[147] SDG&E developed its forecast by utilizing a 3 year

[145] D.10-12-026, mimeo, p. 2.

[146] Exh. 99, p. 26.

[147] Exh. 99, p. 34.

average for Labor and non labor. No NSE was recorded.[148] SDG&E requests the addition of 4 FTEs: 1 project engineer to assist with ongoing engineering efforts at the plants, 1 project manager to assist with the transition of new generation assets (El Dorado and the Cal Peak El Cajon peaking plant), and 2 compliance administrators to ensure that all existing and future requirements are being met in the areas of NERC Cyber Security.[149]

DRA takes issue with any costs (O&M and capital) related to the El Dorado facility that should be recorded in the Non-fuel Generation Balancing Account (NGBA)[150] and included in SDG&E's annual advice letter filing. DRA recommends disallowance of the $16,000 requested by SDG&E for travel to and from the El Dorado facility for 2010, 2011, and 2012.[151] DRA also recommends disallowance of the addition of 1 project manager for the transition of new assets for El Dorado and El Cajon forecasted at $115,000 annually for 2010-2012.[152] Also, considering that the El Cajon Electrical facility fixed O&M costs is forecasted by SDG&E to cost $679,000 in 2012, DRA believes the $115,000 for a part time Project Manager is also excessive.[153]

DRA takes issue with the 2 compliance administrators forecasted at $195,000. The purpose of these 2 compliance administrators is to ensure that all existing and future requirements are being met in the areas of NERC Cyber Security. DRA recommends disallowance of this cost due to lack of support.[154]

SDG&E did not provide adequate support for the need of one additional engineer to assist with ongoing engineering efforts at the plants at $98,000.[155] DRA believes that

---

[148] Exh. 97, p. 34.

[149] Exh. 97, p. 6.

[150] D.07-11-046, mimeo, p. 17.

[151] Exh. 99, pp. 35-37.

[152] Exh. 99, pp. 35-37.

[153] A.11-01-004.

[154] Exh. 97, p. 6

[155] Exh. 99, pp. 35-36.

it is in the best interest of the ratepayers should not have to pay for any new employee without need or a detailed justification for this new position.

Table 4-6
O&M Expenses for TY2012
For Generation Plant Administration
(In Thousands of 2009 Dollars)

Description (a)	DRA Recommended (b)	SDG&E Proposed[156] (c)	Amount SDG&E>DRA (d=c-b)	Percentage SDG&E>DRA (e=d/b)
Generation Plant Administration EG001.000	$628	$1,052	$424	68%

4.3.5. SVP Power Supply

In account number EG005.000, SVP- power supply, SDG&E is requesting $558,000 in its Test Year 2012. SVP-Power Supply provides managerial support to the entire Power Supply division. Expenses in this area include salaries for the SVP and Administrative Assistant, employee travel, office equipment and supplies, and other outside services.[157] SDG&E developed its forecast by utilizing a 5 year average for Labor and Non Labor, and no NSE was included in this forecast. DRA reviewed SDG&E's workpapers and testimony, and does not take issue with this request.

Table 4-7
O&M Expenses for TY2012
For SVP Power Supply
(In Thousands of 2009 Dollars)

Description (a)	DRA Recommended (b)	SDG&E Proposed[158] (c)	Amount SDG&E>DRA (d=c-b)	Percentage SDG&E>DRA (e=d/b)
SVP Power Supply EG005.000	$558	$558	$0	0%

[156] Exh. 99, p. 14.

[157] Exh. 99, p. 41.

[158] Exh. 99, p. 41.

Table 4-1 compares DRA's and SDG&E's TY2012 forecasts of Electric Generation O&M expenses:

Table 4-1
Electric Generation Expenses for TY2012
(In Thousands of 2009 Dollars)

Description (a)	DRA Recommended (b)	SDG&E Proposed[159] (c)	Amount SDG&E>DRA (d=c-b)	Percentage SDG&E>DRA (e=d/b)
Generation Plant Palomar	$27,557	$29,608	$2,051	7%
Generation Plant Miramar	$928	$1,507	$579	62%
Renewable Generation Support	$512	$962	$450	88%
Generation Plant Admin	$628	$1,052	$424	68%
SVP Power Supply	$558	$558	$0	0
Total	$30,183	$33,687	$3,504	12%

5. SONGS

5.1 SONGS Costs from Edison GRC

5.1.1. O&M

5.1.2. Nuclear Generation Capital Costs

Decision D.09-03-025 adopted a methodology for calculating the cost sharing of SONGS-related costs (both capital and O&M) between SCE and SDG&E. Therefore, a majority of the SONGS related costs are litigated in the SCE GRC.[160] There are, however, additional categories of costs related to SONGS that are litigated in the SDG&E GRC. The $1.733 million request for additional operations and management costs are discussed in exhibit DRA-05. To achieve a total revenue requirement for SONGS in 2012,[161] one must add all of the following:

[159] Exh. 99, p. 2.

[160] SCE application A.10-11-015 before Judge Darling. Pursuant to decisions D.04-07-022, D.06-05-016 and D.09-03-025.

[161] See figure 1 in Exh. 84 (SDG&E-8) p. MLD-4 and Table MLD-2 on p. MLD-3.

Operations and Maintenance (SCE and SDG&E GRC)	$124,015,000
Depreciation (SCE and SDG&E GRC)	14,467,000
Taxes other than on income (SCE and SDG&E GRC)	2,424,000
Income Taxes (SCE and SDG&E GRC)	8,060,000
Return (rate base times rate of return)	14,656,000
REVENUE REQUIREMENT	$163,621,000

Of those costs to be litigated specifically in the SDG&E GRC, three items relate to O&M and the last relates to escalation. It is not easy to address the capital-related costs related to SONGS without relating it to the SCE GRC. Therefore, DRA started with Ex. 82 (Exhibit SDG&E-8 workpapers related to capital costs for SONGS) (MLD-CWP-4 through MLD-CWP-6) and made downward capital adjustments that removed the 4.49% SDG&E A&G capital adder.

5.2. SDG&E's Unique SONGS Costs

5.3. Other SONGS issues

6. Electric Distribution Operations (SDG&E-Only)

Electric Distribution expenses are for the operation, maintenance, supervision and engineering functions for the electric distribution overhead and underground facilities, public affairs activities and Electric Distribution Division Officer salaries, and are categorized as described by their respective workpaper group activities.

6.1. O&M

SDG&E forecasts $127,507,000 for its TY 2012 Electric Distribution O&M expenses.[162] SDG&E's TY 2012 forecasts for its Electric Distribution O&M expenses were based on its 2009 recorded adjusted expenses plus incremental expenses for proposed projects and activities. The corresponding DRA estimate for SDG&E's Electric Distribution O&M expenses is $103,520,000. DRA's estimate is $23,987,000 less than SDG&E's forecast.

[162] Exh. 62, p. 2.

Many additional costs located throughout this report are related to Operation Excellence 20/20 (OpEx). OpEx was established as a program in 2007. It is scheduled to be shut down as a stand alone program in 2012. All but two of the individual SDG&E-specific projects that constitute the OpEx program will be complete by then. Those projects will be managed within their respective operations groups through completion in 2015.

SDG&E did not provide much evidentiary support or detail for OpEx, but merely gave a short description of each of the OpEx projects and the total dollar amount associated with each project. No detailed cost breakdown from year to year was provided.

SDG&E provides the following table:

Table 10-2
O&M On-Going Support Costs
for SDG&E 19 OpEx
(In Thousands of 2009 Dollars)

Description	**2010**	**2011**	**2012**
Customer Service	$117	$233	$233
Electric Distribution	$199	$274	$273
Gas Distribution	$28	$26	$24
IT	$279	$339	$539
Total ($1000)	**$623**	**$872**	**$1,069**

OpEx on-going O&M support costs reflected in the Electric Distribution far exceeded the $199,000 in 2010, $274,000 in 2011, and $273,000 in 2012.[163] No further justification or support for on-going support related items are given in Exhibit SDG&E-19. DRA recommends disallowance of many of the items due to lack of support.

[163] Exh. 183, p. 9.

6.1.1. Electric Regional Operations (ERO) ED011.000

SDG&E requests $42,043,000 for Electric Regional Operations (ERO) in TY 2012.[164] DRA recommends that the Commission only authorize $34.273 million in this rate case, a disallowance of $7.770 million. ERO is made up of six Districts and eight operating centers which cover SDG&E's entire electric distribution system and service territory. The primary function of the group includes maintaining the electric distribution system and service territory.[165] ERO also maintains the electric distribution system in compliance with CPUC General Order 95, 128, 165 and SDG&E's Standards, restoration of service due to outages, and fixing service problems and other customer issues.[166] This workgroup contains electric linemen, apprentices, line assistants, dispatchers, office support personnel and management supervision.[167] SDG&E developed its forecast by utilizing recorded 2009 base year expense levels of $34,193,000 for Labor and Non Labor. The corresponding DRA estimate of $34,273,000 derived using a zero based methodology and utilizing information contained in the supplemental workpapers to calculate the forecasts additional recommendations.

DRA recommends all fire hazard prevention costs incurred in complying with D.09-08-029 continue to be recorded in the FHPMA, because SDG&E has provided insufficient evidence to incorporate the costs in GRC rates at this time. If the Commission approves funding of these costs, then D.09-08-029, the Fire Hazard Prevention Memorandum Account should be capped at $24 million to prevent excessive spending.

Also, SDG&E requests dollars for expenses associated with support for on-going OpEx support. DRA recommends the Commission deny this request and thus removed

---

[164] Exh. 62, p. 3.

[165] Exh. 62, p. 5.

[166] Exh. 62, p. 5.

[167] Exh. 62, p. 5.

any amounts in the forecasts for projects related to OpEx requested in SDG&E Electric Distribution that have to lack of support.

Table 10-3a
2005-2009 Recorded / 2012 Forecast
For Electrical Regional Operations
(In Thousands of 2009 Dollars)

Description	2005	2006	2007	2008	2009	2012
Labor	18,509	19,774	18,567	23,821	24,260	28,949
NL	8,726	11,230	9,841	8,574	9,933	13,094
NSE	0	0	0	0	0	
Total	27,235	31,004	28,408	32,395	34,193	42,043

Table 10-3b
O&M Expenses for TY 2012
For Electric Regional Operations
(In Thousands of 2009 Dollars)

Description (a)	DRA Recommended (b)	SDG&E Proposed[168] (c)	Amount SDG&E>DRA (d=c-b)	Percentage SDG&E>DRA (e=d/b)
ERO ED011.000	$34,273	$42,043	$7,770	23%

6.1.2. Supplemental Workpapers

SDG&E submitted supplemental workpapers for SDG&E ERO which included additional test year 2012 forecasts that were not included in the original Application and testimony. SDG&E does not explain why the additional information contained in the supplemental workpapers could not have been submitted with the original Application and testimony. However, even with the additional workpapers the supplemental workpapers do not support much of the forecast recommendations in both the original filing and the supplemental workpapers.

SDG&E has the burden of proof in this case and has had three years since the last rate case to submit sufficient support for its forecasts for TY 2012, that it has failed to do so and needs supplemental papers without prompting to try again is indicative of how

[168] Exh. 62, p. 5.

unconvincing its evidentiary support for ERO is in this Application. The issues additional requests in the supplemental workpapers total $11,313,362[169] and are listed in Table 10-3c. In the original workpapers, the forecast summary for 2012 is $7,850,000.[170] Table 10-3c includes DRA's recommendations for each of those issues.

Table 10-3c
O&M Expenses for TY 2012
For Electric Regional Operations
(In 2009 Dollars)

Description	DRA	SDG&E[171]
Maintain Improved Safety & Reliability		
Culture Change	$0	$160,000
Behavior Based Safety training	$50,000	$50,000
Overhead Switch Inspection and Maintenance	$0	$125,000
Overhead Connector Program	$0	$200,000
Safety and Regulatory Compliance		
GO 165 Annual Patrols in Fire Zones	$0	$177,000
Rule 18- Notification and repair of Safety Hazards	$0	$258,000
OII Quality Control	$0	$1,376,344
Fire Preparation		
Red Flag Costs	$0	$1,793,506
Elevated Wind Conditions	$0	$122,140
Outage Patrolling during High Fire Risk Periods	$0	$1,646,100
System Growth		
Badge Access to Military Base	$39,750	$39,750
Climbing Gear	$0	$151,200
New Technology		
CMP Pathing Increases due to OpEx – Inspections	$0	$50,000
CMP Pathing Increases due to OpEx - Repairs	$0	$120,000

[169] Exh. 62, p. 21.

[170] Exh. 62, p. 7.

[171] Exh. 62, p. 21

RIRAT		
Relay setting for Near Sub IR's - red flag profiles	$0	$0
Reduce SGF setting (improve L-G load balance)	$0	$200,000
Reduce size of expulsion fuse	$0	$100,000
OpEx On-Going Support		
Supervisor Enablement	$0	$20,000
FSD	$0	$153,000
Mobile	$0	$100,000
PEV- Electric Vehicle Program	$0	$26,990
Smart Meter - Outage management	-$469,000	-$469,000
Line Capacitor survey	$0	$21,333
O&C Labor-non-work	$0	$4,892,000
Total	**-$375,607**	$11,313,362

A discussion of each issue follows Table 10-3c follows:

6.1.3. Maintain Improved Safety and Reliability

SDG&E listed Culture Change, Behavior Based Safety Training, Overhead Switch Inspection and Maintenance and Overhead Connector program as costs items under Maintain Improved Safety and Reliability for a total of $535,000 in TY 2012 forecast. DRA recommends approval of only $50,000 associated with Behavior Based Safety training.

6.1.3.1. Safety Culture Change

SDG&E requests $160,000 in TY 2012[172] for Safety Culture Change purportedly to employ Culture Change Consultants Inc. to implement the culture projects. After reviewing their website,[173] DRA obtained a good understanding of what the "Grassroot Teams" entails, with 4 seminars and 4 manuals.[174] DRA recommends that SDG&E

[172] Exh. 62, p. 21 Supplemental.

[173] http://www.culturechange.com/indExh.html

[174] http://www.culturechange.com/indExh.html

receive one of the two training programs requested, which is Behavior Based Safety discussed below. DRA recommends that the Commission deny SDG&E's request for Labor for Safety Culture Change for 2012 because SDG&E's current standards and internal training are adequate.

6.1.3.2. Behavior Based Safety

SDG&E requests $50,000 for Behavior Based Safety (BBS) training program in 2012[175] and DRA takes no issue with this Behavior Based Safety recommendation. The Electric Division of SDG&E has successfully been using the BBS program since 2002.[176] BBS essentially identifies behaviors, performs observations, provides feedback, tracks behaviors and removes barriers.[177]

6.1.3.3. Overhead Switch Inspection and Maintenance

SDG&E requests $125,000 in 2012 for Overhead Switch Inspection and Maintenance.[178] This program appears to be targeted at fire hazard prevention and DRA recommends that SDG&E continue to record all fire hazard prevention cost items in the FHPMA until such a time that the Commission directs them to close that memorandum account. In any case, the overhead switch and maintenance program is supposed to ensure that overhead switches are in good operating condition which will result in improved safety, reliability, and contribute to fire preparedness measures[179] and SDG&E's overhead distribution construction standards are based on and in compliance with General Order 95.[180] DRA recommends that the Commission disallow all the costs in for the Overhead Switch Inspection and Maintenance in SDG&Es ERO Electric Distribution.

---

[175] Exh. 62, p. 21 Supplemental.

[176] Exh. 61, p. 8.

[177] Exh. 61, p. 8.

[178] Exh. 62, p. 21 Supplemental.

[179] Exh. 61, p. 9.

[180] I.08-11-007, p. 1.

6.3.1.4. Overhead Connector Program

SDG&E requests $200,000 for the Overhead Connector Program in 2012.[181] Overhead connectors are mechanical devices used to join overhead wires.[182] SDG&E's overhead distribution construction standards are based on and in compliance with General Order 95. This fire hazard prevention related item should be recorded in FHPMA because SDG&E has provided insufficient evidence to incorporate the costs in GRC rates at this time.[183] DRA recommends that the Commission disallow all the costs in for the Overhead connector program in SDG&Es ERO Electric Distribution.

6.1.4. Safety and Environmental Compliance

SDG&E lists GO 165 Annual Patrols in Fire Zones, Rule 18 – Notification and Repair of Safety Hazards, OII Quality Controls, among others, as cost items requested in the Supplemental Workpapers under Safety and Environmental Compliance.

6.1.4.1. PCB Reassessment of Use Authorization

SDG&E requests two way balancing account treatment for costs associated with implementing the PCB phase-out that the U.S Environmental Protection Agency (EPA) is contemplating for electrical equipment.[184] Because the EPA is only "contemplating" the PCB phase-out, it is too early to determine whether or not establishing a two-way balancing account called New Environmental Regulations Balancing Account (NERBA) is appropriate.[185] The Commission should deny SDG&E's request for a two-way memorandum account at this time and revisit the issue once the EPA has established revised rules.

---

[181] Exh. 62, p. 21 Supplemental.

[182] Exh. 61, p. 9.

[183] D.09-08-029.

[184] Exh. 61, p. 9.

[185] Exh. 61, p. 9.

6.1.4.2. General Order 165 Annual Patrols in Fire Zones – Repairs

SDG&E requests $177,000 for "GO 165 Annual Patrols in Fire Zones- Repairs" as seen in the supplemental workpapers, or "General Order 165 Annual Patrols in Fire Zones/Rule 12 Patrols of Communication Facilities on Electric Poles" as stated in the original testimony. In D.09-08-029, the Commission required SDG&E to debit expenses related to increasing maintenance and inspection/patrolling requirements (changes to GO 165) into the FHPMA.[186] Therefore, DRA recommends SDG&E continue to comply with D.09-08-029 and the Commission should deny the request to authorize funds in this GRC for GO 165 Annual Patrols in Fire Zones Repairs in ERO Electric Distribution because SDG&E has provided insufficient evidence to incorporate the costs in GRC rates at this time.

6.1.4.3. Rule 18 Notifications and Repair of Safety Hazards

SDG&E requests $258,000 for "Rule 18- Notification and Repair of Safety Hazards – Repairs – O&M cost to repair conditions identified by CIPs[187] or "Rule 18 Notifications and Repair of Safety Hazards". SDG&E asserts that The Electric Safety OIR Phase 1 requires an auditable maintenance program, a 10-day notification procedure for safety hazards and a method to prioritize and record corrective actions for GO 95 violations.[188] Given that Rule 18 is part of GO 95, which directs SDG&E to debit expenses into the FHPMA, DRA recommends that the Commission deny SDG&E's request to fund Rule 18 Notifications and Repair of Safety Hazards in ERO Electric Distribution because SDG&E has provided insufficient evidence to incorporate the costs in GRC rates at this time.

---

[186] D.09-08-029.

[187] Communication Infrastructure Provider, R.08-11-005.

[188] Exh. 61, p. 11.

6.1.4.4. OII Quality Control Inspections

SDG&E requests $1,376,344 for OII Quality Control Inspections.[189] SDG&E asserts that the OII settlement agreement approved in D.10-14-047 uses a three year cycle for Quality Control inspections of distribution poles in High Risk Fire Areas (HRFA).[190] Further, given that SDG&E is supposed to debit expenses related to increased maintenance and inspection/patrolling requirements into FHPMA, DRA recommends that the Commission deny SDG&E's request to fund the OII Quality Control Inspections in SDG&E ERO Electric Distribution because SDG&E has not provided sufficient evidence to incorporate the costs in GRC rates at this time.

6.1.4.5. Screening of Commercial Drivers

ERO lineman are commercial vehicle drivers that are required to be screened for respiratory dysfunctions associated with sleep apnea as required by the Federal Motor Carrier Safety Administration per the Skills and Compliance Training Regulatory & Environmental Compliance section of exhibit SDG&E-5.[191] DRA recommends the Commission adopt DRA's forecast for Skills and Compliance training for Screening of Commercial Drivers located in section III D of Exhibit 478.

6.1.5. Fire Preparation

SDG&E lists Red Flag Costs, Elevated Wind Conditions, Outage Prevention during High Fire Risk Periods as cost items under Fire Preparation. In D.09-08-029, the Commission directed SDG&E to debit each month an amount equal to expenses incurred to mitigate fire hazard in high wind areas in the FHPMA.[192] Hence, SDG&E should continue to record these costs in the FHPMA. SDG&E has not provided sufficient evidence to support putting these costs in the GRC at this time.

---

[189] Exh. 62, p. 21, Supplemental Workpapers.

[190] Exh. 61, p. 11.

[191] Exh. 61, p.11.

[192] D.09-08-029.

6.1.5.1. Red Flag Warning Operations

SDG&E requests $1,793,505 for Red Flag Warning Operations or "Red Flag Costs" in TY 2012.[193] Red Flag warnings are declared by the National Weather Service and indicate higher fire risk due to weather conditions in San Diego. Warnings are flagged when high winds are coupled with low humidity and dry lighting conditions.[194]

6.1.5.2. Elevated Wind Conditions

SDG&E requests $122,140 for Elevated Wind Conditions in TY 2012.[195]

6.1.5.3. Outage Patrolling during High Fire Risk Periods

SDG&E requests $1,646,100 for Safety Patrol Costs for Restoration of Outages or "Outage Patrolling during High Fire Risk Periods."[196]

6.1.5.4. Workforce Development

SDG&E requests one additional Line Assistant Class and one additional Apprentice class to safely and reliably maintain the electric distribution system and fulfill the requirements of SDG&E's state approved Apprentice Program.[197] Additionally, SDG&E requests a Standby Lineman training program for 2011 and a training program designed for the relief of Fault Finding Specialists (lineman) on SDG&E's new fault finding equipment. SDG&E asserts that all these instruction costs are captured in Skills and Compliance Training workpapers.[198] DRA recommends the Commission adopt DRA's forecast for Skills and Compliance training for Line Assistant and Apprentice Training, Standby Lineman Training, and Fault Finding Training found in section III D of Exhibit 478.

---

[193] Exh. 62, p. 21.

[194] Exh. 61, p. 12.

[195] Exh. 62, p. 21.

[196] Exh. 62, p. 21.

[197] Exh. 61, p. 12.

[198] Exh. 61, p. 13.

6.1.6. System Growth

SDG&E lists Badge Access to Military Base and Climbing Gear as cost items in the Supplemental Workpapers under System Growth. DRA recommends that the Commission approve SDG&E's request for Badge Access to Military Base but deny the request for Climbing Gear.

6.1.6.1. Climbing Gear

SDG&E has not provided any support for the approval of $151,200 it requests for climbing gear in 2012.[199] One would assume that these employees already being employed in the field by SDG&E would already have the basic gear to do their jobs.

6.1.7. New Technology

SDG&E lists CMP Pathing Increases due to OpEx – Inspections and CMP Pathing Increases due to OpEx Inspections as separate cost items under New Technology in the Supplemental Workpapers and requests $170,000 for these items.

Pathing is a term used to describe the nature of the route, or path, taken through the distribution system so that SDG&E contractors can systematically and repeatedly inspect the various poles, transformers and other facilities in compliance to the timing of General Order 165.[200] Because GO 165 requires a maximum time between inspections of any given facility, the path must remain the same from cycle-to-cycle or else some facilities may exceed the allowable interval.[201] Starting in 2010, the number of inspection required per year will increase from historical projections.[202] DRA performed extensive analysis and review of all costs captured in Exhibits SDG&E-19 and SCG-13 OpEx and could not find any write up or support for the need for CMP Pathing Increases due to OpEx – Inspections. There is no reason to believe that SDG&E is not currently in

---

[199] Exh. 61, workpapers, p. 21 Supplemental.

[200] Exh. 61 p. 15.

[201] Exh. 61, p. 15.

[202] Exh. 61, p. 15.

compliance with the relevant rules. Thus DRA recommends that the Commission deny SDG&E's request for these Pathing related costs.

6.1.8. Smart Grid Portfolio:

SDG&E claims that it is committed to meeting California's policy goals of promoting increased levels of renewable resources.[203] SDG&E utilizes various environmentally friendly technologies including solar and wind generation, plug-in electric vehicles, and electric storage, as well as the deployment of new customer empowering Smart Meter technology.[204] The activities needed to support the Smart Grid infrastructure are located in the Substation workgroup 1ED015.000.[205] DRA recommends that the Commission adopt DRA's forecast for Substation Construction and Maintenance in Exhibit 478. The ongoing costs related to operating and maintaining this new infrastructure is reflected in ERO.

6.1.9. RIRAT

SDG&E requests $300,000 in 2012 for RIRAT in SDG&E's Electrical regional operations group.[206] RIRAT's functions appear to be relaying settings for Near sub IR's – red flag profiles, Reduce SGF setting (improve L-G load balance), and reduce the size of expulsion fuses.[207] DRA could not identify any evidence or support for this item and SDG&E does not even describe RIRAT. No testimony or supporting documents address RIRAT. DRA performed extensive analysis and review of all costs captured in Application and Testimonies and could not find any write up or support for the need for RIRAT. DRA recommends the Commission deny approval of funds for RIRAT due to lack of support.

---

[203] Exh. 61, p. 13.

[204] Exh. 61, p. 14.

[205] Exh. 61, p. 14.

[206] Exh. 62, p. 21 supplemental workpapers.

[207] Exh. 62, p. 21 supplemental workpapers.

6.1.10. Operational Excellence 20/20 On-Going Support

SDG&E lists Supervisor Enablement, FSD, Mobile, PEV – Electric Vehicle Program, Smart Meter – Outage Management, Line Capacitor Survey and O&C Labor-non-work as cost items in the Supplemental Workpaper under Operational Excellence 20/20 On-Going Support. Of these cost items DRA recommends that the Commission approve only the cost for Smart Meter Outage Management and deny the other items.

6.1.10.1. Supervisor Enablement

SDG&E requests $20,000 in 2012 for supervisor enablement[208] but Supervisor Enablement has already been captured in other Sempra Forecast Requests particularly, Exhibits 183.

SDG&E states:

> The Supervisor Enablement project was completed and mobile data terminals with wireless access to back-office systems were deployed to over 300 field supervisors. Additionally, an organizational structure was implemented to support supervisors with additional training, resolution of technical issues, analysis and reporting enhancements, and on-going change support. Survey results indicate that supervisors have been able to increase their time supporting crews in the field as a result of the new technology.[209]

(Exhibit 478, p.17.)

Supervisor enablement has already been completed.[210] Therefore DRA recommends $0 for additional supervisor enablement in ERO.

6.1.10.2. Construction Crew Dispatch

SDG&E requests $153,000 in 2012 for "FSD" as labeled in the supplemental workpapers.[211] New ClickSchedule software enables dispatchers to dispatch technicians

---

[208] Exh. 62, p. 21.

[209] Exh. SDG&E-183, p. 4.

[210] Exh. SDG&E-183, p. 4.

[211] Exh. 62, p. 21, Supplemental Workpapers.

and construction crews more efficiently from two regional area resource scheduling locations.[212] SDG&E seems to be ambiguous with its requests labeling the line item FSD, DRA interpreted this to be "Frontline Supervision Dispatch." DRA requests that in future rate cases SDG&E clearly label each line item rather than use an acronym.

SDG&E has not provided evidentiary support for this item. Due to lack of support and no detailed costs provided in Exhibit SDG&E-5 and its supporting workpapers, DRA recommends that the Commission deny approval of funds for ClickSchedule in ERO.

6.1.10.3. Construction Work Scheduling

SDG&E requests $100,000 for "Mobile" or ClickMobile software which construction and maintenance crews will use on their MDT's to process all work orders, including on-the-job electronic time reporting.[213] However, due to lack of support and no detailed costs provided in Exhibit SDG&E-5 and its supporting workpapers, DRA recommends deny approval of funds for Mobile in ERO.

6.1.10.4. Training

Twelve subject matter experts within the construction and operations centers will receive ClickSchedule, ClickMobile and Systems, Applications, and Products (SAP) software training and assist the OpEx staff in training over 900 ERO employees from August until November 2010.[214] Again, SDG&E is ambiguous with this request and offers no detailed explanations of these costs for training. Thus, DRA recommends that the Commission deny SDG&E's request for funds to support OpEx related training due to lack of support.

---

[212] Exh. 61, p. 14.

[213] Exh. 61, p. 14.

[214] Exh. 61, p. 14.

6.1.10.5. O&M Drivers for T&D Impacts Due to EV Chargers

SDG&E requests $26,990 in 2012 for Plug-in Electric Vehicles (PEVs).[215]

In DRA's exhibit on SDG&E Smart Grid Policy, DRA states:

> PEVs are both battery powered and plug in-in electric hybrid vehicles are in the process of interconnecting to the SDG&E grid. The O&M portions of Plug in Electric Vehicles (PEV's) of these costs are reflected in the ERO workgroup. Although a recent Commission decision articulated interim ratemaking policy for the charging station infrastructure,[216] DRA is proposing $0 towards the investment in public access charging facilities. Until larger volumes of EV's penetrate the SDG&E territory, DRA does not support the use of ratepayer funds for such an effort.
>
> EPRI released a report on the potential roles that utilities might have with regard to transportation and charging stations. This report reaches some interesting conclusions about system impacts, penetration levels, where to focus efforts (i.e. on the devices closest to the customer,) and the implication of older systems (including underground systems.) This same report also discusses roles for utilities with regard to charging stations. It raises a lot of caveats about the EV owner's behaviors, home configurations, and penetration levels. While it also suggests that the utilities have a positive role to play in keeping costs down for charging stations, it overwhelmingly demonstrates how much more information needs to be gleaned about the owners of EV, their homes and habits before SDG&E can make reasonable investments in charging station infrastructure. The next GRC cycle is the best place for these dollars to be evaluated.[217]

Thus, DRA recommends $0 for PEVs in O&M expenses for Electric Distribution TY 2012 and recommends SDG&E request this in its next GRC cycle.

---

[215] Exh. 61, p. 21, supplemental workpapers.

[216] D.11-07-029.

[217] Exh. DRA-14. pp. 16-17.

6.1.10.6. Smart Meter Program or Smart Meter – Outage Management

SDG&E requests a $469,000 reduction for SDG&E's Smart Meter program. The benefits associated with customer outage calls, automated outage analysis, crew deployment and emergency/planned switching will begin in 2012 in the amount of $469,000 (labor and costs). These benefits were deducted from the overall drivers within the Electric Regional Construction and Operation workpaper group. DRA does not oppose this issue.

6.1.10.7. Line Capacitor Survey

SDG&E requests $21,333 for Line Capacitor Survey for its Test Year 2012. DRA could not find any evidence or support for this item in Exhibits 61, 183 or 188. SDG&E offers no explanation of what Line Capacitor survey is, no write up exists for this item. DRA can not be certain where these costs are embedded, and because of lack of support, DRA recommends $0 for Line Capacitor Survey.

6.1.10.8. O&C Labor Non-Work (V&S) –

In TY 2012, SDG&E is requesting $4,892,000 for O&C Labor Non-Work. SDG&E provides no support or evidence of this item being necessary. Furthermore in responses to DRA data requests, this item was omitted twice.[218] DRA recommends $0 and 0 employees for O&C Labor Non-Work due to lack of support.

6.1.11. Area Resource Scheduling Organization (ARSO)

The Area Resource Scheduling Organization (ARSO) is a newly developed department created under the OpEx Field Force initiative. The function of the ARSO is to organize, schedule and dispatch all gas and electric distribution work within the SDG&E's system. DRA could not locate a discussion of costs associated with ARSO anywhere in any of the testimonies and their associated workpapers. Because DRA cannot be certain where these costs are embedded due to lack of support, DRA recommends $0 for ARSO and recommends 0 employees requested for ARSO.

[218] SDG&E response to DRA data request DRA-SDG&E-005-LJL, Q. 6 and Q.10.

The supplemental workpapers also include a number of Smart Grid issues for 2012, which total $3,141,000. None of the amounts listed in Table 10-4 could be found in the original workpapers or in SDG&E's written testimony. Table 10-4 includes DRA's recommendations for each of those issues. A discussion of each issue follows Table 10-4.

Table 10-4
O&M Expenses for TY 2012
For Smart Grid included in Electric Regional Operations
(TY 2012 in Thousands of 2009 Dollars)

Description	SDG&E Proposed[219]	DRA Recommended
AES (Advanced Energy Storage)	$1,255	$261
Dynamic Line Ratings	$0	$0
Smart Transformers	$70	$70
Fault Circuit Indicators (FCI)	$296	$0
Phasor Measurement Units	$0	$0
Phase Identification (ID)	$159	$0
SCADA Capacitors	$249	$125
Condition Based Maintenance (CBM)	$0	$0
Public Access Charging Facilities	$1,112	$0
TOTAL	**$3,141**[220]	**$456**

Smart Grid

In DRA's Smart Grid exhibit, DRA makes the following recommendations for the Smart Grid supplemental workpapers and adds this to DRA's ERO supplemental workpapers as seen above in Table 10-3 to calculate the total ERO number for 2010, 2011, and 2012.

Based on these totals for TY 2012, DRA recommends $34,273,000 for ERO ED011.000, which is $7,770,000 less than SDG&E's requested $42,043,000, as shown

[219] Exh. 62, p. 22.

[220] Note SDG&E's incorrect total reflected on p. 22 in Workpapers is $3,643.

on Table 10-5. DRA also recommends only 4.3 additional FTE's since the FTE count was only included in the Smart Grid Supplemental workpaper and not included in the Electrical Regional Operations Supplemental Workpaper. The additional 79.3 FTE's in 2010, 34.2 FTE's in 2011, and 37.8 in 2012 were not justified. Because there was no FTE count provided in the ERO supplemental workpapers, DRA uses a zero based methodology for the FTE count.

6.1.12. Electric and Regional Operations (Troubleshooting)

SDG&E forecasted $7.9 million for its Electric and Regional Operations (troubleshooting) expenses. SDG&E developed its forecast by utilizing a 3-year average using years 2007, 2008, and 2009 and then added incremental costs in addition to its base forecast. DRA takes issue with these additional costs. DRA recommends $7.313 million, which is $538,000 less than SDG&E's proposed $7.851 million. DRA also recommends that SDG&E receive ratepayer funding for 63.3 FTEs of the 68.8 FTE's requested by SDG&E. SDG&E proposes to recover several costs that should have been recorded in the FHPMA and DRA is recommends against shifting costs from FHPMA to this GRC.

Table 10-6a
2005-2009 Recorded / 2012 Forecast[221]
For Electric and Regional Operations (Troubleshooting)
(In Thousands of 2009 Dollars)

Description	2005	2006	2007	2008	2009	2012
Labor	5794	6063	6147	6603	6962	7,590
NL	419	408	271	255	258	261
NSE	0	0	0	0	0	0
Total	6213	6471	6418	6858	7220	7851

[221] Exh. 62, p. 25.

Table 10-6b
O&M Expenses for TY 2012
For Electric Regional Operations Troubleshooting
(In Thousands of 2009 Dollars)

Description (a)	DRA Recommended (b)	SDG&E Proposed[222] (c)	Amount SDG&E>DRA (d=c-b)	Percentage SDG&E>DRA (e=d/b)
ED020.000	$7,313	$7,851	$538	7%

SDG&E requests $418,000 in 2012 for GO 165 Annual Patrols (Inspections) for ETs time to complete incremental patrols, $2,413 incremental maps, 3 hrs/map and $50/hr direct costs. SDG&E also requests 4 additional employees for this item. In D.09-08-029, the Commission required SDG&E to debit expenses related to increasing maintenance and inspection/patrolling requirements into the FHPMA.[223] DRA recommends $0 in 2010-2012 for GO 165 Annual Patrols (Inspections) in Fire Zones Repairs in ERO Troubleshooting/Engineering for Electric Distribution and zero additional employees of the 4 requested.

SDG&E requests $120,000 for 2012 for Electric Troubleshooters response to red flag and one additional employee. Red Flag warnings are declared by the National Weather Service and indicate higher fire risk due to weather conditions in San Diego. Warnings are flagged when high winds are coupled with low humidity and dry lighting conditions. D.09-08-029 also requires that SDG&E expenses incurred to mitigate fire hazard in high wind areas in the FHPMA. Thus, DRA recommends SDG&E receives $0 for Red Flag Warning Operations in ERO Electric Distribution and no new employees.

6.1.12.1. Skills and Compliance Training ED013.000

SDG&E forecasted $4,338,000 for its Skills and Compliance Training. SDG&E developed its forecast by utilizing 2009 recorded as its base year for Labor and a five year average for Non Labor and then adds incremental costs in addition to its base

[222] Exh. 62, p. 5
[223] D.09-08-029.

forecast. No Non Standard Escalation items were included in this forecast. The corresponding DRA estimate for SDG&E's Skills and Compliance Training is $3,664,000 which is $674,000 less than SDG&E's request. DRA takes no issue with SDG&E's forecasting methodology utilizing 2009 base year for Labor, however DRA takes issue with the additional costs. DRA takes issue with SDG&E's 5-year average methodology for its base forecast for non Labor and utilizes a 4-year average instead to help normalize fluctuations from year to year since 2005 appears to be significantly higher than 2006-2009. DRA also takes issue with the additional costs associated with non-Labor.

Table 10-7a
2005-2009 Recorded / 2012 Forecast
For Skills and Compliance Training
(In Thousands of 2009 Dollars)

Description	2005	2006	2007	2008	2009	2012
Labor	4722	4001	5142	2876	2924	3559
NL	1084	701	720	681	857	779
NSE	0	0	0	0	0	0
Total	5806	4702	5862	3557	3781	4338

Table 10-7b
O&M Expenses for TY 2012
For Skills and Compliance Training
(In Thousands of 2009 Dollars)

Description (a)	DRA Recommended (b)	SDG&E Proposed[224] (c)	Amount SDG&E>DRA (d=c-b)	Percentage SDG&E>DRA (e=d/b)
ED013.000	$3,664	$4,338	$674	18%

SDG&E added costs with little or no evidentiary support. In a data request sent by DRA, DRA requested 5 years of historical recorded costs for each line item and a

[224] Exh. 62, p. 35.

description of each line item.[225] SDG&E was unable to provide 5 years of historical costs for these items because a lot of these items are new and have never been necessary before.

6.1.12.2. Supplemental Workpapers

Again SDG&E submitted Supplemental Workpapers for Electric and Regional Operations (Troubleshooting). Most of the issues listed in the Supplemental Workpapers were not included in the original workpapers nor were they discussed in the text of the testimony. They are listed on Table 10-8, below. If they are included as proposed costs in this GRC, DRA has provided its recommendation for each in Table 10-8.

Table 10-8
O&M Expenses for TY 2012
For Supplemental Workpaper in Skills and Compliance Training
(In 2009 Dollars)

Description	DRA	SDG&E
Instructional Designer	$0	$90,000
RFID tracking tool		
Miscellaneous tools		
Borrowed labor WFD		
Travel and seminar		
Compressor for Laborer		
three 40' steel containers		
Tool Technician		
2 Trainers for Compliance	$0	$69,000
Update Flex Center		
Lap top Computers	$0	
Hendrix cable classes	$0	$36,000
Add'l Line Orientation class	$0	$15,000
Add'l Apprentice Class	$0	$80,000
Wire Stringer Tension		
Rubber Goods	$0	
Circuit 11 cable replacement	$0	$35,000
SCADA switches for Circuit 11	$0	$23,000

[225] SDG&E response to DRA data request DRA-SDG&E-005-LJL, Q.6.

UG vault	$0	$24,000
Program and Curriculum		
Install GPS system		
Equipment Operations training		
O&C Labor-non-work	$0	$800,000
Total	$0	$1,172,000[226]

6.1.13. Project Management ED010.000

In account number ED010.000, Project Management, SDG&E forecasted $1.5 million and 19.5 employees for TY 2012. Project Management designs and engineers gas and electric distribution systems for individual customers and for large complex distribution systems. SDG&E developed its forecast by utilizing a 5 year average 2005-2009 for Labor and Non-Labor and then adds incremental costs in addition to its base forecast. No NSE items were included in this forecast. DRA utilizes 2009 base year recorded for Labor and Non Labor because it is most indicative of SDG&E's current spending. The corresponding DRA estimate is $603,000 and 11.5 FTEs which is $918,000 less than SDG&E's request.

Table 10-9a
2005-2009 Recorded / 2012 Forecast
For Project Management
(In Thousands of 2009 Dollars)

Description	**2005**	**2006**	**2007**	**2008**	**2009**	**2012**
Labor	1179	731	942	569	351	1321
NL	219	14	103	484	80	200
NSE	0	0	0	0	0	0
Total	1398	745	1045	1053	431	1521

[226] Exh. 62, p. 41.

Table 10-9b
O&M Expenses for TY 2012
For Project Management
(In Thousands of 2009 Dollars)

Description (a)	DRA Recommended (b)	SDG&E Proposed[227] (c)	Amount SDG&E>DRA (d=c-b)	Percentage SDG&E>DRA (e=d/b)
ED010.000	$603	$1,521	$918	152%

SDG&E asserts that Project Management seeks to hire and train individuals and put them through a comprehensive Planner Training Class in 2011-2012. SDG&E gives no indication of what the comprehensive Training Class entails and does not provide justification or support for these classes. SDG&E fails to provide salaries for the relevant new positions and what the duties these new positions entail. SDG&E asserts that Project Management expects that only 63% (10 of the 16 planners) will be hired and trained in 2011 and 2012. It is excessive and burdensome for ratepayers to incur costs to hire employees that will not even be useful to the utility. DRA opposes all 8 employees and $415,000 associated with Labor for Planner/Designer Class for staff reinforcement, due to lack of support. DRA takes no issue with any of the other employees requested or their associated costs.

6.1.14. Service Order Team ED014.000

In account number ED014.000, Service Order Team (SOT), SDG&E is requesting $270,000 in TY 2012. SOT is responsible for planning, overseeing, and managing new additions and modifications to the electrical and gas distribution systems, primarily related to those services, with variation in scope. SDG&E developed its forecast by utilizing 2009 Base Year recorded data for Labor and a 5 year average for Non-Labor and then adds incremental costs in addition to its base forecast. No NSE items were included in this forecast. The corresponding DRA estimate for Service Order team is $258,000 which is $12,000 less than SDG&E's forecast.

[227] Exh. 62, p. 45.

Table 10-10
2005-2009 Recorded / 2012 Forecast
For Service Order Team
(In Thousands of 2009 Dollars)

	2005	2006	2007	2008	2009	2012
Labor	108	78	150	72	117	117
NL	228	243	265	224	193	153
NSE	0	0	0	0	0	0
Total	336	321	415	296	310	270

Table 10-11
O&M Expenses for TY 2012
For Service Order Team
(In Thousands of 2009 Dollars)

Description (a)	DRA Recommended (b)	SDG&E Proposed[228] (c)	Amount SDG&E>DRA (d=c-b)	Percentage SDG&E>DRA (e=d/b)
ED014.000	$258	$270	$12	5%

DRA disagrees with SDG&E's use of 2009 Base Year forecasting methodology for Labor and utilizes a 5 year average to normalize fluctuations from year to year, which results in an estimate of $105,000 for Labor. DRA takes no issue with SDG&E's request of $153,000 for Non Labor. Table 10-11 shows 5 years of recorded 2005-2009 Labor and non Labor.

6.1.15. Regional Public Affairs ED022.000

In account ED022.000, Regional Public Affairs, SDG&E is requesting $1,483,000 for TY 2012.[229] Regional Public Affairs (RPA) primarily supports field operations through its work with regional and local governments on issues regarding proposed regulations, and emergency preparedness and response.[230] SDG&E developed its

[228] Exh. 62, p. 45.
[229] Exh. 62, p. 60.
[230] Exh. 62, p. 60.

forecast by utilizing 2009 Base Year recorded for Labor and Non-Labor and then adds incremental costs in addition to its base forecast. No NSE items were included in this forecast. DRA takes issue with SDG&E's additional costs as discussed below. The corresponding DRA estimate for Regional Public Affairs is $1,006,000 which is $477,000 less than SDG&E's forecast.

Table 10-12a
2005-2010 Recorded / 2012 Forecast
For Regional Public Affairs
(In Thousands of 2009 Dollars)

Description	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2012**
Labor	1333	1175	757	732	814	816	925
NL	830	657	304	256	997	629	558
NSE	0	0	0	0	0	0	0
Total	2163	1832	1061	988	1811	1445	1483

DRA utilized 2010 last recorded year data for base forecasting because it provides a reasonable starting point for estimating future level expenses for this account and because the last recorded year reflects incremental costs forecasted to "meet challenging business needs"[231] and is "adjusted to exclude non-recurring costs."[232]

Table 10-12b
O&M Expenses for TY 2012
For Regional Public Affairs
(In Thousands of 2009 Dollars)

Description (a)	**DRA Recommended (b)**	**SDG&E Proposed[233] (c)**	**Amount SDG&E>DRA (d=c-b)**	**Percentage SDG&E>DRA (e=d/b)**
ED022.000	$1,006	$1,483	$477	47%

SDG&E requests $111,000 for 2012 for the addition of One Public Affair Manager per year to serve as a primary company representative to municipalities and

[231] Exh. 62, p. 60.
[232] Exh. 62, p. 60.
[233] Exh. 62, p. 60.

Communities in SDG&E's service territory. This was the only support given for the new employees, no further discussion of these new position's duties was offered in SDG&E's workpapers or testimony. In this recessionary time, $111,000 for an unjustified new employee is excessive. SDG&E has obviously operated as a successful utility over the years without the additional Public Affairs Managers. Thus, DRA recommends $0 and 0 new employees due to lack of support.

6.1.16. Grid Operations ED008.000

In account number ED008.000, Grid Operations, SDG&E is requesting $427,000 in TY 2012. No NSE items were included in this forecast. DRA takes issue with SDG&E's additional costs as discussed below. The corresponding DRA estimate for Grid Operations is $327,000, which is $100,000 less than SDG&E's forecast.

Table 10-13a
2005-2009 Recorded / 2012 Forecast
For Grid Operations
(In Thousands of 2009 Dollars)

Description	**2005**	**2006**	**2007**	**2008**	**2009**	**2012**
Labor	242	263	297	262	296	385
NL	22	17	16	109	1	42
NSE	0	0	0	0	0	0
Total	264	280	313	371	297	427

Table 10-13b
O&M Expenses for TY 2012
For Grid Operations
(In Thousands of 2009 Dollars)

Description (a)	**DRA Recommended (b)**	**SDG&E Proposed[234] (c)**	**Amount SDG&E>DRA (d=c-b)**	**Percentage SDG&E>DRA (e=d/b)**
ED008.000	$327	$427	$100	31%

[234] Exh. 62, p. 70.

DRA takes issue with the one Electronic Control Technician in 2012 requested to support an increase in the number of SCADA RTU's put into service as a result of various SDG&E initiatives including OpEx. This item was not supported in Exhibit 61. DRA performed extensive analysis and review of all costs captured in Application and Testimonies and could not find any write up or support for the need for an Electronic Control Technician. DRA recommends $0 for this position due to lack of support.

6.1.17. Substation Construction and Maintenance ED015.000

In account ED015.000, Substation Construction and Maintenance, SDG&E is requesting $8.853 million in TY 2012. SDG&E developed its forecast by utilizing 2009 Base Year recorded data for Labor and Non-Labor and then adds incremental costs in addition to its base forecast. NSE items were not included in this forecast. DRA takes issue with SDG&E's additional costs. DRA recommends $8.576 million, which is $277,000 less than SDG&E's request of $8,853,000. SDG&E keeps trying to recover several costs that should continue to be recovered in the FHPMA in this GRC and the Commission should deny approval of these requests.

Table 10-14a
2005-2010 Recorded / 2012 Forecast
For Substation Construction and Maintenance
(In Thousands of 2009 Dollars)

Description	2005	2006	2007	2008	2009	2010	2012
Labor	4341	5199	4354	4538	4789	4642	5196
NL	3841	3719	3584	2984	3535	2302	3657
NSE	0	0	0	0	0	0	0
Total	8182	8918	7938	7522	8324	6944	8853

Table 10-14b
O&M Expenses for TY 2012
For Substation Construction and Maintenance
(In Thousands of 2009 Dollars)

Description (a)	DRA Recommended (b)	SDG&E Proposed[235] (c)	Amount SDG&E>DRA (d=c-b)	Percentage SDG&E>DRA (e=d/b)
ED015.000	$8,576	$8,853	$278	3%

6.1.17.1. Supplemental Workpapers

SDG&E's supplemental workpapers for Substation Construction and Maintenance are incremental costs. They are listed on Table 10-15. DRA has provided its recommendation for each in Table 10-15. Smart Grid incremental costs that are included in the supplemental workpapers are listed on Table 10-16.

Table 10-15
O&M Expenses for TY 2012
For Supplemental Workpapers for Substation C&O
(TY 2012 in Thousands of 2009 Dollars)

Description	DRA	SDG&E[236]
Helicopter	$0	$500,000
Aging Infrastructure	$0	$500,000
Red Flag, Wind, etc	$0	$900,000
Field Crew laptops	$0	$50,000
O&C Labor non work (V&S)	$0	$1,000,000
Total	$0	$2,950,000

6.1.17.2. Red Flag, Elevated Wind and Other Fire Related Events

As previously and variously noted SDG&E should recover these costs in the FHPMA.[237] DRA recommends SDG&E receives $0 for Red Flag, elevated wind and

[235] Exh. 62, p. 76.

[236] Exh. 62, p. 84.

[237] D.09-08-029.

other related events and continue the use of the memo account because SDG&E has provided insufficient evidence to incorporate the costs in GRC rates at this time.[238]

SDG&E requests 10.5 new FTE's in 2010. Because DRA has recommended the Commission deny SDG&E using ratepayer money for Red Flag, Elevated Wind, and Other fire-related events, DRA recommends that the Commission also deny the costs associated with the new FTEs.

6.1.17.3. Helicopter Utilization Expense Transferred from Fleet Department

SDG&E requests $1,079,000 for Helicopter Utilization expense. SDG&E responded to a data request inquiring about this line item and stated:

> Prior to 2010, the Blackhawk Helicopter contract service was monitored by the Fleet Department. For 2010 and future years, this responsibility transferred to Kearny Maintenance and Operations. This contract has been set up as a contracted service for overhead line corrective maintenance, restoration of primary outages, and fire preparedness and prevention."[239]

(Exh. 478, p.48.)

For fire preparedness and prevention, SDG&E's expenses associated with helicopter use should continue to be recorded in the FHPMA because SDG&E has provided insufficient evidence to incorporate the costs in GRC rates at this time.[240] DRA recommends $0 for Helicopter Utilization.

Field Crew Laptop Computers:

DRA takes issue with the requested $50,000 in 2012 for field crew laptop computers. SDG&E explains that with the expansion of system processing technologies Mobile Data Terminals (MDTs) are part of daily field activities and current training curriculum protocols do not match up with field activities. SDG&E had requested this item in the ERO section of this report as well. As discussed before in the ERO section:

---

[238] D.09-08-029.

[239] SDG&E response to DRA data request DRA-SDG&E-005-LJL, Q.6.

[240] D.09-08-029.

> The Supervisor Enablement initiative within the OpEx Program will equip supervisors with mobile data terminals (MDT's) printers and software enabling them to spend at least 60% of their work day in the field supervising crews, estimating work and serving customers.[241]

DRA recommends $0 for laptop computers for training also due to lack of support.

6.1.17.4. O&C Labor Non-Work V&S

This item is the most costly line item in the supplemental workpapers. SDG&E requests $1,000,000 for Labor in 2010-2012 for O&C Labor Non-Work (V&S).[242] In the ERO section of this exhibit, SDG&E is requesting $4,892,000 for O&C Labor Non-Work (V&S) in TY 2012.[243] SDG&E provides no support or evidence for this item being necessary. DRA could not find a discussion of costs associated anywhere in the records SDG&E submitted with this Application. Furthermore in data request responses, this item was purposefully omitted twice.[244] DRA recommends $0 and 0 employees for O&C Labor Non-Work due to lack of support.

Table 10-16
O&M Expenses for TY 2012
For Smart Grid included in Substation Construction and Maintenance
Combined Labor and Non Labor
(TY 2012 in Thousands of 2009 Dollars)

Description	DRA Recommended	SDG&E Proposed[245]
AES (Advanced Energy Storage)	186	897
Dynamic Line Ratings	18	89
Smart Transformers	-	-
Fault Circuit Indicators (FCI)	-	-
Phasor Measurement Units		116

[241] Exh. 61, p. 14.

[242] Exh. 62, p. 41.

[243] Exh. 62, p. 21.

[244] SDG&E response to DRA data request DRA-SDG&E-005-LJL Q. 6 and Q.10.

[245] Exh. 62, p. 85.

	116	
Phase Identification (ID)	-	-
SCADA Capacitor	20	40
SCADA Expansion	44	88
Condition Based Maintenance (CBM)	-	34
Public Access Charging Facilities	-	382
TOTAL	$384	$1,646

Smart Grid

In DRA's Smart Grid exhibit, DRA makes the following recommendations for the Smart Grid supplemental workpapers[246] to calculate the total Substation Construction and Maintenance numbers for 2010, 2011, and 2012.

6.1.18. System Protection ED017.000

In account number ED017.000, System Protection, SDG&E is requesting $702,000 in TY 2012. System Protection is responsible for maintaining protective relays and control systems within SDG&E's substations which involve routine preventative maintenance on time-based intervals, calibrating and trip testing protective relays, and trouble shooting existing systems that alarm or fail to function properly. SDG&E developed its forecast by utilizing a 4-year average (2006-2009) for both Labor and Non-Labor and then adds incremental costs in addition to its base forecast. No NSE items were included in SDG&E's forecast. The corresponding DRA estimate for System Protection is $595,000, which is $107,000 less than SDG&E's forecast.

[246] Exh. 62, p. 85.

Table 10-17a
2005-2010 Recorded / 2012 Forecast
For System Protection
(In Thousands of 2009 Dollars)

Description	2005	2006	2007	2008	2009	2010	2012
Labor	539	583	599	543	584	396	577
NL	79	98	50	62	67	80	125
NSE	0	0	0	0	0	0	0
Total	618	681	649	605	651	476	702

Table 10-17b
O&M Expenses for TY 2012
For System Protection
(In Thousands of 2009 Dollars)

Description (a)	DRA Recommended (b)	SDG&E Proposed[247] (c)	Amount SDG&E>DRA (d=c-b)	Percentage SDG&E>DRA (e=d/b)
ED017.000	$595	$702	$107	18%

DRA incorporated 2010 recorded information in its 4-year average (2007-2010) to reflect SDG&E's current spending levels for fire preparedness, compliance with mandated maintenance requirements, system growth and aging infrastructure, and safety performance. DRA used 2009 base year recorded 5.4 FTEs to calculate the number of FTEs.

SDG&E requests $56,000 for 2012 in forecast adjustments attributable to Aging Infrastructure and Growth.[248] The only discussion SDG&E provided in its testimony was "As infrastructure ages, there is increased call-out activity for corrective maintenance measures."[249] This was the only support given for the forecast adjustments. Because DRA cannot be certain what the breakdown of the costs needed for aging infrastructure

[247] Exh. 62, p. 89.

[248] Exh. 62, p. 90.

[249] Exh. 61, p. 38.

and how SDG&E plans to deal with it, DRA recommends $0 and 0 new employees for System Protection.

6.1.19. Electric Distribution Operations ED004.000:

In account number ED004.000, Electric Distribution Operations, SDG&E is requesting $10.47 million in TY 2012. Electric Distribution Operations (Dist Ops) are used to deliver safe and reliable electricity to customers and are coordinated from SDG&E's Electric Distribution Operations Control Center, which directs the activities of Electric Troubleshooters, Fault-Finding Specialists and crews throughout the service territory, service restoration, Red Flag Warnings, storm response and G.O. 166 requirements. SDG&E developed its forecast by utilizing a 5-year average. No NSE items were included in this forecast. The corresponding DRA estimate for Electric Distribution Operations is $8,597,000 which is $1,878,000 lower than SDG&E's forecast.

Table 10-18a
2005-2010 Recorded / 2012 Forecast
For Electric Distribution Operations
(In Thousands of 2009 Dollars)

Description	2005	2006	2007	2008	2009	2010	2012
Labor	2497	2534	2324	2658	2570	2640	3302
NL	7591	8623	6165	5862	6801	5957	7173
NSE	0	0	0	0	0	0	0
Total	10088	11157	8489	8520	9371	8597	10475

Table 10-18b
O&M Expenses for TY 2012
For Electric Distribution Operations
(In Thousands of 2009 Dollars)

Description (a)	DRA Recommended (b)	SDG&E Proposed[250] (c)	Amount SDG&E>DRA (d=c-b)	Percentage SDG&E>DRA (e=d/b)
ED004.000	$8,597	$10,475	$1,878	22%

[250] Exh. 62, p. 97.

DRA takes issue with SDG&E's 5-year (2005-2009) forecasting methodology. DRA utilized 2010 last recorded year because it provides a reasonable starting point for estimating future level expenses for this account. The last recorded year, 2010, reflects incremental costs forecasted for maintaining improved safety performance and reliability, new technology, work force development and fire preparedness. No specific breakdowns of salaries were provided associated with the new positions SDG&E requests, only what the new positions are for. Due to lack of support, DRA recommends $0 for all new positions associated with Labor ($786,000 in 2012). DRA utilizes 2009 base year forecasting methodology for 25 FTEs due to lack of support for the need for additional employees and because it provides a reasonable starting point for estimating future expenses for this account.

SDG&E requests an additional Team Lead for the Distribution System Operators (DSOs) to ensure that there is sufficient management coverage during emergency conditions (Red Flag Warnings, Elevated Wind Conditions, Storms, etc.) and to backfill the existing Team Lead's duties during vacations and sick days. SDG&E has been a successfully operating the Utility without the need of an additional Team Lead. Furthermore, because this is a fire hazard prevention new position, it should continue to be recorded in the FHPMA because SDG&E has provided insufficient evidence to incorporate the costs in GRC rates at this time. DRA recommends 0 employees and $0 for the additional Team Lead.

SDG&E requests a new meteorologist in addition to the current one to be able to provide 24/7 coverage and support for SDG&E's Construction and Operations Center. During high fire risk periods, real time support is essential to understand the changing weather conditions to ensure the system is operated safely for the given positions. Again, this is fire hazard prevention related and should continue to be recorded in the FHPMA because SDG&E has provided insufficient evidence to incorporate the costs in GRC rates at this time. Also, the current meteorologist has allowed the utility to operate successfully in the past; if this is a Smart Grid or OpEx related employee SDG&E needs

to identify that. DRA recommends that the Commission deny SDG&E's request for a new meteorologist.

SDG&E discusses that the Supervisory Control and Data Acquisition (SCADA) sites in the next two to three years will double, which will require additional support staff.[251] SDG&E provided no breakdown of salaries for this new staff, and the only support provided was "This will require that support staff be increased, equipment be upgraded, and facilities are adequate to effectively manage these additional sites."[252] Because of lack of support, DRA recommends $0 with new SCADA employees.

SDG&E discusses the Apprentice Distribution System Operator (ADSO) training program which is a two year program that consists of both classroom and on-the-job training. SDG&E provides no breakdown of costs, only a description of this training item. Due to lack of support, DRA recommends $0 for increased training, program and program support needs located in the Non Labor portion of forecast adjustments for 2012.

6.1.20. Distribution Operations (EGIM) ED003.000

In account number ED003.000, Distribution Operations (EGIM), SDG&E is requesting $1.55 million in TY 2012. Distribution Operations is comprised of the Electric Geographic Information System (EGIM) group, which is responsible for updating the electronic mapping system for changes in the overhead and underground electric system, including circuit design and equipment changes. SDG&E developed its forecast by utilizing a 5-year average (2005-2009) for Labor and Non-Labor. No NSE items were included in this forecast. The corresponding DRA estimate for Distribution Operations is $1.34 million, which is $208,000 or 16% less than SDG&E's forecast.

---

[251] Exh. 61, p. 42.

[252] *Id*.

Table 10-19a
2005-2009 Recorded / 2012 Forecast
For Distribution Operations (EGIM)
(In Thousands of 2009 Dollars)

Description	2005	2006	2007	2008	2009	2012
Labor	1238	1279	1435	1361	1238	1350
NL	421	370	104	35	61	198
NSE	0	0	0	0	0	0
Total	1659	1649	1539	1396	1299	1548

DRA takes issue with SDG&E's forecasting methodology for both Labor and Non-Labor. DRA incorporated recorded 2010 data, and after a review and evaluation of the 2005 to 2010 historical spending recorded for Labor, and Non-Labor, DRA utilized a 3-year average (2008-2010) as the basis for its forecast. DRA used 2009 base year recorded for the FTE count. Based on the fluctuations of costs from year to year and the anticipated GIS training classes and the addition of 2 EGIM coordinators, DRA believes that a 3-year average (2008-2010) is more indicative for SDG&E's future spending with Distribution Operations (EGIM).

Table 10-19b
O&M Expenses for TY 2012
For Distribution Operations (EGIM)
(In Thousands of 2009 Dollars)

Description (a)	DRA Recommended (b)	SDG&E Proposed[253] (c)	Amount SDG&E>DRA (d=c-b)	Percentage SDG&E>DRA (e=d/b)
ED003.000	$1,340	$1,548	$208	16%

SDG&E requests the addition of new EGIM Coordinating positions in 2012. SDG&E asserts that all new coordinator positions are needed to support the Op/Ex GIS initiative implementation. DRA takes issue with the addition of new EGIM coordinating positions as a result of various SDG&E initiatives including OpEx. DRA performed extensive analysis and review of all costs captured in SDG&E's Exhibits and Workpapers

[253] Exh. 62, p. 105.

and could not find any write up or support for the need for EGIM coordinating positions. Thus DRA recommends $0 for EGIM coordinating positions due to lack of support.

DRA recommends the Commission adopt $0 for any projects related to OpEx which are requested in SDG&E's Electric Distribution area, which includes the additional employee forecasted at $40,000 for 2012.

6.1.21. Equipment Maintenance and Lab (Kearny) ED006.000

In account number ED006.000, Equipment Maintenance & Lab (Kearny) SDG&E is requesting $2.08 million in TY 2012. The Equipment Maintenance & Lab include activities related to refurbishment and scrapping of transformers and electrical equipment, safely-related protective equipment testing activities, support for C&O District specialized tooling repair and calibration and failed cable/connector analysis. SDG&E developed its forecast by utilizing a 5-year linear methodology for Labor and Non-Labor. No NSE items were included in this forecast. The corresponding DRA estimate for Equipment Maintenance and Lab (Kearny) is $1.6 million, which is $580,000 less than SDG&E's forecast.

DRA takes issue with SDG&E's use of a 5-year linear forecasting methodology and instead uses a 5-year average (2005-2009). A 5-year average reflects fluctuations in incremental costs forecasted for updating non-capital equipment, expanding the Protective Equipment Testing Lab rubber goods testing equipment, and increased storage containers from year to year. DRA is concerned that SDG&E's linear methodology overstates 2012 expense levels because it assumes that the historical trend in expense levels will continue into the future.

Table 10-20a
2005-2009 Recorded / 2012 Forecast
For Distribution Operations (EGIM)
(In Thousands of 2009 Dollars)

Description	2005	2006	2007	2008	2009	2012
Labor	1118	1360	1325	1458	1573	1845
NL	267	273	285	318	272	235
NSE	0	0	0	0	0	0
Total	1385	1633	1610	1776	1845	2080

SDG&E never discussed the 2 additional employees in 2012 and associated salaries, thus DRA recommends 0 additional FTE's. DRA used a 5-year average to calculate employees.

Table 10-20b
O&M Expenses for TY 2012
For Equipment Maintenance and Lab (Kearny)
(In Thousands of 2009 Dollars)

Description (a)	DRA Recommended (b)	SDG&E Proposed[254] (c)	Amount SDG&E>DRA (d=c-b)	Percentage SDG&E>DRA (e=d/b)
ED006.000	$1,550	$2,080	$530	34%

6.1.22. Construction Services ED002.000

In account number ED002.000, Construction Services, SDG&E is requesting $5.53 million in TY 2012. The corresponding DRA estimate for Construction Services is $4.36 million, which is $1.17 million less than SDG&E's forecast. SDG&E has no consistent history for this cost item and because SDG&E had a special fire helicopter lease in 2009, DRA believes it to be reasonable to use a 4-year average between 2005 and 2008.

[254] Exh. 62, p. 113.

Table 10-21a
2005-2009 Recorded / 2012 Forecast
For Construction Services
(In Thousands of 2009 Dollars)

Description	2005	2006	2007	2008	2009	2012
Labor	148	185	185	175	209	295
NL	3793	3626	4347	3270	5265	1049
NSE	0	0	0	0	0	0
Total	3941	3811	4532	3445	5474	5532

Table 10-21b
O&M Expenses for TY 2012
For Construction Services
(In Thousands of 2009 Dollars)

Description (a)	DRA Recommended (b)	SDG&E Proposed[255] (c)	Amount SDG&E>DRA (d=c-b)	Percentage SDG&E>DRA (e=d/b)
ED002.000	$4,363	$5,532	$1,169	27%

NSE items "O&M Associated with Capital" and "Transformer Installs on Capital Projects" should be booked in Electric Distribution, Capital because they are projects associated with O&M Capital and not Non-Capital.

SDG&E tries to recover several costs that should be recorded in the FHPMA. Because expenses incurred in design, construction, and maintenance of facilities to mitigate fire hazard in high speed wind areas should be recorded in FHPMA,[256] the NSE line item CFSP and Q&C Inspection and Repairs should be recorded in the FHPMA until the Commission issues a decision for Phase II of the Electric Safety OIR.[257] Thus DRA recommends $0 for 2012.

DRA takes no issue with the remaining item street light maintenance. For calculation purposes, DRA calculated the additional NSE item as a forecast adjustment

[255] Exh. 62, p. 120.

[256] D.09-08-029.

[257] D.09-08-029.

because NSE was never used prior to this Rate Case and was not utilized in the 2010 recorded information DRA received from SDG&E.

6.1.23. Vegetation Management (Tree Trimming)

In account number ED021.001, Vegetation Management (tree trimming), SDG&E is requesting $27,419,000 in TY 2012. The Tree Trimming Program includes the labor, materials and other expenses associated with SDG&E's tree pruning, tree removal, and other vegetation management expenses. The expenses are currently treated in the Tree Trimming Balancing Account (TTBA) which is a one way balancing account to manage vegetation around overhead electric distribution lines, primarily to maintain mandated clearances. SDG&E developed its forecast by using a zero based methodology because of upward pressures that supposedly are not reflected in historical data.

Table 10-22a

2005-2009 Recorded / 2012 Forecast
For Tree Trimming
(In Thousands of 2009 Dollars)

Description	2005	2006	2007	2008	2009	2012
Labor	912	1054	989	908	903	1002
NL	16406	17131	15398	17175	24340	22502
NSE	0	0	0	0	0	3915
Total	17318	18185	16387	18083	25243	27419

Table 10-22b
O&M Expenses for TY 2012
For Tree Trimmings
(In Thousands of 2009 Dollars)

Description (a)	DRA Recommended (b)	SDG&E Proposed[258] (c)	Amount SDG&E>DRA (d=c-b)	Percentage SDG&E>DRA (e=d/b)
ED021.001	$23,504	$27,419	$3,915	17%

[258] Exh. 62, p. 120.

DRA takes issue with SDG&E request for a two-way balancing account for its tree-related program expenses. SDG&E believes that a two- way balancing account will protect its customers from the regulatory uncertainty and the natural pattern of workload fluctuations from year to year.

SDG&E's tree trimming expenses are subject to one-way balancing account treatment. Currently, whatever SDG&E spends on this activity will be reimbursed to the company through rates, up to its cap. Prior to 2009, tree trimming has never exceeded the cap. DRA recommends retention of the one-way tree trimming balancing account (TTBA). Retaining the TTBA ensures financial stability for SDG&E whatever future precipitation levels may be, while not necessarily burdening ratepayers. In D.04-12-015 the Commission required SDG&E to continue its Vegetation Management one-way balancing account effective January 1st, 2008.[259]

SDG&E is requesting $27,419,000 for its TY 2012 estimate, which is $2,176,000 more than the recorded 2009 amount of $25,243,000. SDG&E historically did not include NSE in its forecast prior to TY 2012 and because SDG&E claims a substantial amount of hazard tree work was completed in 2008 and 2009 without use of NSE, DRA believes it to be excessive to request further spending on projects in NSE that have already been completed. Also, SDG&E states that "Non-labor includes field services up to the current TTBA limit plus TTBA share of contractor insurance (all years) and VMS re-write (through 2011)."[260] If Non-Labor already covers contract insurance, there is no need to include it as an NSE item. When requested, SDG&E failed to provide cost information on the increase in spending on biomass disposal, increased off cycle work in high risk areas, continued QC, higher contracted rates, more reliability and hazard tree work (on-going insect & drought impacts).[261]

DRA developed its forecast by using SDG&E's zero based forecasting methodology without the use of the NSE. DRA also believes that all items included in

[259] D.08-07-046, Appendix 1, p. 7.

[260] Exh. 62, p. 135.

[261] SDG&E response to DRA data request DRA-SDG&E-005-LJL, Q.15b.

NSE have been performed adequately previously without the use of NSE and can continue going forward at current spending levels without it. The corresponding DRA estimate for Vegetation Management (tree trimming) is $23,504,000 which is $3,915,000 less than SDG&E's request.

6.1.24. Vegetation Management (Pole Brush) ED021.000

In account number ED021.000, Vegetation Management (Pole Brush), SDG&E is requesting $5,354,000 in TY 2012. Pole brushing for SDG&E involves the clearing of flammable brush and vegetation away from SDG&E distribution poles subject to the California Public Resource Code (PRC), section 4292. Pole brushing expenses have been treated as non-balancing account expenses and SDG&E now requests to include the treatment for pole brushing expenses under a two-way balancing account. In its workpapers, SDG&E developed its forecast by using zero based methodology because current and future expanded efforts are not reflected in historical costs and then adds incremental costs in addition to its base forecast. DRA takes issue with SDG&E's additional costs as discussed below. DRA also recommends 2009 Base year for the FTE count. DRA recommends $3,803,000 which is $1,551,000 less than SDG&E's request of $5,345,000.

Table 10-23a
2005-2009 Recorded / 2012 Forecast
For Vegetation Management (Pole Brush)
(In Thousands of 2009 Dollars)

Description	2005	2006	2007	2008	2009	2012
Labor	233	236	227	247	174	204
NL	3197	3199	3086	2827	3629	5150
NSE	0	0	0	0	0	0
Total	3430	3435	3313	3074	3803	5354

Table 10-23b
O&M Expenses for TY 2012
For Pole Brush
(In Thousands of 2009 Dollars)

Description (a)	DRA Recommended (b)	SDG&E Proposed[262] (c)	Amount SDG&E>DRA (d=c-b)	Percentage SDG&E>DRA (e=d/b)
ED021.000	$3,803	$5,354	$1,551	41%

DRA takes issue with SDG&Es request for a two-way balancing account for its pole brushing related expenses. SDG&E asserts that its poles are requiring multiple visits annually in order to maintain compliance, and the reasons for doing so include leaf litter blown back into the managed clearance zone during windy conditions, or weeds and grasses that cannot be easily controlled by mechanical clearing or herbicide treatments. SDG&E also claims that a two-way balancing account is necessary to protect the public and support fire prevention, and to maintain compliance. A two-way balancing account is unnecessary. Historical data proves that SDG&E operates adequately without the use of a balancing account at all. DRA recommends Pole Brushing continue without the use of a balancing account.

DRA requested that SDG&E provide the audit report described in its 2010 and 2011 pole brushing costs; SDG&E refused to provide audit information on the basis that the document requested is subject to the attorney-client and attorney work product privilege, and is confidential.[263] DRA is surprised to learn that SDG&E's auditors have an attorney-client relationship with the company, and that SDG&E's auditors are producing work product that is supposedly protected by the attorney-client privilege, which is usually reserved for attorneys and their clients.

SDG&E's requested increase is without justification and support, especially since SDG&E refuses to provide details of its internal audit. Therefore, DRA recommends that

[262] Exh. 62, p. 142.

[263] SDG&E response to DRA data request DRA-SDG&E-005-LJL, Q.18a.

the Commission deny all incremental additions to Non-Labor in this area. The corresponding DRA Non-Labor estimate for 2012 is $3,629,000, which is equal to SDG&E's base year 2009 recorded expense level.

SDG&E also did not provide support or breakdowns of its requested additions to Labor. Therefore, DRA also uses base year 2009 for its Labor forecast, i.e., DRA recommends $0 for additions to labor.

6.1.25. Management, Policy, & Oversight ED001.000

In account number ED001.001, Asset Management (Management, Policy, and oversight), SDG&E is requesting $344,000 in TY 2012. The Management, Policy, and Oversight workgroup oversees all aspects of the leadership and supervision of the Asset Management organization, including the Policy Management and Oversight group, the Associate Engineer Program, and Technology Innovation & Development. DRA does not take issue with SDG&E's request.

Table 10-24a
2005-2009 Recorded / 2012 Forecast
For Management, Policy, & Oversight
(In Thousands of 2009 Dollars)

Description	2005	2006	2007	2008	2009	2012
Labor	652	569	481	346	422	300
NL	545	381	297	129	63	44
NSE	0	0	0	0	0	0
Total	1197	950	778	475	485	344

Table 10-24b
O&M Expenses for TY 2012
For Management, Policy, & Oversight
(In Thousands of 2009 Dollars)

Description (a)	DRA Recommended (b)	SDG&E Proposed[264] (c)	Amount SDG&E>DRA (d=c-b)	Percentage SDG&E>DRA (e=d/b)
ED001.000	$344	$344	$0	0%

[264] Exh. 62, p. 152.

6.1.26. Reliability and Capacity Management ED001.001

SDG&E requests $1,167,000 in its TY 2012 for Asset Management – reliability and capacity. The reliability and capacity workgroups provide technical support services related to the operations and maintenance of the electric distribution system. These services are carried out by two main workgroups: Technical Analysis and Distribution Planning. SDG&E utilizes a 3-year average for its base forecasting methodology and then adds incremental costs in addition to its base forecast. DRA takes issue with SDG&E's additional costs as discussed below. DRA recommends $824,000, which is $343,000 less than SDG&E's request of $1,167,000.

Table 10-25a
2005-2009 Recorded / 2012 Forecast
For Reliability and Capacity Management
(In Thousands of 2009 Dollars)

Description	2005	2006	2007	2008	2009	2012
Labor	23	41	409	340	358	562
NL	11	20	114	31	131	326
NSE	0	0	0	0	0	279
Total	34	61	523	371	489	1167

Table 10-25b
O&M Expenses for TY 2012
For Reliability and Capacity Analysis
(In Thousands of 2009 Dollars)

Description (a)	DRA Recommended (b)	SDG&E Proposed[265] (c)	Amount SDG&E>DRA (d=c-b)	Percentage SDG&E>DRA (e=d/b)
ED001.001	$824	$1,167	$343	42%

[265] Exh. 62, p. 160.

SDG&E states "The technical Analysis Group is also responsible for analyzing the data coming from the sensors and monitors of the Condition Based Maintenance (CBM) Op-Ex 20/20 program."[266]

In 2012, SDG&E is proposing a new Engineering Analyst in the Technical Analysis workgroup and $154,000 is supposed to be charged to Labor. SDG&E states the job description for this new employee is to provide technical direction and support for advanced engineering analysis and database development projects with an emphasis on Condition Based Maintenance.[267] Due to lack of support regarding the CBM Program in Exhibit SDG&E-5, DRA recommends the Commission disallow this position and $0 for the new Engineering Analyst.

Also in 2012, SDG&E requests $150,000 in Non-Labor costs for a software application consultant. SDG&E states "the $150K is an aggregate estimate based on preliminary costing information supplied by the software consultant[268] Without this breakdown, DRA has no way to know whether or not these costs are reasonable. SDG&E has failed to carry its burden of proof for justifying this cost.

SDG&E requests $39,000 in 2012 for 3 planners to support major increases in engineering projects. Because these new positions are fire hazard prevention related, they should continue to be recorded in the FHPMA.

6.1.27. Compliance and Asset Management ED001.002

SDG&E's Compliance and Asset Management Group requests $3,390,000 in TY 2012. SDG&E utilizes a zero based methodology for its forecast and then adds incremental costs in addition to its base forecast. DRA takes issue with SDG&E's additional costs. DRA recommends $370,000 for Compliance and Asset Management which is $3,020,000 less than SDG&E's request for $3,390,000.

---

[266] Exh. 61, p. 59.

[267] Exh. 62, p. 161.

[268] SDG&E response to DRA data request DRA-SDG&E-005-LJL, Q.24a.

Table 10-26a
2005-2009 Recorded / 2012 Forecast
For Compliance and Asset Management
(In Thousands of 2009 Dollars)

Description	2005	2006	2007	2008	2009	2012
Labor	80	90	161	141	170	636
NL	828	1481	1301	968	1473	1000
NSE	0	0	0	0	0	1754
Total	908	1571	1462	1109	1643	3390

Table 10-26b
O&M Expenses for TY 2012
For Asset Management
(In Thousands of 2009 Dollars)

Description (a)	DRA Recommended (b)	SDG&E Proposed[269] (c)	Amount SDG&E>DRA (d=c-b)	Percentage SDG&E>DRA (e=d/b)
ED001.002	$370	$3,390	$3,020	816%

In 2012, SDG&E requests $420,000 for Electric Fire Safety support which includes additional employees required for electric fire safety current/proposed rule changes. This item is fire hazard prevention related and should continue to be recorded in FHPMA. DRA recommends $0 for annual wood pole inspections in Compliance and Asset Management in Labor for TY 2012.

In 2012, SDG&E requests $1,600,000 in NSE for an annual wood pole inspection for compliance with GO 165 inspections. This item is also fire hazard prevention related and should continue to be recorded in FHPMA. DRA recommends $0 for annual wood pole inspections in Compliance and Asset Management in NSE for TY 2012.

In 2012, SDG&E requests $1,000,000 in Non Labor for an annual cost for a 5 year pole loading study and audit of existing foreign utility attachments in compliance with proposed Rule 44 – Pole Overloading. SDG&E acknowledges that Rule 44 "addresses

[269] Exh. 62, p. 168.

public safety issues related to pole overloading and resulting increased fire hazards."[270] Therefore, this item should continue to be recorded in FHPMA. DRA recommends $0 for annual pole loading in Compliance and Asset Management in Non Labor.

6.1.28. Information Management Support & Support for Electric Distribution ED001.003

SDG&E requests $1,174,000 for TY 2012 for Information Management. The Information Management group is responsible for acting as a liaison group between the business units and Information Technology in support of software solutions and field hardware. The department is divided into three groups: Implementation Support and Hardware, Production Support and Governance and Service Improvement.[271] SDG&E uses a 3-year average for its base forecasting methodology and then adds incremental costs in addition to its base forecast. DRA takes issue with the SDG&E's additional costs as discussed below. DRA recommends $674,000 which is $500,000 less than SDG&E's request of $1,174,000.

Table 10-27a
2005-2009 Recorded / 2012 Forecast
For Information Management & Support
(In Thousands of 2009 Dollars)

Description	2005	2006	2007	2008	2009	2012
Labor	328	327	316	290	368	724
NL	100	186	272	129	126	450
NSE	0	0	0	0	0	
Total	428	513	588	419	494	1174

[270] SDG&E response to DRA data request DRA-SDG&E-005-LJL, Q.28.

[271] Exh. 61, p. 66.

Table 10-27b
O&M Expenses for TY 2012
For Information Management Support
(In Thousands of 2009 Dollars)

Description (a)	DRA Recommended (b)	SDG&E Proposed[272] (c)	Amount SDG&E>DRA (d=c-b)	Percentage SDG&E>DRA (e=d/b)
ED001.003	$674	$1,174	$500	74%

DRA takes issue with the addition of 2 Technical Support Assistants (TSAs) with salaries estimated at $40,000 annually along with $10,000 annually in Non-Labor costs. SDG&E provides little support for the salaries of these additional employees. DRA recommends the Commission deny the 2 new TSAs positions which would be $0 and 0 FTE's due to lack of support.

Also, DRA takes issue with the remaining $450,000 after $50,000 was subtracted out for the new TSAs for line item "2010 & 2011 Labor Pressures."[273] No write up or support was given for Labor Pressures. DRA recommends $0 for "2010 & 2011 Labor Pressures" due to lack of support.

6.1.29. Distribution Engineering ED018.000

SDG&E requests $969,000 in TY 2012 for Distribution Engineering. DRA takes no issue with SDG&E's request.

6.1.30. Officer ED009.000

SDG&E requests $417,000 for TY 2012 for the Officer Workgroup, which includes the non-labor costs for an officer (one Vice President) and administrative staff, and staff of business analysts serving electric distribution. DRA takes no issue with SDG&E's request.

[272] Exh. 62, p. 176.

[273] Exh. 62, p. 179.

6.1.31. Administration and Management ED000.000

SDG&E requests $150,000 for its TY 2012 in the Administration and Management group, which is responsible for supporting the Electric Distributions' financial system. DRA takes no issue with SDG&E's request.

6.2. Capital

The distribution system has clearly grown and evolved over the last two rate cases. The key to the forecast for 2010-2012, though, is whether or not the system should grow and evolve at the pace that SDG&E is proposing. DRA recommends a more modest capital addition approach, one that is essentially based upon three-year averages.[274] SDG&E's diverse methodologies for over 100 project numbers[275] are both confusing and weakly substantiated.[276] Over and over again review of SDG&E's forecast methodology

---

[274] SDG&E's methodology for projecting future direct costs is based upon a variety of methodologies, including: historical unit costs, historical unit costs with bump ups (ie for electric vehicles), project specific estimates, proactive and reactive assumptions, five year averages, five year averages with bump ups, three year averages, construction unit forecast data, RFP bid processes, contractual agreements with cost sharing provisions, some percentage of transmission costs, etc.

[275] To further complicate matters, SDG&E is relieved from FERC accounting requirements, so the ability to make comparisons with other electric utilities or to create unit costs is prohibited.

[276] Some examples are: 1) for project 99282, SDG&E professes to base its estimates upon replacing 20% of approximately 262 SLP transformers at $15,500 each. 20% of 262 is 52.4. 52.4 times $15,500 each amounts to $812,200. There is no obvious correlation of $812,200 to the workpapers for budget 99282. 2) for the 13 transmission related projects (9125, 9131, 9132, 9133, 9134, 9135, 9137, 9139, 9148, 9149, 9151, 9160, 9168,) if there is a percentage given, it is not explained how it relates to the larger cost of the project (ie. why 4% or 24% of project costs relate to the distribution system) Nor does SDG&E relate the forecast to the FERC TO case or total costs. How are we to verify that a) SDG&E got the total cost right or the percentage allocation to the distribution system right. 3) for project 215, SDG&E professes to derive projections based upon 5 years of recorded data. From this data they define an average cost per unit. But the underlying data is marked as fully loaded (see DR LLK-16, Q.2). To correct for that, SDG&E rounds up for some reason and then takes some percentage (approximately 64%) to unload the dollars to represent the direct amount. 4) Budget 214 for transformers does not use a unitized cost of transformers. SDG&E would not present a unit cost for transformers (see DR LLK-15, Q.8) 5) many projects have costs added to them due to estimated electric vehicle penetration increases. First off, SDG&E doesn't show the development of the dollar amount nor does SDG&E how it was derived. Therefore, DRA's ability to modify for more moderate EV penetration levels is impossible. 6) in many instances, the SDG&E workpapers do not show prior years expenditures (even blanket accounts) when the supplemental workpaper suggests that there were expenditures prior to 2009 7) while OpEx implications are referenced (i.e. increased inspection levels for a period of time) see code 229, the development of the number of increased inspections (from 2009 levels) for 2010 and 2011 are not explained or put into any context. What was estimated when the OpEx systems were envisioned? Is the roll out running better than forecasted or worse? Furthermore, additional data in DR LLK-16 Q.2 do not relate to the recorded numbers in CWP-supplemental A-3. 8) given the multitude of requests for new

raised more questions than it answered. So rather than re-create 236[277] new forecasts for 2011 and 2012 upon which to derive an estimate for individual project direct expenditures and capital pooling amounts, DRA dealt with 3 year averages for the clusters of projects as defined by SDG&E (i.e. capacity, franchise, mandate, new business, reliability and fire hardening).

In summary, SDG&E is asking for $190 million in 2010, $246 million in 2011 and $252 million in 2012, a combined total of nearly $689 million in direct costs to install or upgrade its electric distribution system.[278] The electric distribution capital workpapers present 114 budget codes/projects that support the direct request.[279] To fully reflect the request per year, one needs to add the indirect costs. Totaling the direct and indirect costs for electric distribution capital, SDG&E is asking for: $260 million for 2010, $332 million for 2011 and $343 million for 2012.[280] The total distribution capital request (which includes direct costs and overheads) in 2009 dollars is nearly a billion dollars.[281]

---

circuits, substations and reconductors and the reference to the "use of historical unit costs for similar projects" as the forecasting methodology, why aren't those unit costs presented in the workpapers or given in data requests DR LLK-52, Q.4. 9) In code 8263 SDG&E states that the forecast is based on a contractual obligation that involves a cost sharing mechanism with DOE and CEC. Then it goes on to state that SDG&E may increase its contributions to the project, but the increases shall be done on other projects. What does that mean? What did SDG&E assume for forecast purposes? How do the forecasts relate to the contract?

[277] 118 budget codes times 2. Specifically, for 2010, DRA uses recorded 2010 levels (even if they are higher than the SDG&E forecast); DRA then develops the test year 2012 amounts using a 3 year average of recorded year amounts for 2008, 2009 and 2010. Finally, to determine the 2011 levels, DRA used the mid-point between the 2010 recorded and the test year 2012 amounts.

[278] These amounts do NOT reflect the indirect costs of the projects. SDG&E reports that prior to 2008, these costs (pooled costs) were shown as part of the total project cost. See Marcher testimony p. ABM-257 lns. 8-9. This statement doesn't corroborate with SDG&E testimony Exh. SDG&E-4 in A.06-12-009. SDG&E presented direct expenditures for electric distribution capital in constant 2005 dollars (except for project 213). Subject to check, Edward Reyes presented testimony on overheads (indirect costs). See http://docs.cpuc.ca.gov/EFILE/A/62790.PDF

[279] SDG&E confuses the reader by including some information about project codes 901,904, 905, and 906 in the workpapers, but does not highlight the additional $247,001,000 in indirect costs in any summary table in the distribution chapter. This leaves the reader with an incomplete understanding of the request. Even after the indirect loadings are added to the capital costs, escalation to nominal dollars will add even more dollars to the request.

[280] Totals were calculated using Exh. 69, SDG&E-6, Table ABM-T-17 on p. ABM-257.

[281] Fully loaded costs include both direct and indirect expenditures and are fully escalated.

By any measure, these are large requests and they ought to be tempered because 1) economic times are such that ratepayers should not have to shoulder an unfair burden to produce jobs or carry these increases, 2) customers are scaling back their own capital spending and utilities should also endeavor to do so, and 3) the forecasts are too aggressive.[282] These concerns, coupled with the inadequate workpapers,[283] lackluster data request responses,[284] and shortage of support[285] gives DRA little comfort that the amounts requested are reasonable.

SDG&E, in this filing, as in other filings, presents a breakdown of the capital request into subgroups so that one can look at clusters of projects by either spending priority[286] or by drivers.[287] While helpful, in theory, if the groupings change for each GRC cycle (as they have done), it is confusing when one attempts to look at a longer time horizon. Data request response 26 –LLK Question 1 highlights this deficiency. When DRA asked the utility to show the recorded 2009 amounts, (the base year for the filing)[288] for one of its tables, ABM-T14, SDG&E could not provide the recorded 2009 amounts for these SDG&E defined groupings. Consequently, DRA sought to create a similar table using table ABM-T15 to ascertain the recorded information. The numerical system (i.e.

---

[282] The TY 2012 distribution capital request is 49% greater than base year 2009 recorded amounts; and 2012 capital project proposals are almost a 60% increase over recorded 2010 amounts.

[283] Neither workpapers nor supplemental workpapers were given to DRA in an Excel format; DRA had to recreate recorded information in a usable format for over a hundred projects for 6 years of recorded data. Recorded 2009 numbers and prior years' numbers between the workpapers and the supplemental workpapers did not often match up (i.e., account 230, 2252, 5244, 6251, 7144, 8251 to name a few).

[284] MDR Q.12 for distribution, DR 51 Q.1, DR 13 Qs. 8 and 9, DR 15 Q.8, DR 14 Q.11, DR 16 Q.2, DR 42 Q.3, to name a few.

[285] For example, looking at project code 230, the testimony on p. ABM-127 discusses miles of unjacketed cable; in the related workpapers on p. ABM-CWP-38, the number of miles of unjacketed cable do not corroborate. The workpaper amounts in Exh. 71 (SDG&E-06-CWP) for recorded 2009 and prior years do not map to the supplemental workpaper CWP-supplemental A-14. There is no analysis showing the breakdown of laterals and feeders and what has happened since the last GRC. No explanation was offered as to why the dollars approved in the last GRC cycle were not spent for this area. No assurance was offered that this GRC will not be a catch up from the last GRC.

[286] New business, reliability, mandates, capacity, franchise or fire hardening.

[287] Customer growth, safety and regulatory compliance, capacity and reliability, aging infrastructure, new technology, and fire preparedness.

[288] Table ABM-T14 on p. ABM-252.

numbers jump all around for a given category),[289] the individualized system of accounting[290] (versus FERC accounting for other electric utilities), and the "changes" to the way SDG&E presented the capital projects (loaded versus unloaded; changes in the subgroupings) caused confusion, severely limited the historical review and impinged on the ability to put the request into the larger context. Moreover, DRA's attempts to approach the projects using unit costs as a basis for gauging progress, determining installation rates or evaluating costs were also thwarted. Nevertheless, the recorded information, along with the workpapers, field visits, phone calls and data request responses are the basis upon which DRA makes its recommendations for distribution capital budgets. The absence of cost/benefits studies, engineering reports, reliability model reports, linkages to SDG&E's internal decision making processes, discussion about the selection or cancellation of projects, vendor specifications for items, engineering drawings, proposed alternatives, and unit cost data[291] made for a less than ideal presentation from the utility.

To highlight some of DRA's challenges in reviewing this filing, DRA received the following responses in data requests: 1) the revenue requirement from the last GRC was the result of a settlement, therefore specific capital projects were not individually authorized;[292] 2) transformer replacement banks are a combination of specific budget projects and blanket budget purposes, therefore it is not possible to complete this (historical) comparison;[293] 3) the unique nature of each job, combined with varied field conditions, make it difficult to unitize the work into units that can be compared on an

---

[289] New substations could be a number like 5244 or 7257; reliability projects are not in a cluster; nor are similarly defined projects in a cluster. So one cannot look at a series of numbers in a spreadsheet and total up numbers for a purpose or of a similar type without a horrific amount of machinations. New circuits could be a number in the 8000 series, the 9000 series or 10,000 series. Looking at the Table ABM-T16 one can see that the project numbering system does not pertain to any discernable grouping pattern. Even blanket accounts do not reside in one number series- they could be in the 200 series, the 900 series or randomly in any other number series.

[290] The last GRC decision, D.08-07-046, in Ordering Paragraph 22 allowed for this accounting.

[291] DR 15 Q.8, DR 14 Q.11, DR 16 Q.2, DR 42 Q.3.

[292] DR 14 Q.11.

[293] DR 15 Q.8.

apples to apples basis for each budget;[294] and 4) an analysis comparing the unit cost in the sustainable communities' (photovoltaic or fuel cell) costs with the costs of either energy efficiency or the cost of incremental supply has not been performed.[295]

Not being deterred, though, DRA reviewed SDG&E's past two GRC filings to gain a better understanding of groupings and dollar magnitudes.

Of the 114[296] project codes currently under review, 39 are blanket budgets.

Assuming 1.4 million customers, SDG&E is asking each customer to invest $668 for three years of capital for the distribution system alone. This does not include what SDG&E is requesting before FERC for transmission infrastructure investments, nor does it include the amounts it wishes to receive for investing in generation or the indirect loadings for the 114 projects. Moderation is a better approach for the Commission to utilize when deciding the capital budget levels for SDG&E in this GRC; as opposed to the unproven amounts presented by SDG&E. Furthermore, the use of recorded averages is an established methodology that gives more confidence than the unsupported estimates of SDG&E in this case.

6.2.1. Subcategories of Capital Projects

SDG&E presents 41 projects for consideration under the category of Capacity. This category relates to investments in shunt capacitors, new substations, new circuits, banks, capacitor upgrades, and reconductoring. There are 5 blanket accounts within the capacity category that relate to capacity improvements, but only 4 of them have test year dollar requests in them.[297]

---

[294] DR 16 Q.2.

[295] DR 42 Q.3.

[296] Project numbers 901, 904, 905 and 906 pertain to capital pool indirect loadings.

[297] It's not clear what account 221 was used for. There are recorded 221 numbers for 2005-2007; budget code 221 did not show up in the capital testimony in either A.06-12-009 or A.02-12-028; the last two general rate cases.

6.2.1.1. Capacity Projects

Projects that have been deemed related to capacity have historically been a bigger portion of the distribution capital budget (18-20% - see Table 11-3). In the last GRC, SDG&E labeled 38 projects as capacity projects; in the 2004 test year case, SDG&E labeled 71 projects as capacity. In this GRC, there are 41 projects under the capacity cost category. Therefore, in terms of number of projects, SDG&E is presenting a modest number of capacity projects. In terms of forecasted expenditures, SDG&E underestimates 2010 levels, turbo boosts the 2011 additions, and then tempers the test year figure.

DRA presents a more logical forecast. DRA uses recorded 2010 levels (even if they are higher than the SDG&E forecast); and then it uses a 3 year average for the test year. To determine 2011 levels, DRA used the mid-point between the 2010 recorded and the test year. In DRA workpapers, there are individual budget codes that get very different treatment than SDG&E is proposing (i.e. more money, less money, money in different years.) In lieu of performing inadequate analysis on the 71 individual projects with inferior information, DRA chose to review the cost category as a whole and propose dollar amounts for the entire category. Proxy assumptions will have to be made to reflect this proposal in the Results of Operation model, since it is impractical to make more than 10,000 entry changes. DRA's recommendations of $6.142 million more in 2010, and $22.843 million less in 2011, and $3.6 million less in 2012 should be adopted.

6.2.1.2. Franchise Projects

SDG&E presents 2 projects for consideration under the category of Franchise. This category relates to investments in electric street and highway relocation and the conversion of overhead to underground services. Franchise efforts have generally been budget codes 205 and 210 for the last three GRC's. The exception is A.02-12-028, when budget code 2260 was included in the category.

As was done in the capacity section, DRA used recorded numbers for 2010, used three year averages for test year 2012 determination and used the mid-point between those two points to arrive at the 2011 levels. As a consequence, DRA recommends

$12.311 million less in 2010; $8.366 million less in 2011; and $3.45 million less in 2012. DRA's recommendations should be adopted.

6.2.1.3. Mandate Projects

SDG&E presents 7 projects for consideration under the category of Mandates. This category relates to investments in "non-pole corrective maintenance," pole replacement, DOE switch replacement, Load Research (LR) and Dynamic Load Profile (DLP) metering, replacement of live front equipment with dead front equipment, capacitor additions, and avian protection.[298] Newly presented budget codes for this category in this GRC are: 1295, 9168 and 10265. They relate to 1) the analytic work of the residential photovoltaic segment the Electric Load Analysis Department, 2) capacitor additions that make sense for certain "loss of transmission line" reliability requirements, and 3) devices and reconfigurations designed to prevent avian deaths.[299]

As was done in the capacity section, DRA used recorded numbers for 2010, used three-year averages for test year 2012 determination and used the mid-point between those two points to arrive at the 2011 levels. As a consequence, DRA recommends: $2.7 million less in 2010; $9.559 million less in 2011; and $10.658 million less in 2012. DRA's recommendations should be adopted.

6.2.1.4. New Business Projects

SDG&E presents 15 projects for consideration under the category of New Business. This category relates to investments in electric meters and regulators, distribution easements, conversion from OH to UG (20B and 20C),[300] transformers and related infrastructure, OH and UG related to new residential and non-residential service,

---

[298] Prior to 2010, avian protection (10265) was characterized as O&M.

[299] This involves the installation of protective cover-up devices and/or the reconfiguration of SDG&E poles to prevent wildlife from coming into contact with more than one unprotected overhead wire simultaneously. This effort seeks to make SDG&E compliant with federal laws that protect raptors and all migratory birds. Approximately 44,000 poles reside in avian protection areas. SDG&E suggests that 1200 poles per year get retrofitted at a cost of $1200 per pole.

[300] 211 projects here relate to rules 20 B and 20C; while the franchise projects referred to as 210 relate to 20 A projects and 213 relate to the projects of the city of San Diego.

customer requested upgrades, sustainable communities, Camp Pendleton upgrades, and Poseidon desalination plant related upgrades to the distribution system. New budget codes for this GRC are 8265 and 9276; all other budget codes refer to blanket accounts.

As was done in the capacity section, DRA used recorded numbers for 2010, used three year averages for test year 2012 determination and used the mid-point between those two points to arrive at the 2011 levels.

The exception to this methodology is the area of sustainable communities (2264). For this area, DRA suggests that the company only recover 50% of the request with ratepayer funding. This project no longer needs 100% ratepayer funding. SDG&E can design a modified offering where either the shareholders or the individual customers share in the cost for this effort. This should help alleviate some of the "backlog" concerns.[301] The sustainable communities' concept has been in effect for three rate case cycles. Without assurances as to the ratepayer benefits of the monies spent at this juncture, the funding mechanism needs to be revisited. More analysis should be provided in terms of lessons learned with the program. More information should be shared related to the targeted goals SDG&E set for itself and SDG&E's evaluation of the actual performance of those sites relative to the expected performance. This is a good time in the program where the utility needs to present recorded evidence of the benefits of the investments. SDG&E did not make that showing. Although SDG&E's workpapers[302] showed no recorded amounts prior to 2009, the supplemental workpapers showed at least 5 years of recorded information. DRA is not clear on why funding was so low in 2005 when the program was approved in December 2, 2004 and the first project was completed in 2004. SDG&E did not analyze or discuss what ratepayers had gained from the $432,400 investment of the first project,[303] nor the $20+ million spent on the program from years 2005-2010.[304] While project evaluation criteria was alluded to in the

[301] DR 42, Q.5.

[302] Exh. 71 (SDG&E-06 CWP) p. ABM-CWP-57 for budget code 2264.

[303] See SDG&E Errata Testimony April, 2007, Witness Caroline Winn, page CAW-237, A.06-12-009.

[304] See CWP supplemental A-3 for budget code 2264; April 11, 2011 spreadsheet titled

workpapers,[305] nothing more was said about evaluations or performance expectations in terms of goals set, weighting, prioritization or how projects being considered were chosen relative to the criteria. Nothing was said about how past projects inform the decision making process in this rate case. This is unsatisfactory for a program that SDG&E wishes to expand. Therefore DRA recommends a reduced budget. With this reduced budget, SDG&E can either fund fewer projects or shareholders/the individual customers who receive the facilities can make up the difference. If there is a benefit, those specific customers should be willing to pay a portion of the cost. As such, DRA recommends 50% funding for budget code 2264.

6.2.1.5. Reliability Projects

SDG&E presents 34 projects for consideration under the category of Reliability. This category relates to investments in 12 blanket accounts that cover areas such as: capital tools and equipment, distribution substation, overhead and underground distribution service, emergency equipment, removal of 4kv substations, power quality, distribution SCADA, replacing obsolete substation equipment, and improvements specifically targeted to fire risks in the backcountry. Of the 22 remaining specific project codes, they relate to reconductoring, Orange county reliability upgrades, fiber optic for relay protection and telecommunications, substation rebuilds or replacements, microgrid, and others.

Comparing this set of reliability projects with the last GRC, one notices that there are 19 new budget codes for this GRC and 3 non-blanket codes that were references in the last GRC[306] that show up again in this GRC. They are: Escondido Felicita tap (5153), Lilac, (5247) and Otay substation rebuild (6251). Large dollars were represented in Lilac and Otay in the last GRC.[307] The Felicity tap request came under another

---

2010RecordedCapitalExpenditures-SDGE.xlsx delivered by email and http://www.sdge.com/environment/sustainablecommunities/completedProjects.shtml

[305] See ABM – CWP-58.

[306] Exh. 485, p. 14.

[307] *Id*. at p. 15.

category in the last GRC (transmission). There were only 11 projects characterized as reliability projects in the last GRC and they totaled a test year request of $44,771,000.[308] DRA's unloaded projections for 2010-2012 are based upon recent historical levels and fall within the loaded levels presented in the last GRC.

As was done in the capacity section, DRA used recorded numbers for 2010, used three year averages for test year 2012 determination and used the mid-point between those two points to arrive at the 2011 levels.

6.2.1.6. Fire Hardening Projects

SDG&E presents 14 projects for consideration under the category of Fire Hardening. This category relates to investments in replacing wood with steel poles, Descanso Barrett, undergrounding in fire threat zones, and meter farm expansion. There are numerous new budget codes related to poles in this delineation. (There are also large increases in account 87232 in the mandated section that relate to pole replacement and reinforcement).

Totaling up the pole replacements for the non-blanket project codes, SDG&E is seeking to replace 1417 poles. SDG&E addresses poles in numerous codes. For instance, in addition to the poles it proposes to replace under blanket budget code 10263 because they are in "areas of high fire risk," there are large increases in poles replaced for "corrective maintenance" in the mandated project code of 87232.

It is clear that SDG&E is proposing an aggressive replacement schedule for poles. Given the fires that occurred in years past, this is not an unreasonable reaction. But all totaled, SDG&E is seeking $54.99 million in direct funding for pole replacement for 2010-2012. This is a threefold increase from the request in A.06-12-009. DRA is suggesting a more moderate increase in funding levels related to poles.

As was done in the capacity section, DRA used recorded numbers for 2010, used three-year averages for test year 2012 determination and used the mid-point between those two points to arrive at the 2011 levels.

---

[308] In 2005 dollars.

DRA's recommendations for direct capital costs for distribution are $35.668 million less than SDG&E for 2010 (recorded based), $93.587 million less than SDG&E for 2011, and $94.048 million less for the test year 2012. Therefore the direct capital recommendations for distribution are: $154,654,000 for 2010 (= the recorded amounts except for an adjustment for sustainable communities), $152,488,000 for 2011 and $158,382,000 for 2012.

DRA's recommendation is reasonable. Many of the proactive efforts that SDG&E would like to pursue ought to be deferred until the economy rebounds.

6.2.2. Capital Overhead Pools

SDG&E states that prior to 2008, these loadings were shown as part of a given project cost. In this GRC, SDG&E is presenting the direct costs and the loading separately. They are further broken down by four distinct "pools." These are: 901 (local engineering - ED), 904 (local engineering –substation), 905 (department overhead) and 906 (contract administration). SDG&E suggests that indirect capital costs are applied consistently and uniformly within a given category, regardless of whether or not a job is "collectible" or "non-collectible."[309]

The three year total for these loadings is $247,001,000. This is a substantial sum. A sum that certainly deserves more than the 21 lines of text afforded it in Exhibit SDG&E-6. This is particularly true when SDG&E is presenting information in a newly disaggregated format. Marcher's workpapers (CWP 45-52) give slightly more information about the accounts. Each account is described with a slightly longer description, a listing of typical activities that the labor pool might perform, a statement of the projected percentage increases, and the dollar amount of capital spending that receives that particular loading.[310] The exception is budget code 906. The forecast

[309] The terms "collectible job" and "non-collectible job" are neither described nor cross referenced in Marcher testimony. A word search in Gary Yee's testimony did not reveal the definition either. Mr. Yee was alluded to in Marcher's workpapers for budget codes 901, 904, and 905.

[310] Workpapers do not show which specific budget codes receive that particular loading. One can only surmise them by looking at the dollar amounts applicable and compare them to SDG&E's total ED request for that particular year.

amount for this account was said to be based upon increases to actual 2009 expenditures, but the workpapers do not adequately explain the base ($5,862,000) or the increments chosen for 2010, 2011 or 2012. It suggests that a portion of the increase is due to increased liability insurance coverage for "certain electrical contractors,"[311] but it leaves the reader to wonder what the base year amounts are ($5,862,000 or $9,622,000) upon which the random $5,270,000 is added. If some 2009 base number plus another number equals 2012, how is 2011 derived? How does the $5,270,000 number relate to the increased premiums? How do the number of projects relate to the estimates? DRA was left with many questions as to the development of the loadings. While it was helpful to peel them away from direct costs, without the ability to compare them rationally and reasonably with the past, its helpfulness to the analytic process was quite limited. As a result, DRA was left to make its own adjustments based upon its revised distribution capital numbers. DRA used a ratio approach to derive its numbers.

As a result of DRA's distribution capital forecast, DRA also makes commensurate adjustments to the loadings. They result in the following reductions: $15.348 million less in 2010; $53.085 million less in 2011; and $56.383 million less in 2012.

6.3. Reliability Issues

DRA has no comment on this issue at this time.

6.4. Smart Grid

SDG&E maintains that the electric delivery system needs to evolve to adapt to the increasing levels of renewable generation, to assimilate storage technology, to absorb a potentially growing mobile demand (i.e., plug-in electric vehicles), to provide better information to the customer, to ensure security of assets and of customer information, and to serve customers with reliable electricity.

While the need for improvement and upgrades is there, what is in question, however, is how we go about the business of creating the optimal result. SDG&E would have the Commission approve a sudden and large budget in order to move aggressively

[311] CWP – 52 under the heading "Contractor Insurance."

ahead; it suggests going from zero ratepayer dollars for smart grid upgrades in 2009 and 2010 to $36.5 million in 2011 and $57.2 million in 2012. It would be far better to take a breath and look at the lessons to be learned from the 141[312] American Recovery and Reinvestment Act (ARRA) projects currently underway and to get better organized as a company before engaging in such large ratepayer expenditures. SDG&E was awarded $28,115,052 of the $4+ billion of smart grid funds[313] and California received $203,010,487 in Smart Grid Investment Grant (SGIG) monies[314] and $186 million in federal stimulus funding for smart grid regional and energy storage demonstration projects.[315] In other words, California has greatly benefitted from the infusion of significant federal investment. Therefore, before the Commission entertains expanding the smart grid pilots of SDG&E with ratepayer funds, it ought to heed the advice proffered by the paper entitled, "Accelerating Successful Smart Grid Pilots":[316]

> It is important to ensure that the public money being invested in smart grid pilots is spent appropriately and effectively to realize the true value of the investment being made.

With SDG&E's proposals for smart grid, it is as if SDG&E is asking for the next generation of system upgrades to adapt to the incremental sources of supply (which are more variable in production compared to base-loaded facilities) and demand. In other words, SDG&E wants a "smarter" grid because it is not starting from ground zero. Investments have been made in the past to evolve the system. Therefore, SDG&E is asking to go to the next level.

---

[312] http://www.oe.energy.gov/american_recovery_reinvestment_act.htm; 99 smart grid investment grants plus 42 smart grid regional and energy storage demonstration projects.

[313] http://www.smartgrid.gov/project/san_diego_gas_and_electric_company

[314] http://www.oe.energy.gov/DocumentsandMedia/FINAL_Combined_SGIG_Selections--By_State_Updated_2011_06_10.pdf p. 2 of 13.

[315] http://www.cpuc.ca.gov/NR/rdonlyres/A3D6019B-3620-44B5-95D5-5ADFDAD714C7/0/2010_Smart_Grid_Annual_Reportzafmjd_v5.pdf

[316] http://www3.weforum.org/docs/WEF_EN_SmartGrids_Pilots_Report_2010.pdf, page 18.

In today's economic environment, most consumers are asking themselves what spending can be deferred and utilities should do the same. The consumer has been overwhelmed with many economic phenomena since the last GRC (state and federal budget difficulties, unclear messages regarding the state of the housing foreclosure markets, more restrictive bank lending practices, stubbornly high unemployment, etc.).

As ratepayer advocates, DRA cannot ignore the larger economic context. Without belaboring all the local, state and federal economic data;[317] and without listing the increasing capital burdens being placed on electric consumers during the past five years; rates are higher than necessary. This means that more than ever, the Commission must use restraint and mindfulness when setting revenue requirements.

DRA, aware of both the progress needed and the burdens of the ratepayers, 1) recommends a more modest budget for smart grid investments, 2) suggests necessary ratemaking mechanisms to protect the customers, and 3) urges the Commission to manage the smart grid process over a longer time period. DRA recommends a more measured deployment of smart grid technology. This approach should not negatively affect the leadership role of California in the national dialogue regarding smart grid policies.

Finally, it might be useful for the Commission to examine the cumulative effect of technological changes that are being thrust upon the ratepayers of California. Given the shortened cycles of technological adoption rates,[318] consumers are being asked to embrace more technologies at faster paces than ever before. The backlash and the non-adopters (i.e., the "opt out" crowd) ought to be considered. Age and education are significant factors to consider when designing policies that will potentially affect every household. To quote a National Technology Scan survey, "one in five US households

---

[317] http://www.msnbc.msn.com/id/43687588/ns/business-us_business/t/housing-slump-far-worse-you-think/ ; http://gregor.us/california/spikes-and-dips-in-both-us-and-california-jobs-data/ ; http://www.laedc.org/reports/Forecast-2011-04.pdf pages 65-70; http://newsroom.ucla.edu/portal/ucla/ucla-anderson-forecast-economy-208096.aspx; http://www.msnbc.msn.com/id/43946055/ns/business-us_business/

[318] http://www.isgtw.org/visualization/isgtw-image-week-technology-adoption-rates-historical-perspective;

has never used email."[319] Another statistic shows that 18 percent of US households do not have Internet access;[320] the percentage was 29% in 2006. Standards will help to ensure there are no stranded investments, but standards are still forming. In fact, FERC just issued an order regarding its inability to open up a rulemaking proceeding designed to adopt interoperability standards because consensus could not be reached.[321] Authorized interoperability standards are now further into the future than anticipated. Another helpful fact gleaned from research suggests that, "Americans often adopt entertainment products and services more rapidly than communication devices."[322]

While the notoriety and leadership brings investment dollars and green jobs to our state and stimulates innovation, we need to stay in third gear and stop trying to jump into fifth gear. If there is anything to be learned from electric restructuring, it should be that when there is a compelling topic of interest and large dollars are involved, it is better to take a little more time in guiding utilities on what is best.[323] "[W]e understand that we have a great responsibility to do this right (emphasis added)."[324] Now is the time to translate that understanding into wisdom and make good decisions about how we move forward.

The current GRC is ripe with new examples of how SDG&E wishes to skip a few gears and shift from low gear into fifth gear. In this chapter, DRA will only address the smart grid dollars, but there are other areas such as sustainable communities, where SDG&E is also getting ahead of itself.

After the GRC was filed, Application A.11-06-006 was filed by SDG&E on June 6, 2011. Not surprisingly, the Smart Grid Deployment Plan (DP) was filed, a month

---

[319] http://www.parksassociates.com//blog/article/one-in-five-u-s--households-has-never-used-e-mail-

[320] http://www.pff.org/issues-pubs/books/factbook_10th_Ed.pdf page 4.

[321] http://www.ferc.gov/EventCalendar/Files/20110719143912-RM11-2-000.pdf

[322] Stet, p. 22.

[323] For example, the divestiture of hydro facilities was considered and rejected after a long process of evaluation and legislative intervention.

[324] President Peevey, Speech on Smart Grid on May 11, 2011.

early by SDG&E. DRA has not fully digested its 354 pages, but the bottom line describes the estimated cost of smart grid deployments to run $3.5 billion[325] for 2006-2020. This is the amount for SDG&E.[326] A breakdown of the $3.5 billion details shows that there is $1.42 billion in SDG&E's Test Year 2012 GRC alone. It also highlights that the Commission has already approved $1 billion towards investments in smart meters and OpEx 20/20. Other requests will take place in active proceedings before the CPUC and FERC.[327]

The Deployment Plan (DP) demonstrates that SDG&E already has invested in advanced infrastructure.[328] They are being reviewed thoroughly in this GRC and has been approved in the past.[329] It would have been useful if SDG&E had presented a better GRC based historical context of capital spending for budgets that now fall under the "smart grid" rubric, since it has been developing a smarter grid for a while. The Deployment plan helps that effort, but there isn't enough time to sort out the 354 pages in the time given to complete an analysis. It confirms that there are dollars and projects in many places. A helpful briefing by SDG&E on July 20 highlighted the changing assessments of project ideas (i.e., condition based management (CBM), security) even within the time period between the GRC filing and the filing of the deployment plan (7 months.) This amount of uncertainty and volatility of details, coupled with the slower progress of standards argues for restraint. The magnitudes of complexity being introduced into the system, the levels of system integration that are being touted, and the

---

[325] http://www.sdge.com/smartgrid/deployment/costs.shtml

[326] California Energy Markets, No. 1137, July 8, 2011, p. 9 states that PG&E is seeking $800 million to $1.25 billion in capital spending over the next 20 years and SCE is estimating $1.8 billion for years 2011-2014. SCE reluctantly provided estimates for costs and benefits for the 2015-2020 timeframe.

[327] A.05-03-015, A.06-12-009, A.08-07-023, A.10-07-009, A.11-03-002, A.11-05-020, A.11-06-031 and FERC docket ER08-1407; ER09-1601; ER10-2235.

[328] SCADA, self-healing systems, dynamic ratings on lines, etc.

[329] June 6, 2011 Smart Grid Deployment Plan pages 60 and 61 or sections 3.2.2 and 3.2.3. http://www.sdge.com/regulatory/documents/a-11-06-006/Deployment%20Baseline.pdf; see also D.04-12-015 and D.08-07-046.

multitude of security concerns are yet another reason for exercising caution. With that as the background, DRA discusses below the individual smart grid capital requests.

6.4.1. Storage

The largest share of the smart grid capital dollars are designated for what SDG&E deems "renewable growth, energy storage". SDG&E's request includes a $25.193 million capital expenditure in 2011 for which DRA recommends $4.5 million. SDG&E further requested $29.790 million in 2012. DRA recommends $6.2 million for 2012.

There is no doubt that storage is an important contributor to the electric system. It has an important functionality within the electric system, it helps with hedging efforts, it can help manage peak moments, and it is likely to complement renewable generation. It is so important, in fact, that the Commission has opened up an OIR[330] to:

> (1) review, analyze and establish, if appropriate, opportunities for the development and deployment of energy storage technologies throughout California's electricity system;
>
> (2) remove or lessen any barriers to such development and deployment;
>
> (3) review and weigh the associated costs and benefits of such development and deployment; and
>
> (4) establish how those costs and benefits should be distributed.[331]

The Storage Rulemaking is currently designed as a two phase proceeding with invaluable questions being asked. Before the Commission signs off on $54.983 million investment (2011 and 2012), some of these questions need to be vetted.

SDG&E is proposing to install two types of energy storage systems over the 2011 and 2012 timeframe. SDG&E is proposing to install 50kW batteries (Community Energy Storage (CES) devices) on 25 circuits, and install 8 MW of substation energy storage. The goal of the nearly $60 million investment is better management of the renewable energy fluctuations.

---

[330] R.10-12-007.

[331] R.10-12-007 Scoping Memo, May 31, 2011, p. 2.

There are 9 states that received funding for 16 projects related to energy storage with ARRA Grid Regional and Storage Demonstration Project funding.[332] There are 5 projects alone in California,[333] and 4 of these relate to testing various battery technologies. There is a project in Detroit Michigan that is testing CES benefits with regard to electric vehicles. The description suggests that it will also have solar systems integration as well. Many of the projects appear to be testing technologies and how they might either regulate generation or reduce carbon emissions. The total value of the 16 storage projects is estimated to be near $760 million, with ARRA supplying 24% of the funding. With such efforts being done nationally, and the CPUC's efforts to investigate storage in a Rulemaking, DRA is proposing a scaled back version of the storage project. DRA is suggesting 1 circuit gets CES batteries in 2011 and 1 circuit gets CES in 2012 along with a commensurate level of substation energy storage. Given the information available, and until satisfactory answers are found to the above questions, DRA estimates the cost to be $4.5 million in 2011 and $6.2 million in 2012. To proxy the effort, DRA first unitized the 4 circuits in 2011 and the 7 circuits in 2012 and came up with $6.298 million and $4.255 million. Then it chose to use the numbers in increasing progression to represent the cost per circuit per year, assuming that a commensurate amount of substation equipment was also placed into the annual amounts.

6.4.2. Dynamic Line Ratings

The next area of review will be dynamic line ratings. SDG&E has nearly 1,000[334] distribution circuits. The DP mentions that the SDG&E transmission system has several lines with dynamic ratings. In the current GRC, SDG&E seeks to install dynamic rating technology onto 10 distribution circuits per year. DRA is proposing that 2 circuits receive dynamic line ratings per year, or 20% of SDG&E's request. There are 13 electric

---

[332] http://www.oe.energy.gov/DocumentsandMedia/SG_Energy_Stor_Projects_20110104.pdf

[333] http://www.oe.energy.gov/DocumentsandMedia/FINAL-REV_Combined_SGDP_Selections_2011_01_04.pdf p. 4 of 5.

[334] 995 distribution circuits are identified in Bialek's GRC testimony; while 997 distribution circuits are listed in the DP.

distribution systems related projects receiving over $254 million in SGIG funding; and many project descriptions mention reducing system losses, improving system reliability, and optimizing the grid's operations. DRA would rather see a more limited effort at this time so that SDG&E can "leverage" its efforts against those that are being done elsewhere in the nation.

6.4.3. Synchrophasors

The next area for review is synchrophasors. SDG&E is proposing to install 4 of them in 2011 and 7 of them in 2012 along with a phasor data collector at each substation. SDG&E's testimony suggests that this technology will be partnered with storage technology in order to mitigate the intermittency of renewable generation.

Section 3.4.4.4 of the DP describes the efforts with synchrophasors that began in 2007 with the aid of CEC funding. All of the 10 transmission related SGIG projects that received over $152 million in funding related to the installation or increased use of synchrophasors. While they are designed with the transmission system in mind, there are lessons to be learned since these 10 projects are aimed at finding ways to improve monitoring, improve critical decision making on the grid operations, reducing congestion and integrating renewables. DRA is proposing to install one per year in 2011 and 2012 at a cost of $368, 750 per installation.[335]

6.4.4. SCADA

The next few areas relate to SCADA. SDG&E has utilized SCADA in various types of equipment for years. In its DP, SDG&E describes its transmission system as 95% controlled by SCADA. In A.06-12-009 IT testimony, SDG&E states that distribution SCADA has been deployed since 1985. It also suggested that the number of field devices continues to increase per year. SDG&E intended from the last GRC to expand distribution SCADA. Without the benefit of historical data with regard to SCADA, it is difficult to put the current request into context. In A.02-12-028 in project

[335] $368,750 is derived from SDG&E workpapers for 2011 whereby 4 circuits received the technology at a cost of $1.475 million.

01833 SDG&E requested dollars to upgrade distribution SCADA. In that filing, SDG&E articulated that funding shouldn't exceed more than $800,000 each year. It also mentioned that prior to A.02-12-028, the expenditures came from the 93240 budget.

It is clear that the company is technology forward. What isn't clear is SDG&E's accounting of SCADA or historical levels. This area, in particular, is frustrated by SDG&E's failure to present historical detail, actual spending levels and context with its proposals.

SDG&E describes its desire to further deploy SCADA down to lower levels: capacitors and substations. SDG&E seeks to fully deploy SCADA onto its capacitors in 7 years and onto its substation facilities in 5 years. DRA is suggesting a slower roll out. The numbers represent the programs taking twice as long as SDG&E would propose.

6.4.5. Smart Transformers

The next area of inquiry is for distribution line transformers. SDG&E's estimates assume an aggressive rollout of electric vehicles (EV) in 2011. Consistent with more modest EV rollout projections touted by DRA in the SCE GRC,[336] DRA is recommending that the rollout will not take place as quickly as the company estimates and that the level of transformer monitoring for 700 cars per year should be used as a proxy for both 2011 and 2012.

6.4.6. Charging Stations

The next area relates to charging stations for EVs. Although a recent Commission decision articulated interim ratemaking policy for charging station infrastructure,[337] DRA is proposing $0 towards the investment in public access charging facilities. Until larger volumes of EV's penetrate SDG&E's territory, DRA does not support the use of ratepayer funds for such an effort.

---

[336] Exh. DRA-6 in A.10-11-015.

[337] D.11-07-029.

EPRI released a report on the potential roles that utilities might have with regard to transportation and charging stations.[338] This report reaches some interesting conclusions about system impacts, penetration levels, where to focus efforts (i.e., on the devices closest to the customer,) and the implication for older systems (including underground systems.) This same report also discusses roles for utilities with regard to charging stations. It raises a lot of caveats about the EV owner's behaviors, home configurations, and penetration levels. While it also suggests that the utilities have a positive role to play in keeping costs down for charging stations, it overwhelmingly demonstrates how much more information needs to be gleaned about the EV owners, their homes and habits before SDG&E can make reasonable investments in charging station infrastructure. The next GRC cycle is the best place for these dollars to be evaluated.

6.4.7. Wireless Fault Indicators

The next area of review is wireless fault indicators (FCI). This project proposes to install wireless FCIs on all non-SCADA switches and all cable poles with switches in the distribution system over a five year-period (2011-2015). While the wireless approach represents the next generation of fault finding technology, this is an area ripe for deferral. This is not a must have technology and there is a recession. This is an "it would be nice" option. As such, with ratepayer necessity in mind, DRA recommends a postponement of this roll out.

6.4.8. Phase Identification

The next area of review is phase identification. Based upon the limited information provided for the $9 million dollar three year project, it is questionable why this isn't in the IT testimony. Much of what is described for the purpose of phase identification speaks to obtaining accurate information so that better decisions and

---

[338] http://my.epri.com/portal/server.pt/gateway/PTARGS_0_241402_317_205_776_43/http%3B/uspalecp604%3B7087/publishedcontent/publish/epri_report_defines_potential_roles_for_utilities_as_electric_vehicles_take_to_the_road_da_795076.html

analysis can take place. SDG&E proposes to institute some process (it's not clear if it is hardware or software) that will enable SDG&E to better know its system and its real time characteristics. There are worker safety benefits and better planning and operations. What SDG&E failed to discuss was the actual labor and non-labor contents of the $9 million. What exactly is involved? What is it installing? On how many places? What is meant by covering the entire system- which nodes or infrastructure will be receiving the phase identification system? Effort was given to describe the benefit of this effort, but little detail was given on the actual project components and installation. DRA suggests a better showing in the next GRC before dollars are authorized.

6.4.9. Condition Based Maintenance

The next area of review is Condition Based Maintenance (CBM) expansion. DRA recommends $0 for this effort. SDG&E is proposing to eliminate 4kV substations in the long run, so efforts to utilize CBM on them are counter-productive. Additionally, SDG&E, in a July 20th briefing said that it is going to withdraw this request. DRA isn't sure how SDG&E will formalize this statement, but it recommends elimination of the project.

6.4.10. Test Facility

The last area of review relates to the construction of an upgraded test facility. While it seems reasonable to create a facility to test products that are being developed with regard to smart grid, SDG&E already has a test facility. It seeks to add more to it. With the further delays in National Institute of Standards and Testing (NIST) consensus standards, it makes more sense to slow down this effort. DRA recommends a slower acquisition of equipment for this effort, so that some of the discussions at NIST can be incorporated into the choices.

6.4.11. Customer Awareness and Education

The pace at which SDG&E seeks to implement all the aforementioned technology is not only faster than the penetration rates of the various technologies, but much faster than the general public can understand and accept. For optimal implementation, their

cooperation and acceptance is imperative. In the paper "Accelerating Successful Smart Grid Pilots", the author stated:

> … if we fail to engage consumers appropriately at this early stage in the process, we may end up in a situation where the prevailing public view of smart grid is skewed by a small number of cases where poor execution has led to a broader perception that smart grid is not delivering value to the consumer.

The quote is, most likely, referring to the outcry against smart meters. Smart meters have had a mixed reception from consumers. The reasons are many, and since SDG&E is nearly fully deployed in smart meters, it would be wise to take inventory of consumers (both pro and con) before pushing the fast forward button on the remaining segments of the smart grid/smart management of electricity. Before SDG&E takes the next step, it would be better for utilities and policy-makers to address the consumer concerns of 1) product compatibility;[339] 2) consumer differentiation towards all things technical;[340] 3) privacy; 4) protection of personal information; 5) national security;[341] and 6) being overwhelmed with information, decision making and defenses. If the ultimate goal here is to deliver value to the customer, the utilities, vendors and policy-makers need to do a better job of communicating with the public about what is happening. If policies are driving this effort more than cost savings, it is important then not to delude the public about it.

Better answers are needed that are tailored to a non-homogeneous ratepayer constituency. For the early adopter, technologically savvy group, greater involvement, details, and choices make sense when designing a product that will require the customer to cut demand when supplies are not available or are costly. For those customers without

---

[339] i.e. metaphorically - why doesn't my fax machine work with VOIP; or in this case, why doesn't my computer work with the web based product?

[340] The DSL connection issues come to mind; or in this case, why can't I just drive my new electric vehicle home and not worry about charging.

[341] http://blogs.hbr.org/cs/2010/10/why_the_smartgrid_might_be_a_s.html; http://www.thedailybeast.com/articles/2011/08/04/computer-hacking-attack-puts-china-back-in-spotlight.html.

internet, a different solution will be required in order to better manage the electric system. For busy customers who have smart meters, a simple budget-based option might make sense. Are there options available to those who have privacy or health concerns and who "opted out" of smart meters? Therefore, in order to get the functionality out of the system (i.e., reduced peak demand, system stability with greater amounts of renewables, lower greenhouse gas emissions) the customers have to be comfortable with how it relates to them. If the change process isn't managed effectively, there may even be a point where consumers go off grid.

Smart grid policy, development, services and systems will involve an array of disciplines and industries. The grid, which was once the territory of transmission planners has now become the brainstorm of an interdisciplinary team of communications experts, energy managers, customer service specialists, grid managers, demand side programs planners, etc.

Like the telecommunications sector, technology is influencing policy in the energy sector. Much as the developments in switch technology helped to bring about "advanced"[342] communication services (voice mail, call waiting, and call forwarding), we are seeing more advanced, smarter network elements in the electricity industry. Unlike the telecommunications sector though, environmental philosophy is a major driver of evolutionary policies in the electricity sector. A few examples are: 1) the desire to reduce the levels of greenhouse gases that are emitted, 2) the desire to embrace renewable technologies, and 3) the desire to re-evaluate once through cooling (OTC) technologies for generation facilities. These desires are motivating the policy-makers to shape the evolution of the electricity market and determine which facilities receive investments.

Smart meters – one facet to the smart grid puzzle – are indeed becoming the new meter standard. By year end 2010 SDG&E had deployed 1,820,000 smart meters to its electric and gas customers. Technology and desires are shaping the future as it evolves.

---

[342] Telephony used to be called "basic telephone service." By today's standards, basic telephone service is probably something a bit beyond a dial tone from your land line's copper pairs. Services like voice mail, call waiting and call forwarding are not seen as extraordinary, but as add-on features.

But merely focusing on technology isn't enough. Consideration must be given to the consumer who will fund these efforts, use the technology and adapt to the increasingly complex world of utilities. As stated by Michael Beehler, from Burns and McDonnell, "The smart grid without smart customers will be a failure."[343]

Greater effort is required to achieve the full potential of the smarter grid. The Commission must take full value from the lessons to be learned from the billions of federal dollars granted towards smart grid. We must answer some important questions about security, privacy and interoperability standards. We must communicate a meaningful message to the consumer that accurately states that they are going to be partners in the success of managing the supplies and demands on the electric system.

7. Gas Distribution Operations

7.1. SoCalGas Issues

7.1.1. O&M

DRA recommends a reduction of $38.4 million to SCG's TY 2012 forecast for Gas Distribution O&M, a total of $92.8 million as compared to SCG's request of $131.2 million for non-shared services.[344] SCG's requested increase over 2009 spending was $38.9 million,[345] so DRA's recommendation still represents an increase over 2009 spending. Almost two-thirds of DRA's disallowance is for spending in Measurement and Regulation, based on SCG's outdated interpretation of a preliminary version of the Greenhouse Gas Mandatory Reporting Rule and how many meters it impacts.

Many of SCG's requests are supported only by statements from field managers, consultants hired by SCG, former staff members, and supervisors but no references to external data.[346] Oftentimes these requests are in new areas or purportedly in response to new requirements where historical spending data is lacking. In these categories, SCG

---

[343] http://www.slideshare.net/federicoblanco2009/061509-white-paper-deployment-strategy-for-the-smart-grid

[344] Exh. 533, pp. 1- 2.

[345] Exh. 26, p. GOM-2.

[346] TR 1248:11 – 1249:1.

does not rely upon historical spending data, yet still would have this Commission ignore actual spending data from 2010. Simply relying upon the wish lists of SCG employees is not sufficient proof to justify specific spending levels.

7.1.1.1. Locate and Mark

SCG requests $10.6 million for the work category Locate and Mark. In 2009, SCG's adjusted recorded spending for this area was $9.7 million.[347] The TY 2012 increase of $870,000 is made up of the 5 year average spending for the period 2005-2009, which results in a $179,000 increase above the 2009 recorded expense and an incremental increase of $691,000 for (1) Federal Stimulus Funding, (2) Los Osos City Sewer System, (3) Removal of Paint Markings, and (4) Increased City/Municipality Requirements.[348] The total requested increase is $870,000 above the 2009 recorded expenses. In 2010, SCG spent $9.4 million while estimating in testimony that it would spend $10.3 million.[349]

SCG stated in initial testimony that the common drivers for the three work categories identified are construction and development activity in the public and private sectors.[350] SCG's TY 2012 forecast is based on improved business conditions and an increase in Locate and Mark work.[351] SCG justified its forecast based on its expectation that economic conditions would rebound sufficiently in 2012 to be at the level seen in 2005 through 2006.[352] In rebuttal, however, SCG offered Table GOM-2-R, reporting and predicting regional employment levels, which was discussed above in the section about use of 2010 data,[353] to note that there was still an expectation of increased growth in 2012

---

[347] *Id.*, p. GOM-14.

[348] Exh. SCG-2, pp. GOM-16 to GOM-17.

[349] Exh. 533, p. 6.

[350] Exh. 26, p. GOM-15.

[351] *Id.*, p. GOM-15.

[352] *Id.*, p. GOM-5.

[353] *See supra,* Section 3.1.

in the later data and thus its general expectation of an improved economy was still correct.[354]

Based on DRA witness Dao Phan's interpretation of that employment data,[355] the decline in the number of "tickets,"[356] and the actual 2010 tickets and spending levels, DRA recommended a base spending level for 2012 equal to that of 2010.[357] While Mr. Orozco-Mejia noted on rebuttal that costs per ticket had increased from 2005-2009,[358] she did not provide the cost per ticket for 2010 nor explain why its prediction for 2010 was incorrect.

DRA also recommends that the Commission deny additional funding requests based on Federal Stimulus Spending as SCG's request lacked sufficient supporting data in workpapers, which consisted only of broad estimates by field supervisors, and SCG failed to produce any records for any actual spending in 2010.[359] It is not sufficient for SCG just to say that there is Federal Stimulus spending and therefore they must have increased Locate and Mark spending when their estimates are so vague and they fail to provide data of actual spending when requested.

DRA also recommends denial of specific additional funds for removal of paint markings, based on SCG's lack of any historical data justifying its claim that more communities are now requesting such removal than in the past.[360] Just because SCG on rebuttal claims that one community now has a new requirement[361] fails to justify its claim that the percentage of work orders requiring removal of markings has increased from 5%

---

[354] Exh. 29, pp. 17-18

[355] Exh. 533, pp. 7-8.

[356] Exh. 533, p. 8.

[357] Exh. 533, p. 9.

[358] Exh. 29, p. 18.

[359] Exh. 533, p. 9.

[360] Exh. 533, pp. 12-13.

[361] Exh. 29, p. 22.

to 20%.[362] The same description applies for purported increased city and municipality requirements, as SCG has no historical data to support its claim that new requirements are collectively more onerous than in prior years so that additional spending in 2012 should be authorized.[363]

7.1.1.2. Leak Survey

SCG forecasts an expense of $4.1 million in TY 2012 for pipe leak surveys based on system growth above the 2009 level. SCG's request is an increase of $414,000 above the 2009 expenses of $3.7 million.[364] SCG's forecast is based on a 5 year trend of labor and non-labor expenses for 2005-2009. SCG's data shows that the expenses, as well as the number of miles surveyed increase steadily during this period.[365] In 2010, however, SCG did not survey as many miles as in the past. There was 6% less footage surveyed in 2010 compared to 2009, and the expenses were also less than estimated in the Application.[366] The level of work activity and costs associated with leak survey work were not in line with the trend that SCG had proposed.

Nevertheless, DRA does not oppose SCG's request for an additional $414,000 above the base year level in order to ensure that SCG has adequate funding to quickly identify and repair gas leaks.[367] The data presented in the GRC shows that there is some system growth, indicating a need for an increase in the amount of survey footage. For this revenue category, DRA is not basing its recommendation on 2010 recorded costs.

7.1.1.3. Measurement and Regulation

SCG requests $35.7 million for work activities categorized under Measurement and Regulation. The work activities comprise replacing medium and large meter set

---

[362] Exh. 26, pp. 17-18.

[363] Exh. 533, pp. 13-14.

[364] Exh. 26, p. GOM-17.

[365] *Id.*, p. GOM-18.

[366] Exh. 533, p. 15.

[367] DRA reserves its right where it does not oppose an SDG&E or SCE position on a subject to respond to alternate proposals made by the utility or intervenors in their respective Initial Briefs.

assemblies or MSAs, replacing regulators at regulator stations and regulator station lid and vault maintenance.[368] In 2009, SCG spent $11.2 million on these activities. SCG's TY 2012 forecast represents an increase more than 3 times the base year spending level. For the TY 2012 forecast, SCG uses a 5-year average of 2005-2009 expenses, which results in a decrease of $332,000 from the base year, plus incremental increases that total an overall increase of $24.6 million above the 2009 recorded spending level.[369]

The incremental increases are for the eight sub-categories of work activities tracked under Measurement and Regulation, and the bulk of SCG's requested increase is for work activities associated with the sub-category New Environmental Regulatory Balancing Account (NERBA). Specifically, SCG requests $23.4 million for compliance work required by the proposed new subpart W, 40 C.F.R. § 98.230 to the Greenhouse Gas Mandatory Reporting Rule, 40 C.F.R. § 98. The remaining $1.2 million of the requested is for the incremental increases for the other 7 sub-categories.

DRA recommends $10.9 million for TY 2012. This amount is an adjustment of $24.9 million to SCG's request of $35.7 million. DRA's recommendation is based on the 5-year average of 2005-2009 spending, which is $10.8 million, plus $27,000 for the incremental greenhouse gas reporting work activities.[370]

SCG's request for $23.4 million to comply with 40 C.F.R. § 98.230, subpart W, was based on an interpretation of the initial Greenhouse Gas Mandatory Reporting rule promulgated in April, 2010.[371] According to the Environmental Protection Agency (EPA), this final rule requires petroleum and natural gas facilities that emit 25,000 metric tons or more of carbon dioxide (CO_2) equivalent per year to report annual methane (CH_4) and CO_2 emissions from equipment leaks and venting, and emissions of CO_2, CH_4, and nitrous oxide (N_2O) from gas flaring and from onshore petroleum and natural gas production stationary and portable combustion emissions and combustion emissions from

[368] Exh. 533, p. 16.

[369] Exh. 26, pp. GOM-19 to GOM-20.

[370] Exh. 533, p. 17.

[371] Exh. 26.

stationary equipment involved in natural gas distribution.[372] SCG interpreted the initial rule as applying to each of the 93,270 above ground M&R (Meter and Regulation) sites within one year. Of this total, SCG currently inspects 15,123 of the M&R sites as part of its scheduled annual inspection program. SCG requests the additional funding to perform field surveys or inspections on the remaining 78,147 M&R sites as part of its GHG compliance work activities. SCG's $23.4 million forecast is based on performing the inspections at 78,147 M&R sites at $300 per M&R site, as described in the one page of workpapers related to this request.[373] SCG also requested a two-way balancing account for compliance costs because of the uncertainty of the requirements of the eventual Final Rule.

However, as early as April 2010, the EPA stated clearly that the rules did not apply to meters: "For natural gas distribution, leak detection is required only for aboveground metering and regulating stations (also called "gate stations") at which custody transfers occur. The leak detection and monitoring requirements prescribed in subpart W *do not include customer meters*."[374] Nevertheless, SCG requested funding seven months later as if the rule did include customer meters.

On December 23, 2011, the EPA issued Technical Revisions to its Final Rule where they clarified the rule by using the term "metering-regulating station" instead of "city gate station" to conform to industry language, and defined the term as "[a]n above ground station that meters the flow rate, regulates the pressure, or both, of natural gas in a natural gas distribution facility. *This does not include customer meters,* customer regulators, or farm taps."[375] The EPA further noted that "[w]ith this amendment, we are clarifying key concepts in the definition, *without actually changing coverage by the*

---

[372] Exh. 533, p. 86.

[373] Exh. 28, p. 53.

[374] 40 C.F.R. Part 98, Mandatory Reporting of Greenhouse Gases, Petroleum and Natural Gas Systems, Final Rule, April 30, 2010, p. 74465 (emphasis added).

[375] Mandatory Reporting of Greenhouse Gases: Technical Revisions to the Petroleum and Natural Gas Systems Category of the Greenhouse Gas Reporting Rule, 76 Federal Register 80554 (December 23, 2011), at pp. 80558 – 80559, p. 80567 (introduced as Exh. 332) (emphasis added).

rule."[376] SCG witness Haines did not agree with the EPA that the December 2011 clarifications did not change coverage of the rule, referencing 76 Fed. Reg. 80569 to argue that there had been uncertainty in the coverage of the rule and the Final Rule may have increased the number of stations that would be covered.[377] However, in that same paragraph, EPA clearly stated that "[i]t was not EPA's intent to increase the number of surveys required," and it would allow facilities "to conduct a leak detection survey once in any five consecutive calendar years for each station … to potentially coincide with reporters' existing inspection requirement under DOT regulations. *Therefore, the annual burden to reporters will not increase as a result of this revision*."[378]

DRA does recognizes that SCG must begin leak detection and reporting effortS in compliance with the rule, and thus DRA recommends a forecast based on SCG's best available understanding of the requirements. DRA asked SCG to define custody transfer gate stations and to identify the number of these stations currently in its system. SCG stated that, "'Custody transfer' refers to a site where gas supplies are received or delivered to other gas distribution companies. This takes place at receipt and delivery points on SoCalGas' intrastate pipeline system at approximately 90 locations. SoCalGas has interpreted these points to be 'custody transfer gate stations'."[379] Using SCG's 90 locations and a unit cost of $300 per site, DRA's recommendation is for $27,000 in TY 2012, compared to SCG's request for $23.4 million for this sub-category. DRA is confident that its recommended level of SCG's spending to comply with Subpart W is consistent with the Final Rule and subsequent clarifications.

DRA further opposes SCG's request that a two-way balancing account be adopted for this spending, as there is no "uncertainty" in the requirements that requires the adoption of a balancing account to respond to varying possible spending.[380]

---

[376] 76 Fed. Reg. 80559 (emphasis added).

[377] *See* TR 3356:2-28.

[378] 76 Fed. Reg. 80569 (emphasis added); TR 3357:4-16.

[379] Exh. 533, p. 27.

[380] *See infra* Section 9.3 for a full discussion of balancing accounts.

DRA also notes that SCG failed to justify the reasonableness of the remaining incremental spending over the five-year average. DRA does agree with the reasonableness of the use of a five-year average of 2005-2009 for the base level of spending, but not with the incremental requests.

SCG requests $122,000, as a purported cost-effective tactic to maintaining the accuracy of meters, for the cost of annually replacing 650 medium and large meter set assemblies over the next ten years. SCG claims that older "diaphragm meters" used for commercial and industrial customers decrease in accuracy as they age and "require more frequent field tests and adjustments" to maintain their accuracy, and that the suspect meters are more than 20 years old and nearing the end of their useful ages anyway and should instead be replaced.[381] However, SCG never compared the alleged costs of the more frequent field tests and adjustments to the cost of replacing the meters. Also, SCG believes that because it has replaced meters in the past at an average age of 21.5 – 25 years, it has demonstrated the reasonableness of incremental replacements at about that time.[382] SCG further claims it had a methodology for determining the number of incremental replacements,[383] but this contradicts its admission that they could not identify the number of meters it has replaced in each of the past few years,[384] which would make it impossible to determine a precise, incremental number.

SCG requests an increase of $371,000 above the base year level for TY 2012 to replace 334 regulators that have become obsolete because of age.[385] SCG states that there are a total of 1,668 regulators at regulator stations that have been identified as obsolete and must be replaced over the next five years.[386] But by "obsolete," SCG doesn't mean that the meters do not work or are having current problems, but that they

---

[381] Exh. 26, p. GOM-20.

[382] Exh. 29, p. GOM-30.

[383] *Id.*, pp. GOM-30 – GOM-31.

[384] Exh. 533, p. 18.

[385] Exh. 26, p. GOM-20.

[386] *Id.*

belong to a product line that was discontinued in 1997 and thus maintenance is costly, and also awkward due to the particular design of the regulators.[387] Moreover, SCG concedes that the only basis for its decision to replace the 1,668 regulators over five years rather than a different period was "management judgment."[388] As SCG has only been replacing 13 of these regulators every year without major problems, and because the ultimate justification for this spending is to avoid future problems, SCG has failed to justify the adoption of a five-year schedule for replacement.

SCG requests an increase of $539,000 above the base year level to accommodate more rebuilding of meter set assemblies (MSAs) as a result of performing additional load surveys.[389] SCG's workpapers state that there are an estimated 800 MSAs that will be subjected to being rebuilt annually as a result of a more effective large-volume customer load survey.[390] However, SCG was already rebuilding more than 800 MSAs in 2009. SCG conducted almost a thousand more load surveys in 2009 compared to previous years, and the company rebuilt 1012 MSAs that year. In 2008, SCG rebuilt 711 MSAs and in 2010, SCG rebuilt 969 MSAs.[391] It appears that SCG's forecast of rebuilding approximately 800 MSAs in 2012 is a forecast for continuing the level of work activity that SCG has been undertaking, and that the increase of $539,000 above and beyond the base year is unnecessary. Ms. Orozco-Mejia noted in both SCG's direct and rebuttal testimony[392] that the more targeted surveys should lead to an increase number of replaced meters, but this increase is reflected in the 2008 and 2009 numbers. Ms. Orozco-Mejia also claims in rebuttal testimony that because lower numbers of meters were replaced

---

[387] Exh. 29, p. GOM-32.

[388] *Id.*, p. GOM-33 ("the reference to "management judgment" was with respect to the timeframe upon which to replace the 1,668 problematic regulators.) SCG mistakenly ascribes DRA's discussion of management judgment as applying to the replacement itself rather than the timeframe; DRA clearly stated in testimony it was in reference to the "requested schedule" for replacement. Exh. 533, p. 19.

[389] Exh. 26, p. GOM-21.

[390] Exh. 28, p. 41.

[391] *See* Exh. 533, p. 20.

[392] Exh. 26, p.GOM- 21; Exh. 29, p. GOM- 34.

before 2008 and 2009, the five-year base level would not reflect the prediction for 2012,[393] but there is no indication in direct testimony or workpapers that the five-year base level was used as opposed to a 2009 base year.

SCG requests an increase of $162,000 in expenses above the base year level for TY 2012 to address increased city/municipality requirements.[394] But because SCG does not maintain a comparative tracking of changes in city/municipality construction requirements over time,[395] it cannot accurately estimate an increase in such expenses.

For regulator station lid and vault maintenance, SCG requests an increase of $22,000 in expenses above the base year level for TY 2012, but only referred to "feedback from field operating personnel" to justify their request initially.[396] On rebuttal, they provided sample written material of the records created in the field, conceding that "[u]nfortunately, this detailed reporting was not provided in the response to DRA,"[397] and also provided a list of "regulator stations currently needing attention,"[398] but none of the records provided compared past records to estimates to conclude that an increase is necessary.

SCG requests an increase of $179,000 in expenses above the base year level for TY 2012 "for the incremental time required in the set-up and dismantling of new equipment used at job sites to facilitate pedestrian access around construction activity."[399] But SCG could not provide the annual expenses associated with this work activity,[400] and conceded upon rebuttal that "SCG does not keep cost information on every task

---

[393] Exh. 29, p. GOM-34.

[394] Exh. 26, p. GOM-21.

[395] Exh. 533, p. 21.

[396] *Id.*, p. 22.

[397] Exh. 29, p. GOM-38.

[398] *Id.*, pp. GOM-38 – GOM-39.

[399] Exh. 29, p. GOM-40.

[400] Exh. 533, p. 23.

completed, and because this is new work, such data would not exist in any event."[401] Because they do not have enough data to reasonably estimate an increase in costs, the Commission should deny their request in this area.

SCG requests an increase of $58,000 in expenses above the base year level for TY 2012 for additional odorization check time to accommodate a more stringent application of odorant testing.[402] SCG explains that: "Based on recent experience, SCG found that there can be a decline in the intensity of the odorant at new installations. Therefore, SCG has moved to a more stringent application of odorant testing during MSA installations to enhance public safety."[403] But other than this statement, SCG provided no objective evidence supporting their claim that there was a decline in the intensity of the odorant at new installations, any explanation why such a decline might have occurred, or even that there is a measurement available to measure the intensity of the odorant. While testing newly installed equipment is necessary, SCG has failed to provide a sufficient explanation as to why such testing now requires a more stringent application of odorant at increased costs.

7.1.1.4. Cathodic Protection Field

SCG requests $2.9 million in expense for Cathodic Protection Field activities in TY 2012. This is an increase of $739,000 above the 2009 recorded expense amount of $2.2 million.[404] SCG's TY 2012 forecast amount of $2.9 million is derived by using a five-year average spending for the period 2005-2009, plus incremental increases for Federal stimulus funding, pedestrian access at construction sites and increased city/municipality requirements. DRA recommends the use of the five-year average, but takes issue with SCG's request for the incremental increases for similar reasons to those

---

[401] Exh. 29, p. GOM-40.

[402] Exh. 26, p. GOM-22.

[403] *Id.*

[404] Exh. 533, p. 27.

expressed above in 7.1.1.3 for incremental costs for Meters and Regulation in those categories.

7.1.1.5. Main Maintenance

SCG requests an increase of $1.2 million above the 2009 recorded amount of $6.7 million for work activities comprising of (1) leak evaluation, (2) leak repairs, (3) franchise alterations, (4) compliance maintenance and (5) miscellaneous maintenance.[405] SCG's TY 2012 forecast is based on a five-year average of spending for the period of 2005-2009, which results in a decrease of $25,000 to the 2009 base year spending, and additional incremental increases for (1) Federal stimulus funding, (2) pedestrian access at construction sites, (3) the City of Los Osos City Sewer System and (4) increased city/municipality requirements.[406]

DRA does not oppose SCG's use of the five-year average of spending to forecast the expenses for Main Maintenance. However, as with the previous cost categories, DRA disagrees with SCG's request for the incremental increases associated with Federal stimulus funds, increased pedestrian access at construction sites, and purportedly increased city and municipality requirements. The actual expenses for main maintenance have been decreasing each year from 2005-2008. The expenses increased in 2009 but remained approximately the same in 2010.[407] With respect to costs for the City of Los Osos, SCG's workpapers assumes that work associated with this project would begin in 2011 and continuing through 2013,[408] but materials from Los Osos indicated that the project would not commence until 2012. Because of the delay and lack of a fixed final deadline for the project, DRA recommended that the costs estimated for 2012 be normalized over three years. Normalizing the TY 2012 forecast is reasonable because this accommodates the delay at Los Osos and also addresses the uncertainty of the

[405] Exh. 26, pp. GOM-25 - GOM-26.

[406] Exh. 533, p. 32.

[407] Exh. 533, p. 36.

[408] Exh. 28, pp. 88-89.

completion date.[409] SCG conceded on rebuttal that the project would not commence until May 2012,[410] yet it did not adjust its recommendation, because it claims there are activities that must be undertaken before the project officially commences.[411] But such activities, previously slated for 2011, are not as expensive as the actual completion of the project, and SCG did not provide a revised project schedule showing any completion date. For these reasons, DRA recommends $6.8 million. This amount is based on the 5-year 2005-2009 average of spending, $6.7 million, plus $174,387 for the Los Osos Sewer project.

7.1.1.6. Service Maintenance

SCG requests an increase of $715,000 in expenses above the base year level for work activities associated with Service Maintenance. The 2009 recorded expense is $10.2 million and the TY 2012 forecast is $10.9 million. Service Maintenance work is primarily comprised of (1) evaluation and repair of service leaks, (2) service alterations, (3) meter set assembly (MSA) alterations and meter guard replacements and (4) miscellaneous service and MSA maintenance.[412] SCG's TY 2012 forecast is based on a 5-year average of spending for the period 2005-2009, which results in a decrease of $601,000, and incremental increases that result in a net increase of $715,000 above the base year.[413]

Again, similar to the previous cost categories, DRA does not oppose the use of a 5-year average. However, DRA disagrees with SCG's forecast for the incremental increases. Instead of adopting the SCG forecast of $10.9 million for TY 2012, DRA recommends $9.6 million.[414] This amount is based on the 5-year 2005-2009 average, $9.6 million, plus $84,000 for the service maintenance costs associated with the City of

---

[409] Exh. 533, p. 35.

[410] Exh. 29, p. GOM-58.

[411] Exh. 29, p. GOM-58.

[412] Exh. 26, p. GOM-29.

[413] *Id.*, p. GOM-30.

[414] Exh. 533, p. 38.

Los Osos Sewer project, which is again normalized over a three-year period. DRA recommends denial of incremental costs again associated with Federal stimulus funding, increased pedestrian access, and increased city/municipality requirements. With respect to replacement of regulators with internal relief, again SCG relies only upon its own employees to justify a new program, without sufficient historical data to justify the increased costs. SCG admitted on rebuttal that it "does not currently have enough detailed data on the replaced service regulators to correlate the vintage and model of regulator with the regulators which have been replaced for performance issues. SoCalGas is currently collecting the necessary data to identify specific vintage and makes of aging regulators for targeted replacement."[415] SCG also offered up 2010 actual spending on regulator replacement and even 2011 first quarter spending to further justify its request[416] – without its usual caveat that such data was provided in response to DRA using 2010 data, as DRA did not utilize 2010 data in our recommendation – but the 2011 first quarter spending of a little more than $10,000 would render 2011 spending well-below the five-year average.

7.1.1.7. Field Support

SCG requests $18.6 million in TY 2012, which is an increase of $4.2 million above the 2009 recorded spending level of $14.4 million.[417] The activities in this broad work category comprise of (1) field supervision, (2) clerical support, (3) dispatch operations, (4) off production time and (5) materials support. SCG's TY 2012 forecast is based on a five-year average of spending between 2005 and 2009, which results in an increase of $687,000 above the base year as spending declined over this period. To this base year amount, SCG also forecasts an increase of $3.5 million for incremental work activities. SCG partially justified the increase for 2012 on the expected economic growth that would return employment in 2012 to 2005-06 levels, but as has been discussed, more

[415] Exh. 29, p. GOM-65.

[416] *Id.*

[417] Exh. 26, p. GOM-32.

accurate economic data showed that 2012 employment will still be below such levels.[418] Based on this data, DRA disagrees with SCG's use of a 5-year average for the base forecast. Instead, DRA recommends using the 2009 recorded expenses of $14.4 million as the base forecast.

For TY 2012, DRA recommends $15.3 million in expenses for Field Support. DRA's estimate is based on using the 2009 recorded cost of $14.4 million, plus $277,000 in incremental expenses for training costs in support of new technology. DRA's recommendation is $3.9 million lower than SCG's forecast of $18.6 million.[419] DRA recommends denial of funding for new, incremental projects for an Area Resource Scheduling Operation (ARSO), Wireless Fees for Mobile Data Terminals, Miscellaneous Increased Support Requirements, Pedestrian Access at Construction Sites, and only ten percent of the request for Support Training for New Technology.[420]

The ARSO is meant to improve efficiencies associated with the OP/EX 20/20 program, but SCG admits on rebuttal that "SCG has not previously had in place a centralized system and process by which to schedule and dispatch Distribution inspection and maintenance orders, and construction packages. That makes determining the number of Scheduling Advisors required to support this new system and process an inexact science."[421] SCG further noted that they had already established the ARSO in 2011, and projected 14 employees, and thus its request for six employees was reasonable.[422] But the Commission has not approved this program yet, and just because SCG has already spent money on this project does not make it reasonable per se. Moreover, SCG's reference to updated forecasts in 2011, based not just on actual 2010 activities but updated projections taking into account such activities, is precisely the kind of forecasting activity for which they condemn DRA, for projects that have already been

---

[418] Exh. 533, p. 43.

[419] *Id.*, p. 44, Table 44-12A.

[420] *Id.*

[421] Exh. 29, p. GOM-71.

[422] *Id.*

approved by the Commission. It is remarkable that SCG can justify a recommendation for spending for a new, unapproved program in 2012 by stating that it has already finished the project. The Commission should reject this attempt to bootstrap Commission approval to unauthorized prior spending.

With respect to Mobile Data Terminals, as SCG cannot identify the number of such terminals currently in vehicles, which is where such terminals need to be located to provide support for the OP/EX 20/20 program, SCG cannot justify the requested incremental increase.[423] On rebuttal, SCG explained that "[t]hese terminals are assigned to field employees and supervisors and not all of them are permanently mounted in vehicles. In this manner, the MDT may be utilized by employees not assigned to a specific vehicle but rather can be used with any vehicle."[424] This explanation, however, does not justify the specific requested incremental increase, but confirms that SCG is unsure of the precise amount of MDTs it claims to require.

SCG requests an increase of $2.7 million for TY 2012 to train approximately 1,000 employees on the new OP/ES 20/20 Program.[425] On rebuttal, SCG states that "[t]he cost increase in 2012 is based on one week of training for approximately 1,000 employees to implement this new technology."[426] SCG further states that "[t]his information was provided in a supplemental workpaper"[427] and that DRA failed to evaluate this information, but the workpaper referenced, p. 129 of Ex. 28,[428] has no mention of a one-week training program, one thousand employees, or the cost of this training. DRA's recommendation, based on actual past spending and normalized over the three-year period, should be adopted.

---

[423] Exh. 533, pp. 46-47.

[424] Exh. 29, p. GOM-73.

[425] Exh. 533, p. 48.

[426] Exh. 29, p. GOM-77.

[427] *Id.*

[428] *Id.,* fn. 89.

7.1.1.8. Tools, Materials & Fittings

SCG requests $10.1 million in expenses for tools, materials and fittings. This represents an increase of $1.5 million, or 17%, above the 2009 recorded amount of $8.6 million. The TY 2012 forecast of $10.1 million is based on the five-year average of spending from 2005-2009.[429]

DRA takes issue with SCG's use of the 5-year average to forecast TY 2012 expense level. DRA's review of the 6-year historical spending from 2005-2010, shows a large overall decline in the annual expenses for this work group over the period.[430] Spending in this category in 2009 was only $8.62 million, the lowest level from 2005-2009, and actual spending in 2010 decreased further to $8.22 million. DRA recommends using the 2010 recorded expense amount of $8.2 million as the forecast for TY 2012. The 2010 level represents the most recent spending by SCG and, if expenses keep declining in 2011, there should be enough funding remaining to cover any modest increases in TY 2012. As discussed above, the forecast by IHS Global Insight indicates very slight improvement in the economy for the TY period. Since SCG has presented no evidence to show that there will be significant improvement in TY 2012 that would warrant an increase of 17% above the base year level, the 2010 expense level is reasonable and should cover the incremental cost to purchase additional safety vests, a $33,000 incremental expense.[431] On rebuttal, SCG criticized the lack of any predicted increase over 2010 expenditures given the modest rebound predicted by Global Insight for 2011 and 2012, but SCG never provides any explanation for the decrease in spending in 2010 or the clearly decreasing trend from 2005-2010, nor why this trend would be so dramatically reversed in 2012 to increase spending in this category by almost $2 million over 2010 spending.

---

[429] Exh. 533, p. 49.

[430] *Id.*, Table 44-3.

[431] *Id.*, p. 50.

7.1.1.9. Pipeline Operations & Management Planning

SCG requests $7.1 million for TY 2012. This is an increase of $346,000 above the 2009 recorded amount of $6.8 million. The increase is for the proposed addition of four Field Environmental Compliance Specialists. SCG's TY 2012 forecast is based on the 2009 base year and additional expenses for the four Field Environmental Compliance Specialists. DRA does not oppose SCG's use of the 2009 recorded expenses as the basis for the TY 2012 forecast. However, SCG has failed to demonstrate that all four incremental environmental specialists are necessary, and DRA recommends that only two additional specialists be added, an increase of $173,000 above the 2009 recorded amount. SCG justified their request by referring to its testimony on Greenhouse Gas Mandatory Reporting Requirements and Stormwater Construction Permits, and purportedly unspecified "foreseeable modifications to existing regulations.[432] On rebuttal, SCG again referred to this rule, as well as the stormwater permits and the magic phrase, other "foreseeable modifications to existing regulations," although such "foreseeable modifications" are never mentioned.[433]

As noted above in section 7.1.1.3 regarding the Greenhouse Gas Mandatory Reporting Requirements, SCG's request is based on an outdated, overly aggressive reading of a preliminary rule that was modified and rejected in the Final Rule and clarifications. DRA's recommended cost is three orders of magnitude lower than SCG's funding request in that area, and it is reasonable to conclude that SCG has similarly overestimated its need for additional specialists in this area. SCG's repeated mention of purportedly "foreseeable" modifications to environmental regulations, without any specific regulations mentioned despite the fact that SCG claims they are "foreseeable," clearly does not meet any burden of proof and cannot support the addition of any additional employees. DRA believes that its recommendation allowing two of the four requested specialists is thus clearly reasonable.

---

[432] Exh. 533, pp. 50-51.

[433] Exh. 29, p. GOM-83.

7.1.1.10. Cathodic Protection

DRA does not oppose SCG's TY 2012 forecast $7.1 million for cathodic protection work activities, a reduction of $123,000 to the 2009 recorded expenses of $7.2 million. The average spending on cathodic protection from 2005 to 2009 was $7.1 million.434

7.1.1.11. Operations Management and Training

SCG forecasts $12.2 million, an increase of $4.4 million compared to the 2009 recorded amount of $7.8 million, in expenses related to operations leadership, field management, operations support and field technical skills training.[435] This is a huge 56% increase over 2009 recorded costs. SCG's TY 2012 forecast is based on using the 2009 recorded labor cost and the 5-year average of recorded spending between 2005 and 2009 for non-labor cost, which results in an increase of $231,000, and the addition of several incremental cost categories with associated spending.[436] DRA disagrees with SCG's use of the five-year average of non-labor expenses to develop the TY 2012 forecast, as SCG's recorded non-labor expenses have been on the decline from 2006 to 2009.[437] The 2010 actual expense of $7.771 million are essentially identical to the 2009 expense of $7.772 million and the 2007 expense of $7.774 million, and 2008 expenses were over a half-million less.[438] Instead, DRA recommends that SCG use 2009 non-labor expenses rather than a five-year average, as it did for labor expenses, to determine a base year forecast. On rebuttal, SCG clings to its false justification for use of a five-year average that the expenses in this area "fluctuate from year to year,"[439] which is utterly belied by the remarkable consistency of these expenses in 2007, 2009, and 2010. DRA thus recommends a base level of $7.772 million.

---

[434] Exh. 28, p. 152.

[435] Exh. 26, p. GOM-41.

[436] Exh. 533, p. 55.

[437] Exh. 28, p. 158.

[438] *See* Exh. 533, p. 55, Table 44-14.

[439] Exh. 29, p. 80.

DRA's total recommendation of $8.928 million is $3.4 million lower than SCG's TY 2012 forecast of $12.2 million.[440] This number is based on using the 2009 recorded expense amount of $7.8 million as a base level plus several incremental increases totaling $617,300. The incremental increases are as follows: (1) $382,800 for Support of New Technologies, (2) $90,000 for Technical Services Field Management, (3) $82,500 for Formal Field Instruction Materials, and (4) $62,000 for Educational Aids and Equipment for Field Technical Skills.

SCG requests an increase of $1.1 million in expenses above the base year level for the restoration of 10.5 FTEs to Gas Operations Services (GOS), which provides a support function for Gas Distribution.[441] SCG explains that beginning in 2007, a number of GOS employees whose work activities were not critical to daily operational safety were temporarily reprioritized to support various activities under the OpEx 20/20 program. SCG is now requesting $1.1 million in funding to "reassign" these employees back to their traditional work activities in the GOS group.[442] SCG's request that ratepayers pay for 10.5 new FTEs in this category is inappropriate, as ratepayers have already been paying for the expenses of these employees and would have paid for these employees had they not been loaned out to the OpEx 20/20 project. The alleged "expense" of returning these employees back to the original work group should not be subsidized by ratepayers because these employees are not newly hired and funding for these employees' salaries have been accounted for and are embedded in previous rates.[443] SCG does not indicate that there are equivalent savings elsewhere to reflect the purported movement of such employees back to GOS. Regardless of whether there were only 29.5 FTEs or 37.3 FTEs deployed from GOS to OPEX 20/20 from 2006-2010,[444] SCG has neither established the number of FTEs to be transferred back to GOS nor that such "additional" costs are

---

[440] Exh. 533, p. 56, Table 44-15A.

[441] Exh. 26, p. GOM-45; *see also* Exh. 533, p. 56.

[442] Exh. 533, pp. 56-57.

[443] *Id.*, pp. 57-58.

[444] Exh. 29, p. GOM-90.

reasonable. SCG's explanation of the various elements used to estimate GOS and OpEx 20/20 costs in this proceeding is confusing,[445] and does not show the reasonableness of the requested incremental expenses.

In addition to the "costs" associated with transferring personnel from OpEx 20/20 to GOS, SCG requests $1.5 million in further incremental costs associated with GOS business processes to implement the new OpEx 20/20 Program. SCG's TY 2012 request is based on hiring one FTE employee in 2010, twelve FTE employees in 2011 and sixteen FTE employees by TY 2012, without any reasonable, specific explanation for the yearly increase.[446] SCG's actual spending through May 2011 showed they were lagging behind their proposed spending for 2011.[447] SCG offered only one page of workpapers to justify the spending, which do not explain how the increased numbers of "managers," "project managers," "advisors," and "analysts" were calculated.[448] When asked for a more specific explanation, SCG only referred to discussions with previous staff managers and directors, and provided no supporting calculations or any further documentation.[449] Yet on rebuttal, SCG claims that this workpaper contains "calculations showing how the forecasted expenses were determined,"[450] but just listing a number and multiplying it by a cost does not explain how the numbers in each category were determined.

DRA is not convinced that SCG will need the level of staffing that it forecasts in order to provide support for the new OpEx 20/20 program in TY 2012, especially since many of the projects have already been completed and have been put to use in prior years, and not just in TY 2012. Based on a lack of support, DRA recommends using the recorded May 2011 expense extrapolated to a full year of funding as the forecast for TY 2012. The May 2011 recorded expenses is $382,800, and extrapolated for a full year

---

[445] *See* Exh. 29, p. GOM-90.

[446] Exh. 533, p. 58.

[447] *Id*.

[448] Exh. 28, p. 173.

[449] Exh. 533, p. 59.

[450] Exh. 29, p. GOM-93.

results in an expense amount of $919,000. This recommendation captures the latest actual spending by SCG and provides a snapshot of the current staffing level providing GOS implementation support for OpEx 20/20.[451] SCG criticizes DRA's use of 2011 actual spending data in deriving DRA's estimate,[452] but without this evidence of actual spending, given the admittedly "broad description of the anticipated GOS Support of New Technology,"[453] DRA would have had no sufficiently specific information on which to base any estimate at all. DRA stands by its recommendation of $919,000.

SCG requests a further increase of $390,000 in expenses above the base year level to expand the Engineering Rotation Program by adding six new positions.[454] SCG initially stated that the six new positions were determined in anticipation of future replacement needs due to retirement and/or other related position changes,[455] and on rebuttal noted that such engineers must be "knowledgeable about the ever-expanding regulations that govern the natural gas industry as well as the company's own internal policies,"[456] even though SCG provides no evidence of "ever-expanding regulations." SCG's initial testimony did not determine any specific need in any specific department for any of the FTEs.[457] SCG on rebuttal further noted that it has already hired or offered positions to twelve engineers prior to 2012 "in anticipation of future replacement needs,"[458] even as it was arguing that the positions were incremental, and even though SCG decries the use of actual 2010 and 2011 data by DRA and other intervenors. DRA maintains its recommendation that SCG has not demonstrated that they require six incremental engineering hires in 2012.

---

[451] Id.

[452] *Id.*, p. GOM-92.

[453] *Id.*, p. GOM-94.

[454] Exh. 533, p. 60.

[455] *Id.*

[456] Exh. 29, p. GOM-95.

[457] Exh. 533, p. 60; Exh. 26, pp. GOM-46 – GOM-47.

[458] Exh. 29, p. GOM-97.

SCG requests an increase of $536,000 in expenses above the base year level to modify current instructional materials and to develop new training modules.[459] SCG forecasted $536,000 in expenses in workpapers for 2010, 2011, and 2012.[460] For the TY 2012 forecast, SCG assumes that approximately 300 revisions to the Gas Standards would be needed at an estimated 4,280 hours of instructional design services. Also included in the forecast is an incremental nine new training modules to be developed annually to address 25 percent of the training module backlog each year.[461] DRA requested the annual expenses, the number of instructional design experts hired to develop instructional materials and the associated costs, for the 2005-2009 time frame to gauge the costs and labor levels associated with reviewing the changes to the Gas Standards and preparing instructional materials to develop new training modules. SCG could not provide any data prior to October 2009, as SCG only had informal tracking processes for such costs prior to then.[462] Actual expenses from that time show that SCG spent $16,319 for instructional design services in the last three months of 2009, $82,500 for the complete year of 2010, and $43,709 as of May 2011.[463] SCG claims the lack of historical data is not important because they have a "known backlog of 36 training modules,"[464] but such a backlog is arguably traceable to the late adoption of formal tracking measures.[465] Moreover, the costs are estimated based on an unverified and unsupported assumption "that approximately 300 Gas Standards would be revised or created each year,"[466] but the actual, far lower costs in recent years either belie this assumption or show that SCG seriously overestimated the costs of updating "formal field

[459] Exh. 26, p. GOM-48.

[460] Exh. SCG-28, pp. 159-162.

[461] Exh. 26, pp. GOM-48 - GOM-49.

[462] Exh. 533, p. 62.

[463] *Id.*

[464] Exh. 29, p. GOM-99.

[465] TR 1262:11-14.

[466] Exh. 29, p. GOM-99.

instructional materials."[467] Based on the lack of support and serious overestimation of 2010 and 2011 costs, DRA recommends adopting the 2010 recorded expenses of $82,500 as the TY 2012 forecast for field instruction materials.

Finally, SCG requests an increase of $500,000 in expenses above the base year level to complete an average of 125 system instruction videos per year starting in 2012 for the next four years. SCG plans to supplement its field binders and system instruction with Video Embedded System Instructions (VESIs). SCG claims that with the new VESIs, field employees will no longer be forced to rely strictly on their memory, field manuals and supervisor assistance to safely perform various technical tasks, but SCG also has not tested the VESIs on its employees and therefore, cannot confirm that employees who use the VESIs will successfully complete their tasks safely.[468] *DRA recommends against the adoption of this project in the TY for several reasons. First, SCG has not established a convincing reason why this project is necessary. SCG has not offered any evidence that VESIs will increase any level of customer and employee safety. Second, SCG has not demonstrated why this project must be completed in the next four years when SCG has not had VESIs before. Third, SCG has not demonstrated that this is a product that employees will use and will be useful to their work in the field.*[469] *DRA thus recommends that SCG first perform a pilot study and complete an assessment of VESIs before attempting to produce the VESIs and incorporate them in SCG's field materials. On rebuttal, SCG claimed that "[v]ideo enhanced training is becoming an industry standard, and educators across the country are using such videos to enhance classroom and other training,"*[470] *remarkably referencing a website for a Public Broadcasting System channel only discussing the use of videos specifically by teachers* in classrooms only for elementary school students.[471] *SCG does not cite any other gas utility using these videos.*

---

[467] *Id.*

[468] Exh. 533, pp. 63-64.

[469] *Id.*, p. 64.

[470] Exh. 29, p. GOM-103.

[471] *Id.*, *citing* http://www.thirteen.org/edonline/ntti/resources/video1.html

If SCG truly believes the use of remote, in-the-field technical videos by adult professionals is justified by referencing such a source, it clearly has failed to meet its burden of proof of showing that such video materials are needed immediately.

7.1.1.12. Regional Public Affairs

DRA does not oppose SCG's request for $3.907 million in expenses for Regional Public Affairs work activities in TY 2012.

7.1.2. Capital

DRA recommends capital expenditures for TY 2012 of $170.662 million, $41.914 million or 24.6% lower than SCG's request of $212.576 million.[472] DRA recommends $176.709 million for 2011, $47.508 million less than SCG's request of $224.217 million.[473]

7.1.2.1. New Business

This budget category includes changes and additions to the existing gas distribution system to connect new residential, commercial and industrial customers. The forecasted expenditures were based on the projected new meter sets added to the gas distribution system, with the costs of the new meters and regulators themselves recorded in a separate "Meters & Regulators" category, discussed below in Section 7.1.2.4.

This category is one in which SCG's overoptimistic economic forecasts caused it to seriously overestimate 2010 costs. SCG developed its estimates based on very optimistic projections of new business meter set installations, which itself is based on construction activities, which clearly slowed considerably in 2010. SCG projected new business meter set installations from the recorded 31,828 sets in 2009 to 45,526 in 2010, 55,496 in 2011 and 64,799 in 2012.[474] But actual new meter installations for 2010 were 26,585, which is 42% lower than the projection.[475] As a result, the resulting 2010

---

[472] Exh. 535, p. 3, Table 45-2.

[473] *Id.*

[474] Exh. 26, pp. GOM-63 - GOM-64.

[475] *See* Exh. 40.

recorded adjusted total capital expenditures for this category were only $12.350 million,[476] approximately 40% of SCG's projected 2010 expenditures of $31.395 million.[477]

DRA thus developed its estimates for 2011 and 2012 by taking into account "the overall lower new business activity" as pointed out by SCG and the lower recorded expenditures for recent years (2008, 2009 and 2010). DRA applied the ratio of actual recorded expenditures to SCG's estimates for 2010, which is 0.4, to SCG's estimates for 2011 and 2012. The resulting DRA estimates are $15.178 million for 2011 and $17.546 million for 2012, which both allow for substantial growth over the 2010 actual expenditures. The use of more recent forecasts than the dated forecasts utilized by SCG would have anticipated the much larger economic contraction in 2010 and the more modest recovery in 2011 and 2012 than initially thought.[478] Therefore, DRA recommends that the forecasted expenditures be lowered by $22.767 million in 2011 and $26.308 million in 2012. Given the extraordinary overestimation of 2010 capital expenditures in this area, it is manifest that SCG's forecasts for new business in 2011 and 2012 are similarly flawed.

7.1.2.2. Cathodic Protection

The Cathodic Protection (CP) category includes capital expenditures related to the installation of new and replacement CP systems and equipment. SCG forecasted expenditures of $4.192 million in 2010, $4.328 million in 2011 and $4.464 million in 2012.[479] SCG claims in its testimony that the forecast was based on the five-year trend. DRA reviewed the historical expenditures for the five year period starting from 2005 and determined that the fluctuating historical data shows an insignificant upward trend, which would be even smaller if the lowest and oldest recording spending from 2005 were

---

[476] *See* Exh. 39; RT 1264:17-20

[477] *See* RT 1264:23-28; Exh. 535, p. 7.

[478] *See supra* Section 3.1 regarding the need to consider more updated economic data due to the underestimation of the strength of the recession.

[479] Exh. 26, p. GOM-62.

excluded, and the use of a five-year average is more appropriate. Based on the average of five years of expenditures from 2005-09 ($3.334 million in 2005, $3.705 million in 2006, $4.083 million in 2007, $3.843 million in 2008 and $3.947 million in 2009),480 DRA estimated capital expenditures of $3.782 million for each of 2011 and 2012. DRA recommends lowering the SCG forecasts by $0.546 million in 2011 and $0.682 million in 2012.

7.1.2.3. Pipeline Relocation- Franchise

This budget category includes capital expenditures for relocating or altering SCG facilities in response to external requests per SCG franchise agreements with city and county agencies. SCG forecasted expenditures of $9.260 million in 2010, $9.477 million in 2011 and $9.660 million in 2012.[481] SCG states in its testimony that it anticipates future expenditures to follow a five-year trend due to improving economic conditions, population growth and density, and other factors. DRA reviewed the historical expenditures for the five year period starting from 2005 and determined that the fluctuating historical data show an insignificant upward trend, exaggerated again by the inclusion of 2005, and the use of a five-year average is more appropriate. Based on the average of five years of expenditures ($6.534 million in 2005, $10.140 million in 2006, $8.922 million in 2007, $8.097 million in 2008 and $8.887 million in 2009),482 DRA estimated capital expenditures of $8.516 million for each of 2011 and 2012. DRA recommends lowering the forecasts by $0.961 million in 2011 and $1.144 million in 2012.

7.1.2.4. Meters & Regulators

This budget category includes capital expenditures for the purchase of gas meters and pressure gauges, regulators, electronic gas pressure and temperature correction equipment and electronic pressure monitors. SCG forecasted expenditures of

---

[480] Exh. 41.

[481] Exh. 26, p. GOM-62.

[482] Exh. 41.

$24.797 million in 2010, $26.219 million in 2011 and $31.016 million in 2012.483 As noted above in Section 7.1.2.1 on New Business, SCG developed its estimates based on overly optimistic projections of new business meter set installations. After installing a recorded 188,809 units for 2009, SCG projected 234,506 installations in 2010, 243,252 in 2011 and 252,555 in 2012.[484] The comparison of the projection for 2010 and the actual recorded number of new meter purchases again points to over-optimism. In response to a DRA data request,[485] SCG shows that the actual new meter purchases for 2010 was 198,341 units, which is more than 15% lower than the projection. The actual cost of the purchased meters in 2010 was $15.937 million,[486] which is 18% lower than the projection of $19.351 million. For the overall Meters and Regulators area, the 2010 total recorded adjusted is $20.501 million, which is 17% lower than the projection of $24.797 million. The recorded expenditures for 2010 are in line with those of the more recent years, which were $21.798 million for 2008 and $20.413 million for 2009.[487]

DRA made its estimates for the year 2011 and 2012 by taking into account the current "level of new business activity" as pointed out by SCG[488] and the lower recorded expenditures for recent years (2008, 2009, and 2010). DRA reduced SCG's Meters and Gauges (Budget Code 163) projections for 2011 and 2012 by about 18%, the same recorded versus projection percentage shortfall for 2010 as described earlier. DRA did not reduce SCG's request to buy 100,000 additional regulators for its targeted infrastructure upgrade project. The resulting DRA estimates are $22.791 million for 2011 and $27.461 million for 2012. Based on these estimates, DRA recommends reducing the SCG forecasts by $3.428 million in 2011 and $3.555 million in 2012.

---

[483] Exh. 26, p. GOM-62.

[484] *Id.*, p. GOM-80.

[485] *See* Exh. 40.

[486] See *Id*.

[487] S*ee* Exh. 535, p. 9.

[488] Exh. 40.

7.1.2.5. Equipment/Tools

DRA does not oppose SCG's forecast of $1.393 million for 2012. Of the $17.953 million requested in 2011, $15.7 million is for purchasing optical scanning equipment for survey of leaks per SCG's interpretation of an early version new Subpart W to the Greenhouse Gas Mandatory Reporting Rule.[489] As discussed above in Section 7.1.1.3, the final scope of the rule was narrowed.

SCG had proposed to purchase approximately three units per district for a total of 157 units at $100,000 each. DRA recommends about one unit per district for a total of 50 units at $5 million, resulting in a reduction of $10.7 million. With this reduction, DRA estimates capital expenditures of $7.253 million for 2011 and $1.393 million for 2012.[490]

7.1.2.6. Field Support

Field Capital Support costs are estimated by SCG as a percentage of total construction costs, which were calculated as 33.6% over the past five years.[491] SCG applied 31% to the total construction costs for 2011 and 30% for 2012 to obtain the forecasted expenditures.[492] DRA applied these same percentages to the DRA-adjusted (adjustments to New Business, Pipeline Relocation-Franchise, Cathodic Protection) total construction costs incurred to derive its forecast. DRA's estimated expenditures are $33.329 million for 2011 and $31.696 million for 2012, which resulted in the DRA recommendation of reducing SCG's forecasts by $6.878 million in 2011 and $7.998 million in 2012.[493]

---

[489] Exh. 535, p. 10.

[490] *Id.*

[491] Exh. 26, p. GOM-88.

[492] Exh. 27 at p. GOM-CWP-50.

[493] DRA accepts SCG's corrections in rebuttal, Exh. 29, p. 151.

7.2. SDG&E Issues

7.2.1. O&M

DRA recommends the Commission adopt $14.840 million for gas distribution O&M expense for the TY 2012,[494] rather than SDG&E's request for $19.812 million.[495] The various elements of SDG&E's request are discussed below.

7.2.1.1. Other Services

This group includes labor and non-labor expenses associated with surveying and reporting of greenhouse emissions and with support activities not captured in other major groups. Other activities include inspection of customer's house lines, patrolling of transmission mains, providing paving and street repair and supporting Transmission Pipeline Integrity. For this account, SDG&E shows a recorded 2009 base year figure of $246,000 and a forecasted incremental increase of $2,098,000 resulting in a TY expense of $2,344,000 (in 2009 dollars). Recorded costs for 2010 were only $150,000. DRA recommends $190,000 for TY 2012, based on the most recent recorded five-year (2006 through 2010) average, which is $2,154,000 less than SDG&E's forecasted expenses of $2,344,000.[496] On rebuttal, SDG&E attributed all of the incremental spending as related to the Mandatory Greenhouse Gas Reporting Requirements.[497] As discussed elsewhere, SDG&E and SCG have seriously overestimated the amount of locations on its system regarding which they are required to report Greenhouse Gas Emissions, and hence overestimated the resulting costs by almost a factor of one thousand.[498] SDG&E's request must be rejected given the much reduced coverage of the final rule. DRA's use of 2010 data to calculate a five-year average is reasonable given the decline in costs from the 2009 base year figure, which renders SDG&E's 2012 estimate, over fifteen times as large as 2010 actual spending, as highly unlikely.

---

[494] Exh. 503, p. 2.

[495] Exh. 22, p. GOM-13.

[496] Exh. 503, pp. 3-4 and Table 7-2.

[497] *See* Exh. 22, p. GOM-9.

[498] *See supra* Section 7.1.1.3.

7.2.1.2. Leak Survey

This account includes labor and non-labor expenses associated with surveying SDG&E gas distribution system for leaks. For this account, SDG&E shows a recorded base year figure of $1,181,000 and a forecasted incremental increase of $78,000 resulting in a TY 2012 expense of $1,259,000 (in 2009 dollars). SDG&E provided historical (2005 through 2009) O&M expenses for this account, and upon DRA's request provided the 2010 recorded amount of $995,000 for this account. DRA recommends $1,025,000 for TY 2012, based on the most recent recorded five-year (2006 through 2010) average as shown on Table 7-3 below, which is $234,000 less than SDG&E's forecasted expenses of $2,259,000.[499] DRA's use of a five-year average provides a reliable TY forecast. DRA notes that with 2010 spending higher than 2005 spending, a five-year 2006-2010 average is higher than a five-year 2005-2009 average. SDG&E's request for 2009 spending plus purported incremental requirements for wireless fees, system growth, and weed abatement[500] should be denied because the decline in 2010 spending shows that 2009 spending is not a representative level of spending for a base. Moreover, SCG does not establish the need for Mobile Data Terminals. System growth obviously did not occur in 2010, and the need for such "incremental costs" for growth overlooks that year to year spending should represent annual growth levels, if some exists, and such growth does not need to be captured in an "incremental" addition. Finally, SDG&E's argument that weed abatement needs additional costs associated with a transfer from a multi-year to an annual system because "SDG&E … has found the growth in these areas too high for proper access"[501] lacks any data or outside reference to support such a conclusion.[502]

---

[499] *See* Exh. 503, pp. 4-5 and Table 7-3.

[500] Exh. 25, p. GOM-12.

[501] Exh. 22, p. GOM-16.

[502] DRA is not required to reply to each and every argument SDG&E offers when such arguments are not supported by any objective data and do not meet the burden of proof which requires "clear and convincing evidence."

7.2.1.3. Locate and Mark

For this account, SDG&E shows a recorded 2009 base year figure of $2,372,000 and a forecasted incremental increase of $403,000 resulting in a TY 2012 expense of $2,775,000 (in 2009 dollars). SDG&E provided historical (2005 through 2009) O&M expenses for this account, and upon request, the 2010 recorded amount of $2,207,000 for this account.[503] Actual spending from 2005 – 2010 shows a clear downward trend from 2006 onwards,[504] and thus DRA recommends a TY 2012 amount that averages the actual spending from 2009 and 2010, resulting in a recommendation of $2.29 million.[505]

SDG&E's request for allegedly incremental costs "primarily for anticipated improved economic conditions"[506] should be rejected for the reasons discussed above regarding the utility's failure to recognize the severity of the recession and the fact that year-to-year costs in this account should capture growth without the need for an incremental addition. Moreover, the alleged incremental costs for Locate and Mark reorganization, which SDG&E completed in 2009 and 2010,[507] would also have been captured in the costs of those years, would not be "incremental" costs for 2012, and are already represented in DRA's recommendation based on actual 2009 and 2010 costs.

7.2.1.4. Main Maintenance

For this account, SDG&E shows a recorded 2009 base year figure of $1,065,000 and a forecasted incremental increase of $110,000 resulting in a TY expense of $1,175,000 (in 2009 dollars). In its workpapers, SDG&E provided historical (2005 through 2009) O&M expenses for this account,[508] and upon request provided the 2010 recorded amount of $1,041,000 for this account.[509] DRA recommends $1,083,000 for

---

[503] Exh. 503, p. 5.

[504] *Id.*, Figure 7-3.

[505] *Id.*, p. 6.

[506] Exh. 25, p. GOM-15.

[507] *See* Exh. 22, p. GOM-17 – GOM-18

[508] Exh. 24 workpapers, p. 22.

[509] Exh. 503, p. 6.

TY 2012, based on the most recent recorded five-year (2006 through 2010) average, which is $92,000 less than SDG&E's forecasted expenses of $1,175,000.[510] As with the previous cost categories, the Commission should reject SDG&E's request for incremental costs associated with allegedly "new construction,"[511] given SDG&E's failure to accurately reflect the economic downturn and the fact that historical spending in the cost category already reflects fluctuations in spending. SDG&E also failed to show any objective, outside-sourced evidence of alleged "deteriorating condition of the bridge support infrastructure"[512] requiring incremental costs.

7.2.1.5. Service Maintenance

DRA accepts SDG&E's forecasted expense of $1,399,000 in this cost category.[513]

7.2.1.6. Supervision and Training

For this account, SDG&E shows a recorded 2009 base year figure of $2,262,000 and a forecasted TY expense of $2,632,000. In workpapers, SDG&E provided historical (2005 through 2009) O&M expenses for this account.[514] Upon DRA request, SDG&E provided the 2010 recorded amount of $1,857,000 for this account.[515] The historical spending trend of this account from 2005-2010, except for 2005 expense, is relatively flat.[516] DRA recommends $2,105,000 for TY 2012, based on the most recent recorded five-year (2006 through 2010) average, which is $527,000 less than SDG&E's forecasted expenses of $2,632,000. SDG&E has not established the need for any of the incremental training it requests, as it is not a "given that today's level of … staffing is just sufficient

---

[510] *Id.*, p. 7 and Table 7-5.

[511] Exh. 25, p. GOM-19.

[512] Exh. 22, p. GOM-20.

[513] Exh. 503, p. 8.

[514] Exh. 24, p. 37.

[515] Exh. 503, pp. 8-9.

[516] *Id.*, p. 9 and Figure 7-6.

to perform necessary"[517] work and activities, as SDG&E repeatedly assumes but fails to support with any evidence.

7.2.1.7. Tools

DRA does not oppose SDG&E's forecasted expense of $502,000 for this account.

7.2.1.8. Electric Support

DRA does not oppose SDG&E's forecasted expense of $588,000 for this account.

7.2.1.9. Measurement & Regulation

For this account, SDG&E shows a recorded 2009 base year figure of $2,486,000 and a forecasted TY expense of $2,898,000.[518] In workpapers, SDG&E provided historical (2005 through 2009) O&M expenses for this account.[519] Upon DRA request, SDG&E provided the 2010 recorded amount of $2,236,000 for this account.[520] DRA recommends $2,262,000 for TY 2012, based on the most recent recorded five-year (2006 through 2010) average, which is $636,000 less than SDG&E's forecasted expenses of $2,898,000.[521] DRA's use of a five-year average is reasonable given the fluctuating nature of costs over the recent period. SCG justifies the myriad, purportedly incremental expenses for "formalized training" for which it requests recovery by claiming it needs to "prepare for a possible loss of 20% of this workgroup's employees due to upcoming retirements"[522] and "to prepare for new maintenance requirements facing this group from the 2010 deployment of the new Smart Meter technology."[523] However, "possible" retirements are not sufficient justification for such increased costs. SDG&E also never demonstrates what are the "new maintenance requirements" for new Smart Meters, or the

---

[517] *See* Exh. 22, pp. 24, 25, 26. SDG&E made this assumption for five of the six incremental categories of spending for which it requests recovery over and above base year funding.

[518] Exh. 503, p. 11.

[519] Exh. 24, p. 72.

[520] Exh. 503, p. 11.

[521] *Id.*, p. 12 and Table 7-7.

[522] Exh. 25, p. GOM-31.

[523] *Id.*, pp. GOM-31 – GOM-32.

costs of such requirements, or explained why any such costs would not be more than offset by savings associated with reduced maintenance requirements with older, analog meters. SDG&E cannot thus prove the reasonableness of any incremental expenses in this category.

7.2.1.10. Pipeline O&M and Planning

For this account, SDG&E shows a recorded 2009 base year figure of $1,516,000 and a forecasted TY expense of $1,828,000.[524] In workpapers, SDG&E provided historical (2005 through 2009) O&M expenses for this account.[525] Upon DRA request, SDG&E provided the 2010 recorded amount of $1,429,000 for this account.[526] The historical trend of this account shows that the expenses for this account have been decreasing since 2006.[527] DRA recommends $1,473,000 for TY 2012, based on the most recent recorded two-year (2009 and 2010) average, which is $355,000 less than SDG&E's forecasted expenses of $1,828,000.[528] DRA's use of a two-year average is reasonable as it reflects the decreasing trend in recent historical expenses. SDG&E has not demonstrated its need for incremental support for training for its new GIS,[529] Construction Design Estimating support, or Staff Adjustment for Drafting support, or for an Engineering Rotation Program. It would appear that when SDG&E decides to update many of its internal processes to make them more efficient paradoxically it costs ratepayers more down the road in hidden, vaguely described associated costs in far-flung accounts that were not disclosed initially, and this practice of bootstrapping cost recovery must be rejected.

---

[524] Exh. 503, p. 12.

[525] Exh. 24, p. 87.

[526] Exh. 503, p. 13.

[527] *Id.*, p. 13 and Figure 7-10.

[528] *Id.*, p. 13 and Table 7-8.

[529] SDG&E yet again claims, without any support, that it is "[g]iven that the 2009 level of staffing in the Mapping organization is just sufficient to perform the necessary mapping work." Exh. 22, p. GOM-38.

7.2.1.11. Cathodic Protection

For this account, SDG&E shows a recorded 2009 base year figure of $844,000 and a forecasted TY expense of $898,000 (in 2009 dollars).[530] In workpapers, SDG&E provided historical (2005 through 2009) O&M expenses for this account.[531] Upon DRA request, SDG&E provided the 2010 recorded amount of $852,000 for this account.[532] DRA recommends $824,000 for TY 2012, based on the most recent recorded five-year (2006 through 2010) average, which is $74,000 less than SDG&E's forecasted expenses of $898,000.[533] SDG&E utilized a three-year average for 2007 – 09, claiming that "[d]ue to an organizational change affecting how CP costs are recorded to cost centers, and due to employee retirements, the costs for CP prior to 2007 were not representative of the current group structure."[534] But SDG&E provides no evidence of such an organizational change or explanation as to why such costs were not representative, or provides an explanation as to how employee retirements affected costs prior to 2007. In any event, DRA only utilizes one of the two years prior to 2007 in its recommendation. Similar to the arguments above, SDG&E has failed to demonstrate the need for and reasonableness of its proposed incremental expenses in this account.

7.2.1.12. Operation Management and Training

For this account, SDG&E shows a recorded 2009 base year figure of $1,193,000 and a forecasted TY expense of $1,514,000.[535] In workpapers, SDG&E provided historical (2005 through 2009) O&M expenses for this account.[536] Upon DRA request, SDG&E provided the 2010 recorded amount of $1,004,000 for this account.[537] Since

---

[530] Exh. 503, p. 14.

[531] Exh. 24, p. 87.

[532] Exh. 503, p. 14.

[533] *Id.*, pp. 14-15 and Table 7-9.

[534] Exh. 22, p. GOM-41.

[535] Exh. 503, p. 15.

[536] Exh. 24, p. 106.

[537] Exh. 503, p. 15.

2006, the expense for this account has been decreasing each year through 2010.[538] DRA recommends $1,099,000 for TY 2012, based on the most recent recorded two-year (2009 and 2010) average, which is $415,000 less than SDG&E's forecasted expenses of $1,514,000.[539] Given the consistent, downward trend over the five years from 2006-2010, use of 2009 and 2010 actuals acknowledges this trend. SDG&E has failed to demonstrate the need for and the reasonableness of incremental costs for new welder training, staffing adjustments, new Industrial Design Specialists, or two additional advisors to support new technology and process improvement.[540]

7.2.2. Capital

For TY 2012 gas distribution capital expenditures, DRA recommends $19.982 million, $10.667 million or 34.8% lower than SDG&E's request of $30.657 million.[541] For 2011 gas distribution capital expenditures, DRA recommends $34.136 million, $8.040 million or 19.1% lower than SDG&E's request of $42.176 million.[542] For 2010 gas distribution capital expenditures, DRA recommends $64.976 million, $10.096 or 13.3% lower than SDG&E's request of $75.072 million.[543]

7.2.2.1. New Customers

This account provides for changes and additions to the existing distribution system to connect new residential, commercial and industrial customers. For this account, SDG&E shows a recorded 2009 base year of $2,818,000 and a forecasted incremental increase of $2,080,000 (a 74% increase) for an increased number of new connections, resulting in a 2012 capital expense of $4,898,000 (in 2009 dollars).[544] In workpapers,

---

[538] *Id.*, p. 16 and Figure 7-12.

[539] *Id.*, p. 16 and Table 7-10.

[540] *See* Exh. 22, pp, GOM-44 – GOM-46.

[541] *See* Exh. 503, Table 7-21.

[542] *See id.*, Table 7-20.

[543] *See id.*, Table 7-19.

[544] Exh. 22, p. GOM-56.

SDG&E provided historical (2005 through 2009) capital expenditures for this account.[545] Upon DRA request, SDG&E provided the 2010 recorded amount of $2,011,000 for this account.[546] The historical trend shows that expenditures for this account have drastically declined from $4.68 million in 2005 to $2.8 million in 2009 (40 percent decrease).[547] DRA recommends $2,592,000, the recorded expenditures for 2010; and also recommends $2,499,000 for 2011; $2,499,000 for 2012 based on a three-year (2008-2010) average. This proposal allows for increases over 2010 spending and takes into account the most recent trend in spending, and is thus reasonable. SCG finally attempts to acknowledge the depth of the recession and its impact on 2010 spending, but only weakly notes that "2010 is a transitional period representing the bottom of the economic downturn where most likely the expenditures and new meter set count will be at its lowest."[548] SDG&E explicitly noted that "as the economy rebounds, SDG&E anticipates a return in new housing and commercial/industrial growth,"[549] to justify its forecasts in this area, but as stated above, SDG&E relied upon dated information that understated the recession and overstated the recovery in 2011 and 2012. SDG&E's projections in this area are overoptimistic and should be rejected.

7.2.2.2. Adds/Relocations/Retirements

DRA does not oppose the recorded 2010 capital expenditures of $604,000, and recommends no adjustments to SDG&E's forecasted expenditures of $754,000 for 2011 and $754,000 for 2012.[550]

7.2.2.3. Meters and Regulators

For this account, SDG&E shows a recorded 2009 base year of $4,480,000 and a forecasted incremental increase of $7,526,000 (a 68% increase) for an increased number

[545] Exh. 23, p. GOM-CWP-4.

[546] Exh. 503, p. 17.

[547] *Id.*, p. 18 and Figure 7-13.

[548] Exh. 25, p. GOM-44.

[549] Exh. 22, p. GOM-57.

[550] Exh. 503, p. 19.

of new connections, resulting in a 2012 capital expense of $7,526,000.[551] In workpapers, SDG&E provided historical (2005 through 2009) capital expenditures for this account.[552] Upon DRA's request, SDG&E provided the 2010 recorded amount of $6,083,000 for this account.[553] DRA recommends $6,083,000 recorded expenditure for 2010; and also recommends $4,665,000 for 2011; $4,665,000 for 2012 based on five-year (2006-2010) average, due to the fluctuating trends from 2005-2010.[554]

7.2.2.4. System Reinforcement

This account provides for the capital expenditures for purchasing new residential, commercial and industrial gas meters and regulators. For this account, SDG&E shows a recorded 2009 base year of $2,242,000 and a forecasted incremental increase of $1,462,000 (a 65% increase) for an increased number of new connections, resulting in a 2012 capital expense of $3,704,000 (in 2009 dollars).[555] In workpapers, SDG&E provided historical (2005 through 2009) capital expenditures for this account.[556] Upon DRA's request, SDG&E provided the 2010 recorded amount of $1,9722,000 for this account.[557] DRA recommends $852,000 recorded expenditure for 2010, and $1,700,000 for 2011 and 2012 based on a five-year (2006-2010) average, which reflects the fluctuating trend since 2005, but captures recent declines.[558]

---

[551] Exh. 22, p. GOM 59.

[552] Exh. 23, p. GOM-CWP-6.

[553] Exh. 503, p. 19.

[554] *See id.*, p. 20 and Figure 7-14.

[555] Exh. 22, p. GOM-61.

[556] Exh. 23, p. GOM-CWP-10.

[557] Exh. 503, p. 20.

[558] *Id.*, p. 21 and Figure 7-15.

7.2.2.5. Easement

DRA accepts the recorded 2010 capital expenditures of $11,000, and recommends no adjustments to SDG&E's forecasted expenditures of $30,000 for 2011 and $30,000 for 2012.[559]

7.2.2.6. Street and Highway Relocation

For this account, SDG&E shows a recorded 2009 base year of $2,565,000 and a forecasted incremental increase of $1,260,000 (a 49% increase) for an increased number of new connections, resulting in a 2012 capital expense of $3,825,000 (in 2009 dollars).[560] In workpapers, SDG&E provided historical (2005 through 2009) capital expenditures for this account.[561] In an April 11, 2011 email, SDG&E provided the 2010 recorded amount of $3,672,000 for this account.[562] Based on the historical spending, DRA recommends $3,672,000 recorded expenditures for 2010; and also recommends $2,398,000 for 2011; $2,398,000 for 2012 based on a five-year (2006-2010) average. The five-year average from 2006-2010 captures the varying levels but also takes into account the higher 2010 figure. SDG&E claims that this account is driven by highway construction and that "as construction returns to levels representative of the agencies' proposed plans prior to the economic slowdown" spending levels in 2011 and 2012 should remain similar to 2010 levels.[563] But spending levels in this account "prior to the economic slowdown" were lower than 2010 levels. Taking into account 2006-2009 spending along with 2010 recorded data captures the years "prior to the economic slowdown," and DRA's proposal should be adopted.

---

[559] *Id.*, p. 22.

[560] Exh. 22, p. GOM-63.

[561] Exh. 23, p. GOM-CWP-13-R.

[562] Exh. 503, p. 22.

[563] Exh. 22, p. GOM-63.

7.2.2.7. Tools and Equipment

DRA accepts the recorded 2010 capital expenditures of $143,000, and recommends no adjustments to SDG&E's forecasted expenditures of $1,798,000 (5 year average of $398,000 plus $1,400,000 for new tools) for 2011 and $398,000 for 2012.[564]

7.2.2.8. Code Compliance

In workpapers, SDG&E provided historical (2005 through 2009) capital expenditures for this account.[565] Upon DRA request, SDG&E provided the 2010 recorded amount of $441,000 for this account.[566] SDG&E had originally forecasted $547,000 for this account, based on many incremental requirements.[567] DRA chose a five-year average as forecasting methodology in determining spending level anticipated to be seen through 2012. DRA recommends $441,000 recorded expenditure for 2010; and also recommends $256,000 for 2011; $256,000 for 2012 based on the five-year (2006-2010) average.[568] This average takes into account the higher spending in 2010, but as 2010 spending was not as high as SDG&E has predicted. DRA believes SDG&E's forecasts for 2011 and 2012 could be similarly mistaken.

7.2.2.9. Mains and Service Replacement

DRA recommends $1,233,000 recorded expenditure for 2010; and recommends no adjustments to SDG&E's forecasted expenditures of $1,528,000 for 2011 and $1,487,000 for 2012.[569]

7.2.2.10. Cathodic Protection

In workpapers, SDG&E provided historical (2005 through 2009) capital expenditures for this account.[570] Upon DRA request, SDG&E provided the 2010

---

[564] Exh. 503, p. 24.

[565] Exh. 23, p. GOM-CWP-18-R.

[566] Exh. 503, p. 24.

[567] Ex, 22, p. GOM-65, Table 7-14.

[568] Exh. 503 p. 24.

[569] *Id.*, p. 25.

recorded amount of $364,000 for this account.[571] DRA recommends the $364,000 recorded expenditure for 2010; and also recommends $412,000 for 2011; $412,000 for 2012 based on a five-year (2006-2010) average, because of the fluctuating levels of spending from 2006-2010, declining, then increasing, and the declining again in 2010.[572] SDG&E on rebuttal claimed that "Linear trending is the best forecast method as expenditures in this budget code continue to increase due to the age of the CP infrastructure; increasing permitting and drilling costs; and the increased need for new or renewed CP stations."[573] But there was not a linear trend from 2005-2009, with a large decrease in spending in 2007, and the reduced actual spending in 2010 rebuts SDG&E's claim that costs "continue to increase." DRA's forecast of a five-year average taking into account 2010 spending should be adopted.

7.2.2.11. System Reliability & Safety Improvement

In workpapers, SDG&E provided historical (2005 through 2009) capital expenditures for this account.[574] Upon DRA request, SDG&E provided the 2010 recorded amount of $461,000 for this account.[575] DRA chose a five-year average as forecasting methodology in determining spending level anticipated to be seen through 2012 due to the fluctuating levels of spending over the period.[576] DRA recommends $461,000 recorded expenditure for 2010; and also recommends $484,000 for 2011; $484,000 for 2012 based on five-year (2006-2010) average. SDG&E includes incremental expenses "for a five-year safety, reliability and capacity improvement of the Company's compressed natural gas (CNG) vehicle refueling stations,"[577] but never

---

[570] Exh. 23, p. GOM-CWP-22-R.

[571] Exh. 503, p. 26.

[572] *See id.*, p. 26 and Table 7-15.

[573] Exh. 25, p. GOM-63.

[574] Exh. 23, p. GOM-CWP-24-R.

[575] Exh. 503, pp. 26-27

[576] *See id.*, p. 27 and Table 7-16.

[577] Exh. 22, p. GOM-70.

explains in detail why they are adopting such a program now or any Commission directive with which they are complying. The two pages of workpapers lack detail as to the spending,[578] and 2010 actual spending was $164,000 lower than SDG&E predicted. DRA's recommendation should be adopted.

7.2.2.12. Local Engineering

This work category provides the labor and non-labor funding for a broad range of services to support Gas Distribution field capital construction. In workpapers, SDG&E provided historical (2005 through 2009) capital expenditures for this account.[579] DRA chose a five-year average as forecasting methodology in determining the spending level anticipated to be seen through 2012 even though there is a slight downward trend over these years. DRA accepts SDG&E's 2010 forecast of $5,083,000; and recommends $4,902,000 for 2011; $4,902,000 for 2012 based on a five-year (2005-2009) average. SDG&E asserts that "the funding forecast for the LE pool generally tracks the historical relationship between support requirements for new business and replacement construction activities and is consistent with other capital work category forecasts."580 While DRA did not replicate SDG&E's forecast of a ratio applied to certain categories of predicted capital costs, as DRA has not accepted the costs in these categories and has generally found them to be overestimated, using historical data from years where SDG&E noted there had been higher ratios of LE spending to capital than their proposal is a reasonable proxy.

7.2.2.13. San Onofre

In workpapers, SDG&E asserts that the expenditures incurred in completing the San Onofre 1 project in years 2010, 2011, and 2012 are $439,000, $0 and $0, respectively.[581] DRA does not oppose with SDG&E's proposed expenditures.

---

[578] Exh. 23, pp. GOM-CWP-23-R – GOM-CWP-24-R.

[579] Exh. 23, p. GOM-CWP-18-R.

[580] Exh. 22, p. GOM-72.

[581] Exh. 23, p. GOM-CWP-18-R.

7.2.2.14. Smart Meter

In workpapers, SDG&E forecasted expenditures for the Smart Meter Gas Modules and Installation Project in years 2010 as $50,472,000, 2011 as $12,713,300, and 2012 as $0.[582] Upon DRA request, SDG&E presented recorded 2010 expenditures of $43,890,000 as opposed to 2010 forecasted expenditures of $50,472,000.[583] DRA recommends the $43,890,000 recorded expenditures for 2010; and DRA does not oppose SDG&E's proposed expenditures of $12,713,300 for 2011 and $0 for 2012.

8. GAS TRANSMISSION

8.1. SoCalGas Issues

8.1.1. O&M

SCG requests $28.3 million in expenses for TY 2012. This is an increase of $3 million above the 2009 recorded amount of $25.3 million.[584] The majority of the increase, or $3 million, is for non-shared expenses. DRA's overall recommendation for Gas Transmission is $27 million, which is $1.3 million lower than SCG's request of $28.3 million for TY 2012.[585]

8.1.1.1. Pipeline Operations and Maintenance

DRA takes issue with only one item of SCG spending in this category, costs for removal of previously abandoned pipelines. SCG requests an increase of $750,000 above base year levels for the removal of previously abandoned pipelines. SCG states that the company has recently experienced an increase in requests for removal of pipelines that had been abandoned.[586] But SCG's records show no recorded expense for the removal of previously abandoned pipelines for 2005-2008. SCG did not receive any requests between 2005 and 2007. SCG received one request in 2008, two in 2009, and two in

[582] Exh. 23, p. GOM-CWP-28-R.

[583] Exh. 503, p. 28.

[584] Exh. 90, p. JLD-1.

[585] Exh. 533, p. 95.

[586] Exh. 92, p. JLD-10.

2010.[587] SCG has not incurred any expense for this work activity other than the removal of one project in 2009, which cost about $91,000.[588] SCG claims it has eight requests for removal, but there is no requirement that these requests all be completed in 2012, and clearly SCG's past practice has not been to finish all outstanding requests in one calendar year.

DRA recommended $250,000, given the lack of specificity of the forecast for 2012. SCG's rebuttal consisted mostly of noting that they spent almost $500,000 in 2010, and its request "therefore"[589] should be approved – an introduction of actual spending to justify 2012 spending, and not in response to the introduction of 2010 actual spending by DRA or intervenors – but the lack of any information tying such costs to specific projects and how it impacts SCG's forecast for 2012 means that figure cannot confirm that the spending level should be $750,000 in 2012. DRA's recommendation of $250,000 remains reasonable.

8.1.1.2. Compressor Station Operations and Maintenance

SCG requests $8.1 million in expenses for work activities associated with Compressor Station Operation and Maintenance. This is an increase of $806,000 in expenses above base year levels to address new regulations. DRA takes issue with SCG's requested increase for the following issues: (1) CARB-AB 32, (2) RICE/NESHAPS MDAQMD Rule 1160, and (3) CARB-AB 10X. This results in a recommended decrease of $406,000 to SCG's request. DRA does not oppose SCG's request for an increase of $400,000 to provide a consistent blend of odorant in its service territory. DRA's TY 2012 forecast is $7.7 million compared to SCG's request of $8.1 million.[590]

DRA discusses AB 32 compliance costs timing and whether or not this rate proceeding is proper for AB 32 cost recovery,[591] and MDAQMD Rule 1160[592] elsewhere

---

[587] Exh. 533, p. 97.

[588] *Id.*

[589] Exh. 92, p. JLD-4.

[590] Exh. 533, p. 98.

[591] Section 9.2.1.3.

in this brief, and reiterates those conclusions in denying funding requested by SCG related to these regulations. SCG recommended an increase of $62,000 to $179,000 for CARB-AB 10X, which DRA recommends be denied, because actual costs from 2005 – 2009 did not exceed $118,051.[593] On rebuttal, SCG again provided actual expenses for 2010 and 2011 of $144,000 and $222,000 respectively to show the reasonableness of their proposal for 2012.[594] SCG on rebuttal also argued that its workpapers supported their initial request,[595] but such workpapers are filled with numerous assumptions about future acts by the districts regarding costs and other matters that cannot be verified.

8.1.1.3. Technical Services

SCG requests an increase of $705,000 in expenses above base year levels associated with Technical services. The 2009 recorded expenses for this work category is $1.7 million. SCG estimates $2.4 million for this work category in TY 2012. The increase is attributable to additional work activities for Right-of-Way management and for the additional 2 FTEs to support Technical Services. DRA only opposes the almost $1.2 million estimated costs for Right-of-Way management.[596] This is an increase of about $500,000 over 2009 spending of $685,000. Spending in 2010 was $879,000.[597] SCG states that it provided a detailed narrative discussion of the cost calculation figures in its workpapers,[598] but the costs of the elements in those workpapers are not broken down themselves but rather are just presented, and the comments of many of the line items show that many projects are not ready to be performed now. DRA recommends adoption of the 2009 spending level.

---

[592] Section 9.2.1.2.

[593] Exh. 533, p. 100.

[594] Exh. 92, p. JLD-5.

[595] *Id.*, *citing* Exh. 91, pp. 56-63.

[596] Exh. 533, p. 101.

[597] *Id.*, p. 102.

[598] Exh. 92, p. JLD-7, *citing* Exh. 91, pp. 73-83.

8.2. SDG&E Issues

8.2.1. O&M

SDG&E is requesting total O&M expenses of $3,379,000 for TY 2012. DRA opposes only SDG&E's request for Compressor Stations, for which DRA recommends a $182,000 reduction. In workpapers, SDG&E shows a recorded 2009 base year cost of $2,095,000 and a forecast incremental increase of $207,000 (a 9.9% increase) resulting in a TY 2012 expense of $2,302,000.[599] SDG&E also provided historical (2005 through 2009) O&M expenses for this account.[600] Upon DRA's request, SDG&E provided a 2010 recorded amount of $2,093,000 for this account.[601] DRA recommends $2,120,000 for TY 2012, based on the most recent recorded five-year (2006 through 2010) average,[602] $182,000 less than SDG&E's forecasted expenses of $2,302,000.

8.2.2. Capital

SDG&E is requesting total capital expenditures of $12.407 million for TY 2012.[603] DRA recommends $11.071 million, $1.336 million or 10.8% lower than SDG&E's request.[604] For 2011, SDG&E requests $12.279 million, whereas DRA recommends $10.943 million, $1.336 million or 10.9% lower than SDG&E's request.[605] For 2010, SDG&E request $10.215 million, whereas DRA recommends $6.400 million, $3.815 million or 37.3% lower than SDG&E's request.[606]

8.2.2.1. New Construction

In workpapers for this account, SDG&E shows a recorded base year cost of $111,000 and forecast expenditures of $190,000 for 2010, $190,000 for 2011 and

---

[599] Exh. 91, p. 20.

[600] *Id.*

[601] Exh. 504, p. 4.

[602] *See id.*, p. 4, Figure 8-2, and Table 8-2.

[603] Exh. 51, p. RKS-2.

[604] *See* Exh. 504, Table 8-7.

[605] *See id.*

[606] *See id.*

$190,000 for 2012.[607] Upon DRA's request, SDG&E provided a 2010 recorded amount of $56,000 for this account.[608] Based on this recorded data, which was far less than SDG&E had predicted for 2010, DRA recommends that the Commission adopt expenditures of $56,000 for 2010, as well $56,000 for 2011 and $56,000 for 2012 as SDG&E had used the same figures for all three years. As with other predictions regarding economic and construction activity, SDG&E has been overly optimistic.

8.2.2.2. Pipeline Replacements

According to data provided to DRA, there were no costs associated with pipeline replacement in 2009 and 2010.[609] DRA recommends expenditures of $0 for 2010. DRA does not oppose SDG&E's requested expenditures for 2011 of $2.011 million and 2012 of $617,000.

8.2.2.3. Pipeline Relocation

DRA recommends recorded expenditures of $88,000 for 2010, which were provided by SDG&E upon request.[610] There had been no recorded expenses in 2008 and 2009. DRA does not oppose SDG&E's requested expenditures for 2011 and 2012 of $213,000 for both years.

8.2.2.4. Compressor Station Addition/Replacement

DRA recommends recorded expenditures of $3,288,000 for 2010, which were provided by SDG&E upon request.[611] DRA does not oppose SDG&E's requested expenditures for 2011 of $2.484 million and 2012 of $2.611 million.

---

[607] Exh. 52, p. RKS-CWP-R-1.

[608] Exh. 504. p. 6.

[609] *See* Exh.504, p. 7 and Figure 8-4.

[610] *See* Exh. 504, pp. 7-8 and Figure 8-5.

[611] *See* Exh.504, pp. 8-9 and Figure 8-6.

8.2.2.5. Cathodic Protection

DRA recommends recorded expenditures of $49,000 for 2010, which were provided by SDG&E upon request.[612] DRA does not oppose SDG&E's requested expenditures for 2011 and 2012 of $94,000 for each year.

8.2.2.6. Meter & Regulator Additions/Replacements

DRA does not oppose SDG&E's forecast expenditures of $60,000 for 2010, $444,000 for 2011 and $444,000 for 2012.

8.2.2.7. Pipeline Integrity – Distribution

DRA does not oppose SDG&E's forecast expenditures of $2,626,000 for 2010, $2,698,000 for 2011 and $920,000 for 2012.

8.2.2.8. Capital Tools

DRA does not oppose SDG&E's requested expenditures of $14,000 for 2010, $20,000 for 2011 and $20,000 for 2012.

8.2.2.9. Direct S&E Overhead

DRA does not oppose SDG&E's forecast expenditures of $220,000 for 2010, $220,000 for 2011 and $220,000 for 2012.

8.2.2.10 Distribution Integrity Management Program

DRA does not oppose SDG&E's forecast expenditures of $0 for 2010, $2,829,000 for 2011 and $6,002,000 for 2012.

9. GAS STORAGE AND ENGINEERING

9.1. Gas Storage (SoCalGas-Only)

9.1.1. O&M

SCG's Underground Storage expenses are for the O&M and engineering specific to underground storage facilities. SCG requests a total of $28.9 million in expenses for Underground Storage in TY 2012.[613] SCG's request reflects an increase of $2.3 million

---

[612] *See* Exh.504, pp. 9-10 and Figure 8-7.

[613] Exh. 466, p. JDM-1.

above the 2009 adjusted recorded amount of $26.6 million.[614] The $2.3 million increase is made up of two components: (1) the $636,000 increase in non-labor expense as a result of using a five year 2005-2009 average as the base, instead of the 2009 recorded expense, and, (2) incremental increases totaling $1.6 million.[615] SCG uses the 2009 recorded expense for labor as the base year forecast for the 2012 labor expense.

SCG starts its base year forecast with two different methodologies for the labor and non-labor components of the total cost. The use of the base year number for labor expense and a five-year average for the non-labor expense produces an increase of $636,000, without having to forecast any incremental new work activities for TY 2012.[616] DRA disagrees with SCG's use of the five-year average of non-labor expenses to derive the base year amount from which to forecast the TY 2012 total expense. SCG's explains that the five-year average cost was used as a basis for projections because storage non-labor O&M costs fluctuate significantly from year to year as compared to the labor O&M costs.[617]

SCG clarified this position on rebuttal, saying "labor and non-labor expenses for Underground Storage, as presented in my revised direct testimony and workpapers, have historically trended differently,"[618] although they concede the trending "may not appear overly dramatic."[619] Indeed, the graphs on that page show that labor and non-labor expenses were trending similarly for 2005-08, both going up for the 2005-07 period and going down in 2008, and were only slightly divergent in 2009.

DRA disagrees with SCG's choice of the 2009 recorded labor cost because it represents the highest labor expenses during the period from 2005-2009. DRA finds SCG's differing forecasting methodologies for Underground Storage O&M expenses

---

[614] Exh. 533, p. 103.

[615] *Id.*, pp. 103-104.

[616] Exh. 533, p. 104.

[617] Exh. 467, p. 5.

[618] Exh. 470, p. JDM-5.

[619] *Id.*

unconvincing because taken as a whole, the total expense doesn't appear to fluctuate significantly from year to year, and the 2010 recorded expense affirms this. The expenses from 2006-2010 appears to be relatively stable, with the workpapers showing that changes averaged only about 1.7 percent each year.[620]

DRA thus recommends basing the 2012 Test Year on the 2009 recorded labor and non-labor expenses, instead of the five-year average proposed by SCG, almost $26.6 million.[621] Moreover, DRA only recommends adoption of two of four FTEs for Greenhouse Gas reporting and mitigation, incremental costs of $152,000 instead of $304,000,[622] and no incremental costs for SCAQMD Rule 317 costs, CPUC G.O. 95 costs, SPABCD Rule 333 costs, and Miscellaneous costs. The SCAQMD rule does not require qualifying facilities to pay a fee.[623] Data provided to support G.O. 95 costs did not match the narrative provided in testimony and assumed a much higher number of red flag days in the future than the past.[624] The SPABCD rule required compliance in 2008 and SCG failed to justify the reason for increased compliance costs.[625]

9.1.2. Capital

SCG estimated TY 2012 capital expenditures related to storage at approximately $30.6 million.[626] DRA recommends capital expenditure adjustments to three budget codes under Underground Storage – Compressor Stations, Pipelines, and Auxiliary Equipment.

SCG forecasted expenditures of $4.430 million in 2010, $6.851 million in 2011 and $6.851 million in 2012 for capital expenditures for maintenance, replacements, and

---

[620] Exh. 467 workpapers, p. 5.

[621] Exh. 533, p. 105 and Table 44-28A

[622] *See supra* Section 7.1.1.3

[623] Exh. 533, p. 107.

[624] *Id.*, pp. 108-110.

[625] *Id.*, pp. 110-111.

[626] *See* Exh. 535, p. 12, Table 45-6.

upgrades of storage field compressor stations.[627] SCG developed its estimates for 2010 and 2011 by taking the 5-year average of recorded expenditures from 2005 to 2009, which is $5.413 million, and to this average added $1.438 million for turbine-driven compressor overhauls each year.

DRA recommends capital expenditures of $5.413 million each year in 2011 and 2012. This amount is based strictly on the 5-year average of recorded capital expenditures from 2005 to 2009, and excludes the cost of the two compressors SCG added in 2011 and 2012. On rebuttal, SCG clarified that these two turbine overhauls were necessary because of "a delay in the issuance of the Aliso Canyon Turbine Replacement Amended Certificate of Public Convenience & Necessity (CPCN), as compared to the previously anticipated issuance date."[628] There is no set schedule for CPCN proceedings, and ratepayers should not be responsible for additional expenses due to a utility assuming a project will be approved sooner rather than later.

For the pipeline category, SCG forecasted expenditures of $4.222 million in 2010, $3.493 million in 2011 and $3.493 million in 2012.[629] SCG developed its estimates for 2010 and 2011 by taking the 5-year average of recorded expenditures from 2005 to 2009, which is $2.275 million, and to this average added $1.218 million for replacing the pipeline span support for Line FF38 in the Aliso Canyon field each year.

DRA recommends capital expenditures of $2.275 million each year in 2011 and 2012. This amount is based strictly on the 5-year average of recorded capital expenditures from 2005 to 2009. The historical expenditures for each of the years used in calculating the annual average should have already captured any addition of new projects and subtraction of expired projects, and therefore by definition, the yearly average number has already accounted for new projects added. SCG's addition of $1.218 million each year for replacement of the pipeline span support for Line FF38 in the Aliso Canyon

---

[627] Exh. 55, p. JDM-19.

[628] Exh. 470, p. JDM-16.

[629] Exh. 466, p. JDM-19.

field in this budget area is therefore inappropriate. DRA recommends the removal of this $1.218 million for both 2011 and 2012.

For auxiliary equipment, SCG forecasted expenditures of $5.923 million in 2010, $9.454 million in 2011 and $8.445 million in 2012.[630] SCG developed its estimates for 2010 and 2011 by taking the 5-year average of recorded expenditures from 2005 to 2009, which is $6.645 million, and to this average added $1.8 million for electrical system upgrade required by General Order 95 (GO-95) each year, and $1.009 million for plant power upgrades in Aliso Canyon in 2011. The five years of recorded expenditures are $6.229 million for 2005, $4.575 million for 2006, $8.412 million for 2007, $8.755 million for 2008 and $6.159 million for 2009. The recorded adjusted expenditures for 2010 are $8.103 million.[631]

DRA estimates capital expenditures of $6.645 million each year in 2011 and 2012. This amount is based strictly on the 5-year average of recorded capital expenditures from 2005 to 2009. The historical expenditures for each of the years used in calculating the annual average have already captured any addition of new projects and subtraction of expired projects, and therefore by definition, the yearly average number has already accounted for new projects added. Therefore, SCG's addition of $1.8 million for electrical system upgrades each year and $1.009 million for plant power upgrades in Aliso Canyon in 2011 is unnecessary. DRA recommends the removal of $2.809 million for 2011 and $1.8 million for 2012.

9.2. Gas Engineering

9.2.1. SoCalGas O&M

SCG requests a total of $94.5 million in expenses for Gas Engineering. This total comprises of $78.4 million in non-shared expenses, which is an increase of $50.4 million or 180% above its 2009 spending of $28 million, and $16.1 million in shared expenses,

---

[630] *Id.*

[631] *See* Exh. 535, p. 15.

which is an increase of $3.7 million above the base year.[632] DRA recommends $29 million in non-shared expenses for Gas Engineering, which is an increase of $1 million above the base year, for these activities. DRA does not oppose SoCalGas' shared expenses request.

9.2.1.1. Gas Engineering

"Gas Engineering" is also the name of a sub-category of costs within the larger "Gas Engineering" request. SCG requests $21.4 million for O&M expenses associated with this work category.[633] This forecast is an increase of $11.2 million above the 2009 adjusted recorded amount of $10.2 million. SCG first calculated the five-year average for both the labor and non-labor components, and then added four incremental increases to this base number, resulting in an overall increase totaling $11.2 million in TY 2012.[634] SCG calculated the five-year average to be $10.4 million, but due to the declining trend in costs from 2006-2009, DRA recommended a base-year figure equal to that of 2009 actual spending, $10.2 million.[635] For TY 2012, DRA forecasts $10.9 million for Gas Engineering, which is $10.6 million less than SCG's forecast of $21.4 million. \

DRA's recommendation is based on using the 2009 recorded expenses as the base year, plus accepting SCG's recommendation of $700,000 for Asset and Data Management, and on rejecting any funding for the Engineering Analysis Center, Planning and Analysis, and the Sustainable SoCal Program.[636]

9.2.1.2. Engineering Analysis Center

SCG requests an increase of $180,000 above the base year to support the impacts of purportedly increased environmental regulations on SCG's various monitoring,

---

[632] Exh. 533, p. 65.

[633] Exh. 55, p. RKS-14.

[634] *Id.*, p. RKS-14 and RKS-15.

[635] Exh. 533, p. 58.

[636] Exh. 533, p. 69.

sampling and analyzing, reporting and recordkeeping activities.[637] This request is primarily for compliance within the Mojave Desert Air Quality Management District (MDAQMD) with MDAQMD Rule 1160 and AB32, as well as costs associated with the EPA's 40 CFR Part 98 Subpart W Mandatory Greenhouse Gas Reporting Requirements, discussed *supra* in Section 7.1.1.3.[638]

AB32 implementation faces repeated delays and will not be finalized during the test year. The much-reduced scope of the final Greenhouse Gas Reporting Requirements compared to the early version relied upon by SCG for its forecast should eliminate any meaningful amount of compliance costs for this activity.

With respect to MDAQMD Rule 1160, SCG stated on rebuttal that it is participating in a "pilot study" with MDAQMD to finalize Rule 1160 requirements,[639] that it had spent $590,000 through October 2011 – again, current cost information – conducting the pilot study, and that based on its dealings with MDAQMD, "[t]here is no reason for SCG to doubt that the MDAQMD Rule 1160 will be revised and implemented by early 2012."[640] This statement does not comprise definitive proof of this potential occurrence, and as the first quarter of 2012 has passed without such a revision and implementation, the accuracy of SCG's predictions in this area is dubious.

9.2.1.3. Planning and Analysis

SCG requests a total of $9.5 million in expenses for activities related to AB 32. SCG states that the legislation has three distinct compliance components that SCG will need to meet: (1) program administrative fees, (2) cap-and-trade costs and (3) compliance and reporting requirements.[641]

---

[637] Exh. 55, p. RKS-16.

[638] Exh. 58, p. RKS-9.

[639] Exh. 330, p. DRH-18.

[640] *Id.*, p. DRH-20.

[641] Exh. 55, p. RKS-21.

AB 32 has not been finalized yet, and there is no indication it will be during 2012. SCG acknowledges implementaion delays,[642] but also claims to have already spent $11 million in mandatory AB 32 compliance fees in 2010/11 and 2011/12.

More importantly, the Commission has not formally concluded that ratepayers should pay for AB 32 compliance costs, and if so, how such ratepayers should pay.[643] SCG acknowledges that "Decision (D.)10-12-026 authorized a memorandum account for SCG to record any fees pending final disposition,"[644] but SCG does not seem to understand that prior to such a "final disposition" SCG has no authority to recover any costs recorded in the memorandum account in this GRC. The Commission must deny any requests for recovery of AB32 associated costs in Gas Engineering at this time.

9.2.1.4. Sustainable SoCal Program

SCG requests $1.2 million in expenses for on-going inspection and maintenance of four bio-gas conditioning systems. SCG wants to install the biogas conditioning systems at certain customer sites, capture waste stream gas, treat or scrub it into pipeline-quality gas, and inject it into SCG's pipeline system. SCG states that, "This project will advance the market development efforts associated with producing pipeline-quality biogas from digester raw biogas generated from wastewater treatment plants."[645]

SCG has requested funds related to biogas production in numerous places in its application, and DRA elsewhere discusses this issue in depth.[646] For the reasons expressed in that section, DRA recommends zero funding from ratepayers, and therefore no costs for ongoing inspection and maintenance.

---

[642] Exh. 330, pp. DRH-9, DRH-12

[643] D.10-12-026, p. 2.

[644] Exh. 330, p. DRH-10.

[645] Exh. 533, pp. 73-74.

[646] *See* Section 29.

9.2.1.5. Pipeline Integrity – Transmission

SCG forecasts $24.8 million for work activities associated with its Transmission Pipeline Integrity Management Program (TIMP). The TY 2012 forecast represents an increase of $13.8 million above the 2009 recorded amount of $11.0 million. The 5-year average spending on TIMP between 2006 and 2010 is $11.1 million. The 2010 recorded expense is $16.8 million.[647] For the reassessment expenses, DRA recommends using the 2006-2010 average spending to forecast the TY 2012 expenses. The five-year average of spending is $11.1 million. This $181,000 higher than the 2009 recorded spending.[648] SCG did not in rebuttal testimony provide accurate data with respect to the High Consequence Area miles which they directly assessed,[649] and it is unclear how many miles they will assess in 2012. SCG also failed to list the specific project costs in their Baseline Assessment Plan,[650] and did not list all of them in workpapers.[651]

9.2.1.6. Pipeline Integrity – Distribution

SCG requests an increase of $24.5 million above the 2009 recorded expenses of $6.6 million for work activities associated with the Distribution Integrity Management Plan (DIMP).[652] DRA's overall recommendation for the work activities under the Pipeline Integrity Distribution is $12.1 million.[653]

SCG requests an increase of $15 million above the base year level for anodeless riser inspections and replacements. Even though there was not an increase in failures in anodeless risers from 2005-09,[654] SCG proposes to replace all anodeless risers in six years, instead of repairing a slightly increasing number of risers for the next twenty –

---

[647] Exh. 533, p. 74.

[648] Exh. 533, p. 78.

[649] *See* TR 1451:6-1453:8

[650] *See* TR 1454:1-15.

[651] *See* TR 1454:16- 1455:27.

[652] Exh. 533, p. 78.

[653] Exh. 533, p. 79.

[654] TR 1459:16-1460:8

twenty-five years.[655] This problem is not critical and less aggressive programs could be implemented than SCG's proposal.[656] DRA recommends $515,000, the same level as 2010 actual spending.[657]

SCG requests an increase of $2.3 million in expenses above the base year level to address potential vehicular damage associated with above-ground distribution facilities.[658] The $2.3 million is comprised of $606,000 in labor costs and $1.6 million in non-labor costs. SCG claims that existing design standards are not sufficient to protect its facilities from vehicular damage where vehicles leave the road at a high rate of speed.[659] SCG's funding request for this sub-category is in addition to the funding already received by Gas Distribution. DRA recommends that no incremental funding be approved. The level of funding received should be sufficient for this work activity because the number of incidents appears to be level in recent years.[660]

SCG requests an increase of $7.5 million in expense above the base year level to address an emerging issue concerning pipeline damage associated with sewer laterals.[661] DRA does not oppose the concept of SCG's proposed DIMP initiative, the Sewer Lateral Inspection Program. However, SCG has not presented adequate evidence, analysis, and engineering studies to demonstrate why this program must be carried out in five years. As stated by SCG, this is a low probability issue.[662] DRA recommends $622,000 as the TY 2012 forecast. This amount is the same as the 2010 recorded expense.[663]

---

[655] TR 1450 9:17; Exh. 58, p. RKS-32, Figure RKS-3.

[656] *See* TR 1461:16-20.

[657] Exh. 533, p. 79.

[658] Exh. 56, p. 65.

[659] Exh. 533, p. 84.

[660] *Id.*, p. 86.

[661] Exh. 55, p. RKS-47.

[662] *Id.*

[663] Exh. 533, p. 90.

SCG requests $450,000 for six additional FTEs to assist DIMP activities. Four of the six would be assigned separately to the four SCG regions. Two would be assigned to support increased field activities, with one in Pipeline Integrity and the other assigned to the Claims department.[664] DRA recommends that the Commission approve funding for only two additional FTEs at a cost of $150,000.[665] SCG has not previously assigned such DIMP employees by region. Claims are not increasing.[666] DRA's recommendation is based on one FTE to manage the increase in enhanced DIMP work for the four regions because the DIMP regulation is not region specific and because SCG does not organize work activities based on regions. One additional FTE is to support pipeline integrity in the collection and analysis of data.[667]

9.2.1.7. Public Awareness

SCG requests an increase of $852,000 above the base year level for the Public Awareness program. In 2009, SCG spent $307,000 and estimates an expense of $1.2 million for TY 2012.[668] SCG's basis for the requested increase is to be in compliance with federal law as required by 49 C.F.R., Section 192.616 and the American Petroleum Institute's (API) Recommend Practice 1162 (API RP 1162). SCG states that part of the API RP requirements is to undertake measurement of how public awareness program safety messages are received.[669] But the law required SCG to do this by 2006,[670] and SCG's request is not for any new activities or to address any new requirements that would require action by SCG in TY 2012. SCG has not presented any evidence to show why compliance with 49 C.F.R., Section 192.616 should require a more than three-fold

---

[664] *Id.*, p. 91.

[665] *Id.*, p. 92.

[666] *See id.* pp. 91-92.

[667] *Id.*, p. 92.

[668] Exh. 55, p. RKS-51.

[669] *Id.*, p. RKS-51.

[670] *See* Exh. 533, p. 93 & fn. 273.

increase in TY 2012. SCG agrees there are no new requirements driving its request,[671] and the Company generally argues that more and focused outreach would improve public awareness. SCG does not establish that such an approach is cost-effective or necessary, however. DRA thus recommends the base year 2009 recorded expense of $307,000 for the Test Year.

9.2.2. SoCalGas Capital

SCG proposes a 2012 Gas Engineering Capital spending level of $158.3 million, a whopping 84% increase over 2009 actual spending of $85.9 million.[672] DRA recommends reductions totaling approximately $42.8 million.[673]

9.2.2.1. New Additions

For the New Additions category, SCG forecasts annual expenditures of $9.519 million for 2010, $11.197 million for 2011 and $19.292 million for 2012.[674] All of the funding requested for 2011 and $13.364 million of the $19.292 million for 2012 are forecasted to be spent on three projects: the City of Palmdale Utility Electric Generating (UEG) Plant, the SoCal Edison Mandalay Peaker UEG Plant, and the Hydrogen Energy 400 MW Plant.[675] However, SCG cannot establish that these projects will go into service and become used and useful in 2012, as all three are "on hold."[676] On rebuttal, SCG provides an "updated" list of projects "currently expected" for 2012,[677] but never says the holds on the three projects were lifted, nor provided any evidence of the timing or of costs of the projects. DRA thus recommends removing all the expenditures requested for these projects, which amounts to $11.197 million for 2011 and $13.364 million for 2012. DRA's estimates for this budget category are zero for 2011 and $5.928 million for 2012.

---

[671] Exh. 58, p. RKS-48.

[672] *See* Exh. 535, p. 16, Table 45-9; p. 3, Table 45-1..

[673] *See id.*, p. 17, Table 45-11.

[674] Exh. 55, pp. RKS-70 and RKS-71.

[675] Exh. 535, p. 17.

[676] *See id.*, pp. 17-18.

[677] *See* Exh. 58, p. RKS-53.

9.2.2.2. Replacement and Pipeline Integrity Program

This category includes capital expenditures associated with replacing transmission pipelines or pipeline sections that are reaching the end of their effective service lives due to age, condition, or landslides and/or other natural disaster threats. Since 2002, this budget has been influenced greatly by the federal pipeline integrity rules. SCG forecasts annual expenditures of $42.766 million for 2010, $35.227 million for 2011 and $25.917 million for 2012.[678] DRA recommends a very modest reduction of "$1.48 million in 2011 for reusing materials for 4 launcher/receiver assemblies and $0.37 million in 2012 for reusing materials for 1 assembly. With this reduction, DRA estimates capital expenditures of $33.747 million for 2011 and $25.547 million for 2012."[679] On rebuttal, SCG notes that it has experience in choosing permanent and temporary pipeline inspection gauges ("pigs"), but does not specifically deny that it could reuse materials for launcher/receiver assemblies.[680]

9.2.2.3. Compressor Stations

This category includes capital expenditures associated with installing and replacing compressor station equipment used in connection with SCG's transmission system operations. SCG forecasts annual expenditures of $2.303 million for 2010, $5.407 million for 2011 and $19.257 million for 2012.[681] SCG's forecast expenditures in 2011 and 2012 include funding for the RICE/NESSHAP compliance project and the Mojave Desert Air Quality Management District (MDAQMD) Rule 1160 compliance project. SCG updated its cost estimate for RICE/NESHAP for 2012, reducing it from $3.588 million to $1.707 million,[682] and SCG accepts DRA's recommendation of $1.707 million for RICE/NESHAP.[683] SCG's projection for MDAQMD Rule 1160 was based

---

[678] Exh. 55, pp. RKS-70 - RKS-71.

[679] Exh. 535, p. 19.

[680] *See* Exh. 58, p. RKS-54.

[681] Exh. 55, pp. RKS-70 - RKS-71.

[682] Exh. 535, pp. 19-20.

[683] Exh. 58, p. RKS-55.

on the anticipated revisions to the rule. At this time, there is no indication that any changes will be made and/or finalized by 2012.[684] Because of this uncertainty, DRA recommends removal of the requested funding for this project, $0.947 million in 2011 and $7.595 million in 2012.

9.2.2.4. Pipeline Land Rights

This category includes capital expenditures for the acquisition of land and land rights necessary to conduct natural gas transmission activities in SCG's transmission system. SCG forecasts annual expenditures of $4 million for 2011 and $8.3 million for 2012.[685]

SCG's capital workpapers show that forecast expenditures include $2 million per site to buy land adjacent to remote pipeline compressor sites at North Needles, Newberry Springs, and Blythe as an option to eliminate potential future conflicts with neighbors due to noise, odors and emissions.[686] The forecast expenditures also include $6.3 million in 2012 to purchase land in exchange for special permits for pipeline construction and maintenance activities in lands under the provisions of the Endangered Species Act (ESA).[687] Both of these requests should be rejected, as SCG fails to conclusively show the need for either of these land purchases at this time.

With respect to the land adjacent to the compressors, SCG summarizes their proposal as one to "spend $6 million now for adjacent land while prices are low, or face the real possibility of spending up to $33 million at each site upon arrival of one or more 'sensitive receptors.'"[688] But SCG has performed no studies to estimate the likelihood of people moving into such areas adjacent to currently operational natural gas facilities,[689]

---

[684] *See supra* Section 9.2.1.1; *see also* Exh. 533, pp. 69-71.

[685] Exh. 55, pp. RKS-70 - RKS-71.

[686] Exh. 56, p. RKS-CWP-259.

[687] *Id.*, p. RKS-CWP-261.

[688] Exh. 58, p. RKS-56.

[689] *See* RT 1466:18-21; RT 1477:12-24.

does not know the zoning status of the several-acre-sized buffer,[690] and does not even know who owns the land currently.[691] Clearly, such lack of basic knowledge of the land they want ratepayers to purchase does not meet SCG's burden of proof to show such capital expenses are reasonable.

Regarding SCG's request for purchase of lands for environmental mitigation, no specific lands are included in the request for $6.3 million.[692] The ultimate justification is that "obtaining the ITPs would provide SoCalGas with a prudent means to ensure compliance with state and federal ESAs while providing regulatory certainty and predictability over a 50-year period,"[693] even though no formal cost-effectiveness study was shown comparing this approach to others. Again, such vague descriptions that lack the basic details of what millions of dollars of ratepayer funds would actually purchase does not meet SCG's burden of proof. Purchasing land based on speculation is for land developers, not for ratepayer-funded utilities.

9.2.2.5. Sustainable SoCal

This cost category includes capital expenditures associated with SCG's proposal to install four BioEnergy units at certain customer sites to capture raw biogas and to upgrade it to pipeline quality biogas. SCG forecasts expenditures of $11.272 million for 2012.[694] DRA recommends that no funding for provided for these services. DRA discusses biogas policy below in Section 29.

9.2.3. SDG&E Issues – O&M

9.2.3.1. Gas Engineering

DRA does not oppose SDG&E's forecasted expense of $700,000 for TY 2012.[695]

---

[690] RT 1468:3-9. SCG seems disinterested in the zoning status.

[691] RT 1467:25 – 1468:2

[692] *See* Exh. 330, pp. DRH-13 – DRH-16 and Appendix E.

[693] *Id.*, Appendix E, Response to DRA-SCG-136-KCL, question 3.

[694] Exh. 55, p. RKS-71.

[695] Exh. 505, p. 2.

9.2.3.2. Pipeline Integrity –Transmission

For this account, SDG&E shows a recorded 2009 base year figure of $747,000 and forecasts an incremental increase of $6,592,000 resulting in a TY 2012 expense of $7,339,000 (in 2009 dollars).[696] In workpapers, SDG&E provided historical (2005 through 2009) O&M expenses for this account.[697] Upon DRA request, SDG&E provided the 2010 recorded amount of $1,067,000, which is substantially lower than SDG&E's 2010 forecasted amount of $7,339,000.[698]

DRA recommends that SDG&E's TY 2012 proposed expense of $7,339,000 be reduced to $1,082,000. This recommendation is derived by increasing the 2010 recorded expense by a system annual growth rate of 0.7% per year.[699] SDG&E's forecasting for 2010 seriously overestimated actual costs, and its forecasts for 2011 and 2012 are likely also similarly flawed. DRA's forecast methodology is reasonable because it utilizes the more recent 2010 recorded data and accounts for system growth.

9.2.3.3. Pipeline Integrity – Distribution

For this account, SDG&E shows a recorded 2009 base year figure of $1,159,000 and forecasts an incremental increase of $2,214,000, resulting in a TY expense of $3,373,000.[700] SDG&E provided historical (2005 through 2009) O&M expenses for this account.[701] Upon DRA request, SDG&E provided the 2010 recorded amount of $2,149,000, which is substantially lower than SDG&E's 2010 forecasted amount of $3,373,000.[702]

DRA recommends that SDG&E's TY 2012 proposed expense of $3,373,000 be reduced to $2,179,000. As with transmission above, this recommendation is derived by

---

[696] Exh. 51, p. 12.

[697] Exh. 53, p. 12.

[698] Exh. 505, p. 3.

[699] *See generally* Exs. 491 & 492.

[700] Exh. 53, p. 23.

[701] *Id.*, p. 12.

[702] Exh. 505, p. 4.

increasing the 2010 recorded expense by a system annual growth rate of 0.7% per year.[703] DRA's forecast methodology is reasonable because it utilizes the more recent 2010 recorded data and accounts for system growth.

9.2.3.4. Public Awareness

For this account, SDG&E shows a recorded 2009 base year figure of $73,000 and forecasts an incremental increase of $384,000 resulting in a TY expense of $457,000 (in 2009 dollars).[704] SDG&E provided historical (2005 through 2009) O&M expenses for this account.[705] Upon DRA's request, SDG&E provided the 2010 recorded amount of $119,000, which is much lower than SDG&E's 2010 forecasted amount of $457,000.[706]

DRA recommends that SDG&E's TY 2012 proposed expense of $457,000 be reduced to $121,000. This recommendation is derived by increasing the 2010 recorded expense by a system annual growth rate of 0.7% per year.[707] DRA's forecast methodology is reasonable because it utilizes the more recent 2010 recorded data and accounts for system growth.

9.3. Gas Pipeline Safety: Balancing Accounts and Expenditure Tracking

DRA recommends the adoption of a one-way balancing account for the tracking and expenditure of gas pipeline safety costs, rather than SDG&E and SCG's request to adopt a two-way balancing account for such costs. SCG's request unfairly burdens ratepayers. Ratepayers would be responsible for the authorized funding in this GRC, but if SCG spends more than the authorized amount in the TY or beyond, the two-way balancing account treatment would allow SCG to collect the difference from ratepayers absent any accountability for expenses incurred above the adopted forecast. There would be no incentive for SCG to keep costs down, no review of the costs in this proceeding,

---

[703] *See generally* Exhs. 491 & 492.

[704] Exh. 53, p. 45.

[705] *Id.*, p. 45.

[706] Exh. 505, p. 5.

[707] *See generally* Exhs. 491 & 492.

and no reasonableness review of such costs after-the-fact, which could lead to the inclusion of unnecessary cost items and burdens upon ratepayers. It is essentially a blank check for the utilities to spend above authorized amounts. No matter how important safety is, such an approach will not lead to reasonable spending on safety matters. DRA recommends rejecting the proposed two-way balancing account treatment proposed by SCG for all environmental regulatory expenses, and instead adopting a one-way account similar to that agreed to by PG&E and DRA in the settlement of PG&E's most recent GRC entered into just after the San Bruno explosion.[708] Such an account more properly incents SCG to reduce such costs.

California has recently enacted a statute requiring the establishment of a balancing account and requiring a utility to return to ratepayers any unspent TIMP funds in a true-up filing at the end of the rate-case cycle:

> In any ratemaking proceeding in which the commission authorizes a gas corporation to recover expenses for the gas corporation's transmission pipeline integrity management program established pursuant to Subpart O (commencing with Section 192.901) of Part 192 of Title 49 of the United States Code or related capital expenditures for the maintenance and repair of transmission pipelines, the commission shall require the gas corporation to establish and maintain a balancing account for the recovery of those expenses. Any unspent moneys in the balancing account in the form of an accumulated account balance at the end of each rate case cycle, plus interest, shall be returned to ratepayers through a true-up filing. Nothing in this section is intended to interfere with the commission's discretion to establish a two-way balancing account.

Although the section allows the Commission to establish a two-way balancing account, it does not require it. The statute protects ratepayers from a utility pocketing unspent authorized safety funds, but a two-way balancing account would allow utility recovery of unauthorized funds without ratepayer protections.

[708] D.11.05-018.

10. CUSTOMER SERVICE

10.1. Smart Meter Policy, AMO and MDO - SDG&E Issues

This porton of the brief addresses DRA's analyses of SDG&E's forecasts for Advanced Metering Operations (AMO) and Measurement Data Operations (MDO) for Test Year (TY) 2012. This section also addresses SDG&E's Smart Meter policy and illustrates the numerous parts of SDG&E's GRC application that contain Smart Meter-related funding requests.

10.1.1. AMO

SDG&E is requesting a TY 2012 expense of $7.483 million, an increase of $3.030 million over the 2009 expense level of $4.453 million, or 68%.[709] SDG&E's request includes 20 Full-Time Equivalent (FTE) staff positions that were either previously included in the Advanced Metering Infrastructure Balancing Account (AMIBA) or have been newly created.

DRA questions the magnitude of SDG&E's proposed AMO enhancements. First, the proposed staff increases make it seem as if ***Advanced*** Metering Infrastructure, particularly ***Smart*** Meters cannot provide benefits without a large number of human handlers to ensure they function as planned. One of the objectives of the AMI deployment period covered by the AMIBA was to modify SDG&E systems and procedures while the Smart Meters were being deployed so that benefits would begin immediately after deployment and the business case would reflect full deployment costs. While implementation delays are not unexpected in projects of this magnitude, SDG&E's request is not solely related to delayed projects but rather reflects significant new expenses. These new expenses suggest that the expenses in the AMI business case were understated.

As DRA has stated elsewhere in its testimony, the unanswered questions about additional costs required to achieve AMI net benefits indicate a need for the Commission

[709] *Id.*

to slow down approval of additional AMI/Smart Grid investments until it can be shown that these investments will generate concrete benefits.

Second, SDG&E's staffing request does not distinguish between short-term and longer-term AMO needs. While some additional staff may be necessary to complete an effective Smart Meter system, efficiencies should be generated by the learning curve so that the resources necessary for meter reliability and data flow decrease. For example, field investigation expense may decrease after the most frequent causes of field investigations (e.g., types of meter failures) are known and remedies are developed. Quality assurance expenses may also decrease after protocols for tasks such as checking meter installation work are implemented. Indeed, if these efficiencies do not develop the Commission should be concerned that Smart Meters are not delivering the promised benefits the utilities claimed in their AMI business cases. In its AMI business case application, A.05-03-015, SDG&E stated its belief that, "over the next 10-15 years, significant advances will occur in the deployment of technologies such that the electrical system will be operated at much higher levels of automation and reliability than today."[710] For this vision to become reality, SDG&E must reduce labor expenses associated with AMI.

SDG&E did not provide and DRA did not conduct a position by position analysis for the 20 FTEs included in the AMO expense request. Rather, DRA reviewed SDG&E's testimony, analyzed staffing justifications, and developed a disallowance framework based upon the following factors:

- Efficiencies,
- Overstated staffing needs, and
- Vacancies without justifications for being filled.

10.1.1.2. Efficiencies

As noted above, some categories of AMO work should see efficiency benefits once utility staff has experience maintaining, repairing, replacing and extracting data

[710] A.05-03-015, Chapter 1, p. AS-3, lns. 7-13.

from Smart Meters. SDG&E should be able to realize efficiencies in the Project Support Division, the Quality Assurance Division and the Metering System Engineering & Operations Division.

In the Project Support Division expenses are driven by field investigations for non-communicating meters and replacements for failed meters.[711] Once SDG&E determines the main reasons meters cease communicating, field investigations should be quicker because technicians will be able to diagnose and fix problems more efficiently. Likewise, once SDG&E determines the prime causes of meter failure it may be able to install replacement meters that are less likely to fail.

SDG&E should be able to realize efficiencies in its Quality Assurance Division in activities such as identifying metering installation errors, identifying manufacturer defects, training field technicians, and performing annual audits for customers above 600 volts. Once staff has experience identifying common errors and defects and conducting audits and trainings, these activities should require less time and resources. For example, once technicians are trained in how to identify meter installation errors those errors are unlikely to be repeated.

In the Metering System Engineering & Operations Division efficiencies will be found in the diagnosis and troubleshooting of Smart Meter network communication issues and desktop investigations for missed meter reads. Again, resolutions should be quicker once common problems are understood. It may eventually be possible for SDG&E to repair or replace meters such that the projected 0.5% communication failure rate decreases.

Given the potential for efficiencies across three divisions, DRA recommends a 15% expense reduction to SDG&E's AMO request. This reduction will prevent ratepayers from overpaying for AMO while giving SDG&E an incentive to develop more efficient operations.

---

[711] Exh. 94 (SDG&E)-12, p. 30.

10.1.1.3. Overstated Staffing Needs

SDG&E is requesting 20 FTEs for its AMO Divisions. These FTEs are a mix of engineers, analysts, technical specialists, and others. They fall into the following three categories:

- Included in AMIBA,
- Included in AMI business case but not included in AMIBA, and
- Not included in AMI business case.

SDG&E's proposal is to transfer all AMIBA expenses into O&M expense categories. For example, SDG&E is requesting to transfer 3 FTEs that were included under AMIBA to AMO where they will investigate missed Smart Meter reads.[712] Three other positions were included in the business case and not covered by the AMIBA because they are forecast for TY 2012.[713] New positions not included in the AMI business case include a Team Lead for the Metering System Engineering & Operations Division and a Project Manager for the AMO Manager Division.

DRA sees opportunities to reduce staffing to reasonable levels for all three expense categories. First, management/oversight positions can be cut or consolidated. Each of the three operations divisions has a manager as well as supervisors or supervising engineers. Adding additional management personnel will create inefficiencies by requiring staff to receive directives from multiple managers. Second, job functions can be consolidated. For example, some positions are intended to extract interval data from malfunctioning meters while others are intended to replace defective meters. Field technicians should be trained to make repairs, conduct replacements and extract data.

DRA recommends a 25% cut to SDG&E's proposed staffing level, bringing down the proposed 20 FTEs to 16 FTEs. In order to quantify the dollar impact of this disallowance, DRA used a proxy salary of $75,000 for a total disallowance of

---

[712] *Id.*, p. 23.

[713] DRA data request: DRA-SDG&E-024-MZX, December 9, 2010, question 2, p. 2.

$300,000.[714] DRA's disallowance is the equivalent of cutting one position from each of the four divisions, but the recommendation gives SDG&E the flexibility to allocate staffing resources across divisions as needed.

10.1.1.4. Vacancies Without Justifications for Being Filled

Some of SDG&E's AMO funding request is to fill vacancies. It is surprising that SDG&E has vacancies given its stated need for multiple new positions. If vacancies have not been filled it may be that SDG&E can cut costs by eliminating positions. If SDG&E needs to fill vacancies it must justify those costs just as it would justify new positions. SDG&E has not justified the need to fill vacant positions in its testimony. For example, the Quality Assurance Division had five partial year vacancies in 2009 totaling $176,000 in salary savings.[715] SDG&E did not explain why these positions were vacant, how the vacancies affected group workload, and whether filling those vacancies reduces the need for new staff. Without these justifications and given the size of SDG&E's requested staffing increase, DRA recommends disallowing 50% of expenses for vacant positions.

Those expenses are:

$29,000 in the AMO Manager Division,
$121,000 in the Project Support Division,
$176,000 in the Quality Assurance Division, and
$58,000 in the Metering System Engineering & Operations Division.

These vacancies total $384,000. Hence, DRA's recommended disallowance is $192,000.

DRA's total disallowance for SDG&E's proposed $3.030 million AMO increase is calculated as follows:

- Reduce by $300,000 for excess positions,
- Reduce by $192,000 for unjustified vacancy filling,
- Reduce remaining $2.538 million by 15% ($380,700),

[714] $75,000 is a rough average between lower paid technicians and higher paid analysts and engineers.
[715] Exh. 94 (SDG&E-12) p. 33.

DRA recommended AMO forecast equals $2.157 million.

10.1.2 MDO

MDO handles operating SDG&E's meter data management system (MDMS), which gathers all meter read data. MDO is now responsible for data collection from all of SDG&E's 2.26 million meters. In 2010 and 2011, MDO added 16 FTEs, which are currently covered.

DRA's approach is stated above at the beginning of the AMO section. The proposed MDO increase, like the proposed AMO increase, is a driver of post-AMI implementation costs that weigh against potential demand response benefits. DRA's analysis aimed to determine whether labor needs were accurately assessed and whether efficiencies were accounted for. As described below, DRA recommends a disallowance to account for future MDO efficiencies.

10.1.2.1. Efficiencies

It is reasonable to forecast efficiencies in the MDO group due to the learning curve associated with some of the MDO activities. MDO activities include troubleshooting meter alarms and events and managing the issue tracking process. These activities should experience efficiencies as common meter issues are experienced. Furthermore, the AMO and MDO groups should be able to share knowledge gained about Smart Meter operations and jointly develop quick fixes for faulty meters.

As for AMO, DRA applies a 15% efficiency reduction to account for greater future productivity from the MDO group. Thus, DRA recommends reducing SDG&E's proposed increase by $83,000.

10.1.3. Smart Meter Enhancements Project

The Smart Meter Enhancements project would provide $2.055 million to cover enhancements necessary because of "routine product improvements/upgrades by vendors."[716] SDG&E also states that, "Smart Meter is still early in its lifecycle and many

[716] *Id.*, p. 46.

improvements and features are on the horizon. It is certain that continued product improvements/upgrades by vendors will take place in TY 2012."[717]

SDG&E seems to be requesting capital dollars for to-be-determined projects based upon experience with Smart Meter projects to date. It should not be Commission policy to preemptively approve budgets for unspecified projects. SDG&E should be able to identify specific IT capital upgrades in its GRC, even for new technologies like Smart Meters. SDG&E's request is not reasonable and DRA recommends a disallowance of SDG&E's $2.055 million request.

10.1.4. Cost Recovery for Legacy Meters

DRA recommends that the net plant balance of $85,100,000 million be amortized over six years with no rate of return, resulting in a rate recovery of the undepreciated portion of the legacy meters at six equal amounts of $14.18 million for each year from 2012 to 2017 excluding gross up for franchise fees and uncollectibles.

DRA also recommends that the rate recovery of the undepreciated portion of the legacy meters over the six-year amortization should not receive escalation or attrition increases. This is because the amortization was developed separately from the base margin revenues.

In Pacific Gas and Electric Company's (PG&E's) General Rate Case, D.11-05-018, the issue of future recovery associated with legacy meters which are no longer used and useful was litigated. The Decision did not speculate as to why parties did not choose to litigate the ratemaking of the retired legacy meters in either of PG&E's earlier AMI proceedings. The fact is that the ratemaking for the retired legacy meters is important and relevant, and the Commission likely did not fully understand and consider the ramifications in PG&E's AMI proceedings.[718]

The issue that SDG&E's retired legacy meters are no longer used and useful also applies in this current GRC. Similar to PG&E's AMI proceedings, no party specifically

---

[717] *Id.*, p. 47.

[718] D.11-05-018, p. 40

addressed the future ratemaking treatment associated with the retirement of the legacy meters in SDG&E's AMI proceeding.

DRA maintains that the electric IOUs' legacy meters are no longer used and useful and should not receive a return. These legacy meters are no longer used and useful and should be excluded from rate base and excluded from earning a rate of return. DRA proposes that the undepreciated net plant balance of the retired electrochemical meters be amortized over a six year period with no return. SDG&E's situation is sufficiently different from PG&E's situation to warrant no return on the amortized balance over the six years. DRA's recommendation is supported by prior Commission decisions.

In D.84-09-089, the Commission stated:

> "Over the years, this Commission has closely adhered to the "used and useful" principle, which requires that utility property be actually in use and providing service in order to be included in the utility's ratebase. We have regularly applied this principle to exclude from ratebase any construction work in progress, and have removed from ratebase plant which has ceased to be used and useful."[719]

In D.85-08-046, the Commission focused on who should bear the burden of unrecovered costs in the Humboldt Bay plant retirement and, in rejecting PG&E's attempt to bring other power plants that may have operated for longer and intended into consideration, the Commission stated:

> "With respect to PG&E's equity argument, we observe that plants which have exceeded their estimated useful lives have been fully depreciated. Thus, the shareholder already has recovered his entire investment and a fair return on that investment from the ratepayer. The ratepayer who has paid for the entire plant is entitled to receive any additional benefit from the plant's continued operation. In the case of a premature retirement, the ratepayer typically still pays for all of the plant's direct cost even though the plant did not operate as long as was expected. The shareholder recovers his investment but should not receive any return on the

[719] *Id.*, p. 49

> undepreciated plant. This is a fair division of risks and benefits."[720]

In D.85-12-108 regarding SDG&E's proposal to store power plants that could no longer be operated economically, the Commission determined that as to those plants likely to remain retired, there should be a sharing of the burden, stating:

> "The specific ratemaking treatment for these plants will essentially follow the suggestion of UCAN. The UCAN position is that the undepreciated balance of the prematurely retired plants be amortized over five years with no return earned. The FEA recommended a longer period – nine years of three rate cases. We find that the UCAN has shown that the two rate case periods or about five years provides an appropriate sharing of the burden between the ratepayers and shareholders."[721]

In D.92-12-057, the case of the Geysers Unit 15 premature retirement, the Commission relied on the Humboldt Bay plant retirement as a precedent in ruling that PG&E could not offset the shorter life of Unit 15 against other plants having a longer life, using rules of group accounting. The Commission did offer that PG&E could raise the group accounting argument later, if it could make a stronger showing. The Commission also states, ". . . We once again endorse our longstanding regulatory principle that shareholders should earn a return only on used and useful plant …" PG&E was authorized a four-year amortization for the remaining net plant cost, with no return on the unamortized balance.[722]

In D.11-05-018, the Commission stated that it was awarding a rate of return for the legacy meters to PG&E for two reasons: First, that the Commission encouraged the utilities to develop AMI proposals, and second that the Commission found those proposals to be cost-effective.[723] This is not sufficient reason to deviate from the prior Commission precedent referenced above. If the Commission were to allow a rate of

---

[720] *Id*., pp. 46 and 47

[721] *Id*., p. 46

[722] *Id*., p. 47

[723] *Id*., p. 55.

return on plant that is no longer used and useful every time new plant was built, utilities would seek unnecessarily frequent infrastructure upgrades and ratepayers would be harmed. Moreover, the Commission's AMI cost-effectiveness determinations did not include amortization plus return on the legacy meters. Although the Commission encouraged the utilities to develop AMI, the utilities were authorized to earn their full rate of return on their AMI investment. Excluding a rate of return for the legacy meters is a small price to pay for AMI's significant addition to ratebase.

A final factor distinguishing the SDG&E situation is that SDG&E's AMI conversion is almost complete whereas PG&E's conversion requires additional time. Therefore, SDG&E has had the benefit of continuing to receive a full rate of return on its legacy meters until the conversion project is completed.

SDG&E's net plant balance (plant balance less depreciation reserve) on January 1, 2012, is forecast at $85.1 million.[724]

In the alternative, if the Commission believes SDG&E should receive some rate of return on the undepreciated legacy meters, then DRA recommends using an annual interest rate of 4.5 percent over an amortization period of six years beginning in 2012 and ending in 2017. The rate of return of 4.5 percent is the five-year average forecast (2012 to 2016) of the 5-Year U.S. Treasury Note Yield which closely corresponds to DRA's proposed six year amortization period.[725] The following discussion highlights past Commission decisions that support a reduced rate of return on the unamortized balance:

- **D.92-08-036** – The Commission adopted a settlement between SCE, SDG&E and DRA which allowed a 48 month amortization of remaining investment in San Onofre Nuclear Generating Station Unit 1 (SONGS 1). After shutdown of SONGS 1, the remaining unamortized investment was allowed to earn a rate of return, which after taxes, was fixed at the then current authorized embedded cost of debt.[726]

[724] SDG&E response to DRA-SDG&E-INFORMAL DR-019-MZX, August 24, 2011.

[725] March 2011 IHS Global Insight, U.S. Economic Outlook Financial Markets, Table 1, Interest Rates, Money, and Financial Variables, p. 19.

[726] Proposed Decision to A.09-12-020, pp. 42 and 43

- **D.95-12-063** – Regarding electric industry restructuring, the Commission determined that transition cost recovery for remaining net investment should be at a reduced rate of return. The Commission noted that "Allowing recovery of remaining net investment associated with SONGS 1 plant at the embedded cost of debt was reasonable at the time, given the risks faced by the utilities under the then-current regulatory structure. However, today's decision decreases the risk associated with recovery of remaining net investment (now part of transition costs), due to imposition of a nonbypassable charge on distribution system customers (as described in greater detail below) which decreases utility business risk. We will adopt 90% of the embedded cost of debt as a reasonable rate of return on the equity portion of the net book value to reflect the reduced risk. We will set the return on the debt portion of net book value at the embedded cost of debt."[727]
- **D.97-11-074** – Regarding electric restructuring, the Commission stated, "In allowing the recovery of generation plant-related transition costs, we have, in effect, allowed the utilities to recover costs of plants that may no longer be used and useful in the new competitive marketplace."[728]
- **D.96-01-011** – Consistent with D.95-12-063, the Commission adopted the same recovery of 90% of the embedded cost of debt as a reasonable rate of return on the equity portion of the net book value regarding Incremental Cost Incentive Pricing (ICIP) pricing for SONGS 2 and 3. The Commission noted, "In D.95-12-063, we propose a general policy for stranded cost recovery. There we decided that while use of debt-return is appropriate for the debt component of a stranded investment, a return of 90% of the debt return is appropriate for the non-debt (i.e., equity) share of the stranded investment..."[729]

DRA recommends that the net plant balance of $85.1 million be amortized over 72 months at an annual interest rate of 4.5 percent which yields equal amounts of $18.01 million per year for six years, excluding the gross up for franchise fees and uncollectibles.[730]

---

[727] Proposed Decision to A.09-12-020, pp. 43

[728] Proposed Decision to A.09-12-020, pp. 43

[729] Proposed Decision to A.09-12-020, pp. 43 and 44

[730] $85,100,000 x .045 x 6 = $22,977,000 in interest over six years.

Field, Call Center & Branch Offices - Common Issues

DRA has no comment on this issue at this time.

Field, Call Center & Branch Offices - SoCalGas Issues

SCG proposes a total TY 2012 expense increase of $18.349 million over 2009 expense. DRA recommends an increase of $12.326 million, a decrease of $6.023 million (33%) from SCG's proposed increase,[731] but still a substantial increase.

10.3.1. Customer Service Field

SCG is requesting $134.573 million for customer service field, which is an increase of $9.917 million, or 7.95%, over the 2009 expense level of $124.656 million.[732] Increased expenses are forecasted due to customer growth, drive time changes and air quality compliance activities, along with dispatch, management and support functions. DRA forecasts $131.425 million for customer service field, an increase of $6.769 million. DRA objects to forecast increases for drive time, air quality industrial service activities, and management functions.

SCG assumes a 1% increase in average drive time per field order.[733] But California's continued high unemployment rate and lower customer growth suggests that fewer vehicle trips are occurring.[734] SCG provided rebuttal evidence showing that drive times declined after 2007, and have only returned to 2007 levels in 2010, without any indication that SCG took into account such reduced drive times in the interim in their forecast.[735]

SCG requests an additional 19.1 FTEs to help large customers comply with new rules propounded by the South Coast Air Quality Management District (SCAQMD). SCG's expense request is an incremental $1.753 million over 2009 expenses.[736]

---

[731] Exh. 537, p. 3.

[732] Exh. 143, p. 15.

[733] *Id.,* pp. 20-21.

[734] Exh. 537, p. 4.

[735] *See* Exh. 145, p. EF-14 and Table SCG-EF-5.

[736] Exh. 143, p. 29.

Although SCG forecasts additional staff for compliance assistance, SCG notes that, "The customers with the eligible gas equipment are ultimately responsible to fully comply with SCAQMD emission standards."[737]

SCG's willingness to subsidize large customers' air quality compliance costs in rates from other customer classes is not justified. If SCG were not providing these customers with service they would have to pay for it or face fines from SCAQMD. SCG's rebuttal testimony notes that residential customers also use the services from this group,[738] but this is not relevant, as SCG never acknowledges the distinction that such small customers are not subject to SCAQMD fines, nor do they deny that the increase is for the programs designed for the large customers who will then avoid the costs of reducing pollution or paying fines.

Moreover, at least one of these measures are supposed to be due to the presence of increased gas from LNG,[739] but due to the current record low prices for natural gas, there is not an expectation of any significant imports of regasified LNG into SCG's system in 2012.

SCG is requesting an increase of $1.156 million over 2009 expense for field managers. This represents an increase of 11 FTE managers and is intended to maintain the "field employee to supervisor ratio of approximately one-to-twelve that existed in 2009."[740] SCG forecasts an increase of 124 customer service field personnel based on projected workload.[741] DRA recommends removing 1.5 FTE from SCG's request due to the disallowance of 19.1 FTEs for air quality service support as described above.

SCG's is requesting $106,000 for an analyst that would support the analysis of data collected by the software SCG acquired to track Customer Contact Center

---

[737] *Id*., p. 28.

[738] Exh. 145, p. EF-16.

[739] Exh. 143, p. EF-26.

[740] Exh. 143, p. 31.

[741] *Id*.

information.[742] DRA stated SCG did not explain what analysis this analyst would conduct and why existing staff would be unable to complete the analysis.[743] On rebuttal, SCG noted how a data response described the "analytical functions and data analytics provided by OpEx analytic software."[744] This analysis, performed by the software, provides benefits to "management" or for "performance management" in general terms.[745] One specific benefit they claim will happen is to reduce their average response time to calls from 260 to 231 seconds, an analyst is needed to analyze the data generated by the program monitoring the Customer Service Representatives in order to achieve these "benefits."[746] SCG claims it has already hired this analyst, which justifies the funding.[747] SCG values these and other forecasted "benefits" at $5.6 million[748] and somehow claim that "DRA silently accepts"[749] the benefits. SCG has the burden of proof of showing the necessity of this analyst and the benefits of these programs, and they have failed to meet it. Such forecasted benefits are hardly guarantees, and SCG has not justified their valuation of such benefits.

SCG is requesting $695,000 for annual maintenance fees for its hardware and software applications.[750] On rebuttal, SCG reveal these fees are further, incremental costs for software updates mostly and further fees associated with the software.[751] As noted above, SCG has not proved the value of these programs and its request should be denied.

---

[742] *Id.*, p. 38.

[743] Exh. 537, p. 6.

[744] Exh.145, p. EF-34 (emphasis added).

[745] *Id.*

[746] *Id.*, p. EF-35.

[747] *Id.*.

[748] *Id.*

[749] *Id.,* p. EF-4.

[750] Exh. 143, p. 38.

[751] Exh. 145, p. EF-37.

SCG is requesting an increase of $998,000 over the 2009 expense level of $10.137 million for Branch Offices and Authorized Payment Locations, an increase of 9.8%.[752] DRA's recommendation is to maintain SCG's 2009 expense level of $10.137 million for TY 2012.[753] DRA noted that SCG has plans to close down branches, and has experienced a 17% decline in in-person transactions from 2005-2009.[754] DRA also noted that maintaining the 2009 actual spending will allow for adequate security and compliance with the Fair & Accurate Credit Transactions Act given expected further declines of in-person payments.[755] SCG notes that if it closes down branches, it will need Commission approval and will file a separate application to reduce costs upon that approval,[756] but SCG misconstrues the point of DRA's testimony, which is to note that SCG should not need increased costs if internally it believes it should close branches. SCG also believes it is at minimal staffing levels already and that future declines in in-person transactions will not lead to staffing cuts and reduced costs,[757] which seems illogical.

SCG is requesting an increase of $1.260 million from the 2009 expense level of $31.657 million for meter reading, an increase of 4%.[758] DRA's forecast for meter reading expenses is $31.841 million, an increase of $184,000 over SCG's 2009 expense level of $31.657 million.[759] The difference between SCG's position and DRA's is $1.076 million.

---

[752] Exh. 143, p. 39.

[753] Exh. 537, p. 6.

[754] *Id.*

[755] *Id.*

[756] Exh. 145, pp. EF-46 – EF-47.

[757] *Id.*, pp. EF-48 – EF-49 (using 2010 branch office data).

[758] Exh. 143, p. 45.

[759] Exh. 537, p. 7

SCG is requesting an incremental $440,000 for management personnel to "increase supervisor, route management, and training resources in meter reading."[760] SCG is also requesting $636,000 over the 2009 expense level of $2.173 million, an increase of 29.2% for Meter Route Analysts and Advisors.[761]

DRA requests a disallowance of these incremental costs. As SCG acknowledges, these increases were authorized in SCG's prior GRC (2008).[762] SCG then included these expenses as savings that would accrue to ratepayers once SCG implements AMI. On rebuttal, SCG states "if DRA's disallowance request is approved, SCG would have reduced revenue requirements pursuant to D.10-04-027 in SCG's Advanced Metering Infrastructure Balancing Account ("AMIBA") with meter reading benefits, and then again reduce the same meter reading revenue requirements in this TY 2012 GRC."[763] SCG further states: "[t]o ensure that the SCG AMIBA operating benefits formula is consistent with the SCG AMI approved business case, the adopted TY 2008 GRC meter reading revenue requirements must be comparably adopted in SCG's TY 2012 GRC."[764] But SCG admits that "[i]f the Commission chooses to accept DRA's proposal to reduce TY 2012 estimated meter reading expenses by the amount of SCG AMI meter reading benefits, then SCG will adjust the AMIBA benefits formula accordingly to reflect final authorized TY 2012 operating expenses for meter reading."[765] DRA still requests a disallowance of such funds from this GRC.

10.3.2. Capital

SCG proposed $11.968 million of capital expenditures in 2011 & $20.506 million in 2012. DRA recommends $11.443 million in 2011 and $9.777 million in 2012

---

[760] Exh. 143, p. 42.

[761] *Id.*, p. 40.

[762] *Id.*, 42.

[763] Exh. 145, p. EF-53.

[764] *Id.*, p. EF-54.

[765] *Id.*

SCG is requesting $915,000 to install new mobile data terminals (MDT) and vehicle hardware (such as docking stations) between 2010 and 2012.[766] SCG claims these new MDTs are necessary due to growth in order volume and growth in air quality-related service activities for large commercial and industrial customers.

DRA recommends disallowing this project because SCG should not be hiring new staff to provide air quality-related services to large customers. As DRA explained above, if SCG were not providing these customers with service they would have to pay for it or face fines from SCAQMD. Large customers should pay for both the labor and non-labor costs required to bring them into compliance with air quality regulations.

SCG is requesting $6.917 million to replace handheld computers.[767] SCG states that the current computers will reach their end of service life in 2011-2012 and that the vendor will no longer support them. DRA recommends disallowing this project because the primary evidence SCG presented was alleged increasing repairs, but the evidence they provided showed declining repairs from 2009 to 2010, and then increased repairs only in year-to-date 2011.[768] Furthermore, SCG does not demonstrate savings associated with replacement, as they haven't compared any increased costs associated with repairs with the costs of the replacement.

SCG is requesting $3.908 million to replace 1,600 MDTs.[769] SCG states that, "Limited memory and aging processing capabilities are severely limiting the ability to add any new applications to the MDTs such as GPS Turn-by-Turn directions."[770] SCG also states that the current MDTs are unable to support Windows 7.

DRA recommends disallowing this project for the same reasons as stated above. Namely, SCG presented no evidence that continued use of the current MDTs would impair operations and SCG did not justify the benefits of adding Windows 7 and new

---

[766] Exh. 143, p. 52.

[767] *Id*., pp. 52 and 54.

[768] *See* Exh. 145, p. EF-59 and Table SCG-EF-15.

[769] Exh. 143, p. 59.

[770] *Id*., p. 62.

applications. On rebuttal, SCG noted that Windows XP support would expire, but not until 2014.[771]

10.4. Field, Call Center & Branch Offices - SDG&E Issues

This portion of the brief addresses SDG&E's forecasts of Customer Services Field Operations and Customer Contact (CSF&CC) expenses for Test Year (TY) 2012.

The expense areas discussed here include customer service field operations, the Customer Contact Center, Branch Offices and Authorized Payment Locations, Advanced Metering Infrastructure and Home Area Networks. In addition, this section addresses proposed capital expenditures related to customer support tools, Home Area Networks, and service order routing.

10.4.1. Customer Services Field Operations

SDG&E proposes a total reduction of $3.127 million in Customer Services Field Operations (CSF) estimated expenses.[772] CSF expenses include Smart Meter Benefits, Smart Meter Costs, Drive Time Change, Meter and Regulator Replacements, Carbon Monoxide Testing, Dispatch and Supervision, among others. DRA's discussion below is limited to areas where DRA disputes SDG&E's forecast.

DRA recommends an additional decrease of $250,000 million in CSF estimated expenses. DRA's disallowances are for the following expense categories: Drive Time Change and Carbon Monoxide Testing.

10.4.1.1. Drive Time

SDG&E assumes a 1% increase in average drive time per field order.[773] SDG&E does not provide a justification for its forecasted increase other than noting that its proposed increase is less than DRA's proposed increase in a prior GRC. SDG&E also

---

[771] *See* Exh. 145, p. EF-61.

[772] *Id*., p. 19.

[773] *Id*., p. 23.

states that its proposed increase is consistent with planning assumptions from previous GRCs.[774]

DRA has not located any credible current evidence that suggests drive times in SDG&E's service territory are increasing. In fact, California's continue high unemployment rate and lower customer growth suggests that fewer vehicle trips are occurring. Hence, DRA recommends that no additional expenses for drive time be allowed.

10.4.1.2. Carbon Monoxide Alarm Orders

SDG&E requests an additional $138,000 for increased Carbon Monoxide (CO) alarm orders due to SB 183, which became effective July 1, 2011. SB 183 requires CO detectors in single family homes by July 1, 2011 and in other dwelling units by January 1, 2013.[775] While SDG&E forecast a total of 3,287 CO orders in 2010 and 4,398 orders in 2011, from June 1, 2010 to May 31, 2011 SDG&E completed only 2,283 CO orders.[776]

Therefore, DRA recommends reducing SDG&E's proposed $138,000 by $100,000. An incremental $38,000 will more accurately reflect the growth in CO orders.

Customer Contact

SDG&E proposes an increase of $1.238 million for CC activities.[777] CC activities include:

- Answering customer telephone calls;
- Responding to incoming email from customers;
- Responding to written customer correspondence regarding customer account activity;
- Following up on all CPUC telephone referrals and informal/formal CPUC complaints; and

---

[774] *Id.*

[775] *Id.*, p. 26.

[776] SDG&E response to DRA data response DRA-SDG&E-091-MZX, Qs. 2 & 3.

[777] Exh. (SDG&E-13) Vol. II, Ch. E, p. 28.

- Responding to other customer account related inquiries.

DRA's discussion below is limited to areas where DRA disputes SDG&E's forecast.

DRA recommends an increase of $382,000 for TY 2012, a reduction of $856,000 (69%) from SDG&E's proposed increase. DRA's disallowances are for the following expense categories: Customer Service Representatives (CSR), OpEx Analyst, and Software License and Maintenance Agreements.

10.4.1.3. Call Volume Estimate

SDG&E seeks to use a 5 year average of call volumes to estimate CSR expenses.[778] Table 16-3 below shows SDG&E's recorded calls per meter for the past 5 years. SDG&E's 5 year average methodology would result in an addition of 2.5 CSR FTEs. This forecast excludes customer growth, which will add an additional 2.3 CSR FTEs. DRA does not oppose the forecast increase in call volumes due to customer growth.

However, DRA recommends adjusting the 5 year average to reflect OpEx benefits, which SDG&E excluded from its calculations.[779] SDG&E assumes that by 2012, 27% of customer contacts will be through self-service channels (i.e., automated phone or internet). An increase in self-service contacts should correspond to a decrease of calls requiring a customer-CSR interaction. SDG&E did not analyze this correlation, but DRA believes that it is conservative to forecast no increase in call volumes from 2009 (except due to customer growth). Thus, DRA recommends disallowing the $181,000 in expenses associated with the approximately 5% increase in call volumes SDG&E forecasts using a 5 year average.

---

[778] *Id.*

[779] *Id.*, p. 28.

Table 16-3
2005-2009 Recorded / TY 2012 Forecast
(in Thousands of 2009 Dollars)

Description	2005	2006	2007	2008	2009	2012
Calls Per Meter	1.91	1.86	1.74	1.79	1.77	1.81

Source: 2005-2009 data from Exh. SDG&E-13, Vol. II, Ch. E, p. 28.

10.4.1.4. Op Ex Analyst

SDG&E requests $106,000 for an Op Ex Analyst to "support and maintain the operational insight analytic software applications."[780] SDG&E did not provide any justification for why these software applications will require maintenance and why an additional FTE is required for any maintenance activities. Furthermore, as discussed below, DRA is recommending disallowing funds for proposed software license and maintenance agreements. SDG&E should not be allowed to increase IT-related analysts absent a complete justification for why software will fail or underperform without an analyst to maintain it. Quality software should not require human babysitters for optimal results.

10.1.4.5. Software License and Maintenance Agreements

SDG&E states that "An increase of approximately $569,000 is due to additional software license and maintenance agreements resulting from the CCC OpEx technology replacement."[781] SDG&E explains neither why these additional license and maintenance agreements are necessary nor where the benefits from the technology replacement will accrue. Absent a compelling business case that spells out the benefits from these license and maintenance agreements DRA sees no reason why ratepayers should underwrite their cost.

---

[780] *Id.,* p. 32.

[781] *Id.*

10.1.4.6. Branch Office and Authorized Payment Locations

SDG&E is requesting $1.9 million for Branch Offices and Authorized Payment Locations for TY 2012.[782] SDG&E's request is a $107,000 increase over 2009 expense. SDG&E claims this increase is due to the use of a three-year average methodology that is appropriate due to office reductions and consolidations that occurred in 2006-2007. DRA's recommendation is to maintain SDG&E's 2009 expense level of $1.793 million for TY 2012.

10.1.4.7. SCG Will Be Closing Branch Offices; SDG&E Has Also Experienced Reduced In-Person Customer Payment Transactions

As part of a presentation entitled "SoCalGas Branch Office Optimization Project 2011,"[783] SCG proposes filing an application to close Branch Offices in 2011. The reason for closing branch offices is a significant reduction in customer use. The same trend holds for SDG&E's Branch Offices, Pay Stations and Alternate Payment Locations. Since 2005, in-person payment transactions have fallen 25% from 1.633 million in 2005 to 1.22 million in 2009.[784] There is no reason to use a three-year average when in-person payment transactions are declining significantly. DRA's recommendation is to use the 2009 expense level, which will allow for minor maintenance and ADA costs given expected further declines in in-person payments.

10.4.2. Capital Projects

SDG&E's Capital request consists of $6.286 million in 2011 and $17.900 million in 2012 for a total of $24.186 million. DRA's recommendation is that SDG&E be authorized $1.551 million total. DRA recommends disallowing every proposed project except the CSR Online Customer Helpdesk Support Tools project. DRA's recommendations are displayed in Table 16-4 below.

---

[782] *Id.*, p. 33.

[783] SoCalGas Branch Office Optimization Project 2011, Powerpoint, May 31, 2011. This presentation was provided to DRA in June 2011.

[784] Exh. SDG&E-13, Vol. II, Ch. F, p. 35.

Table 16-4
CSF&CC Capital Expenditures for 2010-2012
(In Thousands of Nominal Dollars)

Description	DRA Recommended			SDG&E Proposed[785]		
	2010	2011	2012	2010	2011	2012
CSR Online Customer Helpdesk Support Tools	$0	$0	$1,551	$0	$0	$1,551
SORT Upgrade Project	$0	$0	$0	$0	$1,304	$2,985
HAN DRCA Implementation	$0	$0	$0	$0	$1,856	$3,126
HAN Infrastructure	$0	$0	$0	$0	$1,770	$1,990
HAN Systems Integration	$0	$0	$0	$0	$1,356	$2,463
HAN Lab (Facilities)	$0	$0	$0	$0	$0	$700
DERMS	$0	$0	$0	$0	$0	$5,085
Total	$0	$0	$1,551	$0	$6,286	$17,900

SORT Upgrade

SDG&E's Service Order Routing Technology (SORT) is "SDG&E's major software application for scheduling, routing and dispatching orders to over 450 CSF personnel."[786] The SORT application was last updated in 2008 and runs on the Microsoft XP Operating System.[787] SDG&E states that the SORT vendor will not support the 2008 SORT update on the Windows 7 Operating System, which SDG&E recently began using. Thus, SDG&E wants to upgrade SORT to a version that will be supported with Windows 7.

DRA has two major objections to this request. First, that SDG&E upgraded SORT for use with an Operating System (Windows XP) that it was planning on

[785] Exh. SDG&E-13, Vol. I, Ch. D, p. 6.

[786] Exh. SDG&E-13, Vol. IV, Ch. D, p. 45.

[787] *Id.*

jettisoning in order to install a new Operating System (Windows 7). Since SDG&E was already planning on upgrading to Windows 7 in 2008, it should have implemented a SORT upgrade that would be supported with Windows 7. Second, SDG&E has presented no evidence that its current SORT application is incompatible with Windows 7 or that necessary support cannot be obtained from other sources (e.g., IT specialists, listserves, etc.). SDG&E should not be allowed to use its Operating System upgrade as a reason to spend millions of dollars upgrading software unless that software is proven to be fallible when run on Windows 7.[788]

Home Area Network (HAN) Projects

In its introduction to these projects SDG&E states, "SDG&E is instituting a HAN system compatibility testing program and installing technology that will communicate with customer HAN enabled devices. HAN technology provides a platform for future demand response and energy efficiency programs and encourages conservation via behavior change through visibility and feedback."[789] SDG&E is currently implementing or planning the following HAN-related projects and initiatives:[790]

- Industry development and establishment of the SEP 2.0 protocol and standards;
- Planning and developing requirements for a third party hosted HAN solution, including hardware additions, DRCA implementation and system integration activities;
- Implementation of IT environments for HAN software development, testing and quality control (including security);
- Exploration of retail distribution channels for HAN devices; and
- HAN pilots approved in the 2009-2011 SDG&E demand response application and customer assistance programs application.

[788] Microsoft has already announced the next generation of Windows, Windows 8: http://www.microsoft.com/presspass/features/2011/jun11/06-01corporatenews.aspx

[789] Exh. SDG&E-13, Vol. VI, Ch. A, p. 49.

[790] *Id.*, Ch. B, p. 51.

DRA has multiple objections to ratepayer funding for SDG&E's HAN request. Fundamentally, SDG&E's request is premature, lacks tangible benefits, and is inappropriate given the developing competitive market for HAN products and services.

SDG&E's request is premature because the underlying technology is still undeveloped, smart appliances are not yet on the market, time-of-use or dynamic pricing is not yet widespread, benefits are speculative, and SDG&E's SmartGrid Deployment Plan (A.11-06-006) has not yet been evaluated. As SDG&E notes, one of its current projects is involvement in the industry development of the SEP 2.0 protocol. This protocol is the foundation for communication between the SmartMeter and the HAN, and it must be used industry-wide so that products and services can be tailored to work with it. SDG&E's other HAN efforts will not be able to function without SEP 2.0 in place and problem-free. Until SEP 2.0 has been tested SDG&E should not rush to develop other HAN initiatives. DRA would not oppose a separate HAN projects application should the underlying technology be functional before SDG&E's subsequent GRC.

One of a HAN's key functions will be to communicate between Smart Appliances and the Smart Meter. SDG&E gives the example of a smart refrigerator, which would have a HAN embedded chip that would allow the Smart Meter to send a signal that causes the refrigerator to cycle off during on-peak hours or an "event" or high price day.[791] While this demand-response functionality is part of the intangible benefits associated with Advanced Metering Infrastructure (AMI), the widespread distribution of affordable smart appliances is still years away.[792] Once the underlying communication standards are completed and the Commission adopts time-of-use or dynamic pricing, manufacturers and consumers will have greater incentive to develop and purchase increasing numbers of smart appliances. Manufacturers will be assured of uniform platforms for their appliances to communicate with the Smart Meter and consumers will

[791] *Id.*, p. 50.

[792] See http://www.grist.org/article/2011-01-31-smart-appliances-are-coming-some-day (accessed June 30, 2011) which explains that the limiting factors for smart appliance roll outs are HAN communication standards and time-differentiated pricing.

be able to see the economic benefits of a smart appliance purchase. At that time, the HAN infrastructure to allow for appliance-meter communication should be deployed. Until then, ratepayers are at risk of underwriting a HAN infrastructure that could need significant modifications down the line.

Ratepayers are at risk of investing in HAN technologies that will not produce demonstrable benefits. DRA's May 2011 "Time Variant Pricing for Small Electric Consumers" White Paper demonstrates that with time-of-use rates and basic technology (such as programmable thermostats) significant demand reduction is possible.[793] With time-of-use rates and access to Smart Meter data, customers can take steps to reduce energy consumption and see a significantly reduced electric bill by reducing use of on-peak air conditioning, doing laundry, running dishwashers, and charging electric vehicles off-peak. In fact, the White Paper shows that time-of-use rates would lead to greater net consumption reduction than dynamic pricing and additional advanced technology designed to reduce peak demand.[794] Furthermore, the White Paper shows that the electricity supply curve has shifted and "the conditions of episodic scarcity and high wholesale prices that motivated dynamic pricing no longer exist in California."[795]

DRA recommends that dynamic pricing be on a voluntary opt-in basis. Without dynamic pricing, it is unlikely that SDG&E's proposed HAN projects would be cost-effective. While adding smart appliances connected to the Smart Meter via a HAN allows for utility or third-party controlled demand response measures, such as the refrigerator cycling example cited above, the benefits of those measures do not likely outweigh the additional cost at this time. SDG&E did not present a business case to show how the benefits from HAN infrastructure development will exceed the costs of deploying it. The Commission should not approve additional AMI technology deployment without well developed cost-benefit analyses. As SDG&E implements its Smart Grid deployment plan, it is incumbent upon the utility to make well grounded

[793] Levin, Robert, Time Variant Pricing for California's Small Electric Consumers, May 23, 2011.
[794] *Id.*, pp. 29-36.
[795] *Id.*, p. 21.

assumptions about potential benefits so the Commission can make determinations about which elements and technologies of Smart Grid deserve additional ratepayer dollars.

SDG&E's Smart Grid deployment plan envisions $3.6 billion in cumulative costs from 2006 through 2020.[796] In his letter introducing the deployment plan, SDG&E President and COO Michael R. Niggli states, "There is one observation that is crystal clear: Our customers are driving our deployment plan."[797] While customer actions such as purchasing plug-in electric vehicles may necessitate utility-side investments in grid infrastructure, residential customer engagement in smart technology for demand management has yet to be observed. In fact, Google is ending its "Power Meter" service for SDG&E customers due to low participation.[798] DRA intends to scrutinize the utilities' deployment plans to see whether they have the potential to provide net benefits to ratepayers. The deployment plan, however, is only the roadmap to a "smarter" grid which results in less energy use. Each grid component (e.g., HAN) must be cost-effective relative to other strategies to achieve customer demand management. Not every smart grid-related investment will be necessary to achieve the overall demand reduction and efficiency benefits that form a key part of the Energy Action Plan and California's AB 32 greenhouse gas reduction goals.

Some of the key demand management investments will come from third parties operating in a competitive market. Third parties are involved in HAN technology development, smart appliance manufacturing, and information management technology development. Ratepayers have the choice of whether to purchase these technologies; no such choice exists for SDG&E investments. One of SDG&E's projects is "exploration of retail distribution channels for HAN devices."[799] This is an example of a role for the competitive market, not a regulated utility. If HAN devices are essential to the

---

[796] A.11-06-006, p. 8. SDG&E states that 75% of this amount has already been spent or is part of current applications, such as this GRC.

[797] A.11-06-006, Letter from Michael R. Niggli, SDG&E, to Michael Peevey, CPUC, June 6, 2011, p. 1.

[798] See http://googleblog.blogspot.com/2011/06/update-on-google-health-and-google.html, accessed July 1, 2011.

[799] Exh. SDG&E-13, Vol. VI, Ch. A, p. 51.

realization of benefits from smart appliances, then the HAN and smart appliance industries will ensure that retail distribution (as well as advertising) occurs.

SDG&E and ratepayers will benefit from a HAN development plan that is timed to account for industry advances, market development, and clear state and Federal guidance on privacy and security of customer data.[800] DRA recommends that the Commission deny SDG&E's HAN capital investment requests until the Smart Grid world has taken more shape, and there is a demonstrable benefit from this technology.

10.5. Office Operations - Common Issues

DRA has no comment on this issue at this time.

10.6. Office Operations - SoCalGas Issues

SCG proposes a total TY 2012 expense of $52.677 million, an increase of $2.568 million over 2009 expense. DRA recommends $50.975 million, an increase of 866,000 over 2009 expenses, and a decrease of $1.702 million (66%) from SCG's proposed increase.[801]

SCG is requesting an increase of $396,000 over the five-year average expense level of $3.886 million, an increase of 10.2%.[802] SCG claims that this increase is necessary to support customer authentication requests required by the Fair & Accurate Credit Transactions Act (FACTA).[803]

DRA recommends disallowing SCG's request because SCG is already in compliance with FACTA.[804] As SCG notes, FACTA became law in 2003 and companies were given until December 31, 2010 to achieve compliance. Utilities were on notice as

---

[800] Privacy and security measures are part of the Commission's Smart Grid Rulemaking, R.08-12-009.

[801] Exh. 538, p. 2.

[802] Exh. 413, p. 13.

[803] *Id.*, p. 15.

[804] *See* Exh. 538, p. 4

early as 2007 of the need for FACTA compliance costs,[805] and the "complete timeline" of FACTA events SCG presented on rebuttal[806] omitted events.

SCG is requesting $3.133 million for customer service technology support, an increase of $917,000 (41.5%) over the five-year average expense level of $2.216 million.[807] DRA testified that SCG is requesting 7 new business analysts to support software and collect customer data,[808] but on rebuttal SCG listed a number of activities,[809] including some that seem to stretch the definition of "customer service."[810] The seven new FTEs were broadly defined in the workpapers.[811] Yet SCG noted on rebuttal that "the seven employees requested were hired in late 2010 and early 2011 to support the projects listed above,"[812] although they conceded that only six had officially been hired as of January 2012, with the seventh still "in the process."[813] DRA recommends the Commission allow an increase of $175,000 over the five-year average expense level for 2.3 FTEs.[814]

For Customer Service Operations – Other, SCG is requesting $1.635 million for TY 2012, an increase of $578,000 (55%) over the five-year average of $1.057 million.[815] SCG's request derives from the addition of an industrial engineer, two interns, and a vice-president. SCG claims that the engineer is needed to support logistics, communications and data analysis. SCG states that the Vice-President position was created in the 2010 customer service reorganization. SCG did not explain why the existing senior engineer

---

[805] *See* TR 3986:26 – 3987-13.

[806] Exh. 415, p. MHB-3 – MHB-4, Table 1.

[807] Exh. 413, p. 18.

[808] Exh. 538, p. 5.

[809] Exh. 415, p. MHB – 9.

[810] *See* TR 3990:27-3991:21.

[811] Exh. 414, pp. 91-98; *see* TR 3991:22-3992:14.

[812] Exh. 415, p. MHB-13.

[813] TR 3993:12-24.

[814] Exh. 538, p. 5.

[815] Exh. 413, p. 27.

would be unable to complete the tasks associated with time and motion studies SCG plans in order to establish engineered labor standards. DRA recommends disallowing the engineer position and providing $45,000 for interns that can support the existing senior engineer.[816] On rebuttal, SCG still failed to explain why the existing senior engineer, who is ultimately responsible for the plans, could not complete them himself.[817]

DRA recommends disallowing the full request for SCG's new Vice-President position. Previously, SCG and SDG&E shared a customer service operation Vice-President, but their reorganization created a new position.[818] There are at least several SCG & SDG&E Vice-Presidents already, and ratepayers should not have to fund a new position just because of the reorganization.

10.7. Office Operations - SDG&E Issues

10.7.1. Non-Shared Services

This portion of the brief addresses SDG&E's forecasts for Customer Service Office Operations and Maintenance (O&M) estimated expenses for Test Year (TY) 2012. Customer Service Office Operations includes Billing Services, Office Credit and Collections, Remittance Processing, Customer Service Technology Support, and administration of these cost centers. There are three capital projects included in this area relating to billing and bill redesign.

SDG&E is requesting $17.967 million for TY 2012, an increase of $2.309 million from 2009, or 14.7%.[819] SDG&E's request is driven by Smart Meters, renewables, customer growth, and Home Area Network (HAN) expenses. SDG&E contends that operational complexity has increased, which also necessitates additional expenses.

As it has stated in section 10.4 above, DRA's chief concerns with Smart Meter and HAN proposals are that Smart Meter communications technology is still under development, HAN is unlikely to be cost-effective in achieving electric savings, and third

[816] Exh. 538, p. 5.

[817] Exh. 415, p. MHB -12; *see* TR 3994:4 - 3995:11.

[818] TR 3995:17 – 3996:4.

[819] Exh. SDG&E-14, p. 9.

parties should not have market entry costs subsidized by ratepayers. SDG&E's GRC application is full of Smart Meter costs that were either included in its original AMI business case but not completed or omitted from the AMI business case despite being integral to the supposed benefits Smart Meters could deliver. In either case the ongoing complications and questions about effectiveness, benefits, safety, security and privacy of Smart Meters indicate that a more measured approach to additional expenses is warranted.

10.7.1.1. Billing Services

SDG&E is requesting an increase of $1.208 million over the five-year average of $3.907 million, an increase of 31%.[820] Smart Meter costs account for $527,000 of the proposed increase. Renewable energy programs, more complex billing activities, and compliance activities account for the remainder of the proposed increase.

The Smart Meter billing O&M section typifies how SDG&E has eviscerated Smart Meter cost savings by adding back expenses that nullify the purported savings. SDG&E describes a $262,000 labor cost reduction resulting from fewer re-bills, exceptions and errors due to Smart Meters. Then SDG&E turns around and claims the need for $247,000 in new expenses due to more complex billing exceptions due to the volume of data collected by the Smart Meters. Furthermore, SDG&E claims $388,000 in additional expenses to configure and test the interval data systems that capture Smart Meter data. Salary increases account for an additional $154,000.[821]

Ratepayers need to see lasting benefits from the elimination of meter readers. Added expenses pertaining to Smart Meter IT technicians, data sleuths, and management analysts only serve to make a further mockery of the purported reasonable benefit-cost analysis used to justify the installation of Smart Meters in the first place. DRA recommends disallowing the Smart Meter O&M expenses with the exception of the $154,000 salary increases, which are reasonable to allow for existing staff as fair

---

[820] *Id.*, p. 13.

[821] Id., p. 14.

compensation for becoming Smart Meter savvy. SDG&E should bear any additional expenses related to billing exceptions and configuration and testing because these costs may not materialize and should have been included in the original AMI business case.

DRA recommends disallowing $199,500 from the other parts of the Billing Services increase request. DRA recommends disallowing $60,000 for a project analyst that would create policies and procedures and conduct job training. These are management functions and should not require an additional position to fulfill. DRA recommends disallowing another $49,500 for a position to support the limited re-opening of the Direct Access proceeding. SDG&E is requesting two positions to support the Revert-to-Owner (RTO) program under the Direct Access proceeding. SDG&E did not justify the need for two additional staff to support the RTO, especially given the limited nature of issues being reassessed in the Direct Access proceeding. SDG&E's description of tasks to support the RTO is consistent with the need for one additional employee. Finally, DRA recommends a full disallowance for SDG&E's proposed Compliance Advisor. This position would "translate the tariffs into business requirements" so other groups can "implement system changes to support new tariffs."[822] SDG&E is requesting additional staff for what should be part of existing staff duties with management guidance. Indeed, SDG&E notes that "[t]he Compliance Manager spent significant time discussing with (sic) other utilities, IT programmers as well as seeking input from CPUC staff before determining system coding requirements that were both workable and supported the law."[823] SDG&E does not need additional staff to assist management to determine how to implement tariffs. DRA does not oppose funding at the 2009 staffing level for one Manager, two Customer Service Analysts, and one Special Investigator.

---

[822] *Id.*, p. 19.

[823] *Id.,* p. 20.

10.7.1.2. Office Credit & Collections

SDG&E is requesting an increase of $307,000 over the five-year average expense level of $2.469 million, an increase of 12%.[824] $188,000 of SDG&E's proposed increase relates to additional Meter Revenue Protection (MRP) investigators. SDG&E claims that these MRP investigators are needed because "[i]n the smart meter environment, the theft investigations will be generated by analysis of remotely generated meter tamper alarms which will generate investigations immediately upon unauthorized movement of the meter. This will therefore increase the volumes of theft investigations."[825] SDG&E reasons that simply because Smart Meters have tamper detectors the utility will be alerted to more attempted or actual theft. SDG&E has no evidence to support this assertion, other than the claim that currently meter theft goes undetected. An equally likely scenario is that theft investigations will decline because potential thieves will be deterred from tampering with the Smart Meters at the outset. DRA recommends disallowing this expense request.

10.7.1.3. Customer Service Technology Support

SDG&E proposes expenses of $328,000 above the five-year average of $720,000, but $23,000 less than the 2009 expense level of $1.071 million.[826] About half of the proposed increase is due to staff impacts and salary differentials ($168,000), while the other half ($160,000) is for two new positions. SDG&E claims the positions are needed to support the GridComm project, hard drive encryption for Mobile Data Terminals (MDT), and Global Positioning System (GPS) technology. These projects seem likely to benefit from a technical advisor, but the need for a Business Systems Analyst is not clear. The MDT project will encrypt over 400 MDTs but should not require much support thereafter. GridComm and GPS should aid field technician efficiency, and may require technical support. Absent a compelling justification for the Business Systems Analyst,

---

[824] *Id*.

[825] SDG&E response to DRA data request DRA-SDG&E-50-MZX, Q.3.

[826] Exh. SDG&E-14, p. 23.

DRA recommends disallowing the position. This disallowance removes $80,000 from SDG&E's proposal.

10.7.1.4. Customer Service Operations Other

SDG&E proposes an increase of $1.033 million over the five-year average of $1.449 million, an increase of 71%.[827] $1.018 million of this increase is related to HAN expenses. DRA recommends disallowing all of the HAN expenses and continuing to use the five-year average expense level. DRA recommends disallowing the HAN capital request in Exhibit DRA-12. The HAN expenses requested by SDG&E would create a whole new HAN team of 8 employees within SDG&E. These employees would be responsible for everything from tracking HAN technology development to marketing HAN technologies to customers. Even if the Commission finds an incremental HAN capital investment warranted, this O&M request is far beyond the basic need of ensuring that HAN systems function properly. Utility employees should not be marketing HAN technologies to customers; such is a job for the competitive market.

10.7.2. Shared Services

Shared services includes management and support staff shared between SDG&E and SCG. The largest expense area is Customer Service Technology Support, which support various billing and customer relationship management systems. SDG&E is requesting an increase of $1.677 million over the 2009 expense level of $2.986 million, an increase of 56%.[828] This proposed increase is mainly related to Smart Meters and operational complexity.

SDG&E is requesting a small army of staff to support Smart Meter interfaces, data collection, on-line presentment, billing and other tasks. In total, SDG&E's request comprises seven employees; two technical advisors and five Business Systems Analysts. Moreover, SDG&E is requesting an additional seven Business Systems Analysts to

---

[827] Id., p. 26.

[828] *Id.*, p. 30.

"support and maintain additional systems and increased complexity of existing systems."[829]

DRA contends that SDG&E's request overstates the actual additional staffing needs associated with Smart Meters and the complexity of activities. A modest increase above the five-year average is reasonable to account for some increased complexity, including increased complexity created by Smart Meters. DRA recommends an increase of 15% above the five-year average, or $322,000 for this area. This increase would allow SDG&E to focus staffing needs on high priority areas that will increase system efficiency and provide value to ratepayers.

10.7.3. Capital Projects

SDG&E's capital request for the three above mentioned projects totals $1.792 million in 2010 and 2011. The largest project is bill redesign at $1.171 million. DRA does not oppose all three proposed projects. DRA's only adjustment is to use the actual 2010 expenditure on the bill redesign project. In response to a DRA data request, SDG&E reported that the actual 2010 bill redesign expense was $848,000.830 Therefore, DRA's capital budget recommendation is $1.469 million.

10.8. Information - Common Issues (including R&D)

DRA has no comment on this issue at this time.

10.9. Information - SoCalGas Issues (includes Biogas)

SCG is seeking $41.536 million in Customer Services and Information (CS&I) expenses for TY 2012, an increase of $12.250 million (42%) over 2009 expenses. DRA recommends $24.182 million, a decrease of $5.104 million from 2009 expenses.[831] CS&I comprises customer outreach and assistance, account management for large customers, research, design and development programs (RD&D), emerging technologies

---

[829] *Id.*, p. 36.

[830] SDG&E response to DRA data request DRA-SDG&E-78-MZX, Q.1, embedded MS Excel file on page 1.

[831] Exh. 539, p. 2 and Table 49-1.

management and biofuel market development.[832] SCG is also proposing $12.059 million in capital expenditures in 2012, and $1.261 million in 2011. DRA recommends $787,000 in 2012, and does not dispute the 2011 capital request.[833]

SCG is requesting $230,000 for operating and improving SCG's website and supporting new and expanded mobile-based e-services offerings.[834] SCG does not offer much detail to justify this expense, but devotes considerable text to describing the growth in the use of new electronic media (e.g., mobile devices, social networking). SCG's primary responsibility is to provide safe and reliable gas service to its customers, and these services are not absolutely necessary for that purpose.

SCG is requesting $431,000 for the "Social Media/E-communications Channels, which would allow SCG to send outbound communications via social networks and other channels such as text/SMS. DRA recommends disallowing this request for the same reasons as stated above. SCG has not demonstrated any tangible benefits from this investment, it will not make service more safe or reliable, and it is targeted at only the tech-savvy portion of SCG's customer base.[835]

SCG is requesting $128,000 for additional targeted customer research to customers using e-services. This request is unreasonable for two reasons. First, SCG conducted the "Voice of the Residential Customer survey" in May 2010. After this GRC is completed, SCG can go back to the survey results and assess how to prioritize its communications and e-services funding. Second, there is substantial industry research being conducted about usage trends for various electronic technologies. SCG has cited multiple outside studies in its testimony and can continue to access those studies to inform its operations. DRA recommends disallowing this request.[836]

---

[832] Exh. 417, p. 1.

[833] Exh. 539, p. 2 and Table 49-2.

[834] Exh. 417, p. 20.

[835] Exh. 539, p. 6.

[836] *Id.*

SCG requests $468,000 to double the length of its safety communications campaign from three to six weeks, disseminate safety messages in multiple languages, and multi-media technologies for message dissemination.[837] While DRA supports disseminating safety information to SCG's entire diverse customer base, DRA questions why, in 2011, SCG is behind the curve on multi-lingual safety messaging. As SCG states, "Approximately 45% of the residents in SCG's service territory speak a language other than English at home and nearly 30% are immigrant residents."[838] SCG should be ahead of, not behind the curve on multi-lingual and multi-cultural safety outreach. Given SCG's need to play catch up, DRA recommends that SCG and not its ratepayers pay for these communications. Placing this cost on SCG will give the utility an incentive to ensure future safety communications reach all of its customers.

Furthermore, DRA questions the need for expanding a three-week campaign to a six-week campaign. SCG provided no data to support this request. In addition, DRA objects to SCG's proposal to spend on production techniques to reach younger and web-savvy audiences since they are more likely to be aware of general safety issues conveyed through electronic media.[839]

For SCG's proposed Natural Gas Appliance Testing program, DRA agrees with SCG's proposed requested increase of $2.8 million, but believes that there will be no further need for a memorandum account with request fully funded.[840]

SCG is requesting an incremental $550,000 to increase Medical Baseline (MBL) program participation by 18%.[841] These expenses include $150,000 for two FTE "cultural ambassadors" to direct outreach and $400,000 for placing program information on television, and in magazines, direct mail, and doctor's offices and pharmacies. DRA

---

[837] Exh. 417, pp. 22-23.

[838] Exh. 417, p. 22.

[839] Exh. 539, pp. 6-7.

[840] *Id.*,

[841] Exh. 417, p. 28.

recommends a disallowance of these incremental expenses, which are not absolutely necessary, and could be achieved through the operation of existing community groups.[842]

The Nonresidential Markets group conducts a number of activities mainly aimed at providing services to large Commercial, Industrial and Government customers. In fact, SCG's expense increase request is based on providing support to customers considering Combined Heat and Power (CHP) systems and those that generate significant Greenhouse Gas (GHG) emissions. SCG's TY 2012 request is $8.502 million, which is an increase of $480,000 over the five-year average of $8.022 million, an increase of 6%.[843] It includes staff to evaluate the viability of CHP systems and consultants to assist customers reduce GHG emissions and reach air quality goals.

DRA recommends the adoption of the five-year average of $8.022 million for nonresidential markets because SCG's requests are beyond the scope of services reasonably funded by ratepayers. If commercial and industrial customers are violating air quality standards, releasing excessive amounts of GHG, or not investing in CHP capacity, it is the responsibility of state government, not SCG – through its ratepayers – to enact policies that solve these problems.[844]

SCG is requesting an RD&D budget of $13.186 million, $3.730 million above its 2009 budget of $9.456 million, an increase of 39%. SCG's request comprises 12 sub-programs and 24 different project areas within those sub-programs. SCG also proposes to continue its sharing mechanism for net revenues, which splits those revenues 60/40 between ratepayers and shareholders.[845]

DRA asserts that the Commission should discontinue funding for SCG's RD&D program. The Commission approved SCG's initial RD&D program in 1997 (D.97-07-54) and its budget has increased steadily since. SCG's current $13 million request is a full 37% of SCG's customer service and information budget request.[i] SCG's RD&D

---

[842] Exh. 539, p. 8.

[843] Exh. 417, p. 38.

[844] Exh. 539, pp. 9-10.

[845] *Id.*, p.10.

budget may contain some useful and potentially profitable projects. The composition of projects in the RD&D program, however, is irrelevant to the policy question of whether a ratepayer-funded RD&D program is a reasonable part of SCG's operations.

DRA contends that a ratepayer-funded RD&D program is neither necessary nor reasonable. It is not necessary because government agencies and private industry fund significant RD&D and because the technology necessary to provide safe and reliable service is already available. It is not reasonable because it steadily contributes to rate increases and because it contributes towards a culture of inefficient spending.[846] Also, many of the areas are not directly tied to provision of natural gas transmission service. In the event the Commission decides to retain an RD&D program for SCG, DRA recommends that the program budget be limited to projects directly related to safety improvements. SCG's $3 million of Gas Operations RD&D requests fit this criterion.[847]

SCG claims it needs an additional $860,000 for Natural Gas Vehicle customer education and outreach in response to dramatic customer growth.[848] DRA recommends disallowing the requested increase to the NGV program and instead adopting the 2009 authorized level of $1.55 million. SCG notes that from 1995-2008 the NGV program funding was static at $1.55 million.[849] Nevertheless, SCG's 2009 NGV expenditures were $1.396 million, 10% below the authorized amount.[850] SCG did not provide any evidence that its 2012 NGV expenditures would exceed $1.55 million.

Moreover, nearly half of SCG's proposed increase would be for market outreach activities. If the NGV program has strong growth as claimed, there would not be a need for market outreach because potential customers' vendors and suppliers would seek out SCG for information without outreach efforts. SCG makes no compelling case why

---

[846] *Id.*, p. 11.

[847] *Id.*, p. 13.

[848] Exh. 417, p. 66.

[849] *Id.*, p. 72.

[850] *Id.*

expenditures on industry events and trade group participation would provide ratepayer benefits.[851]

SCG proposes an increase of $488,000, which covers three staff positions ($300,000) to comply with the administration requirements of the Firm Access Rights decision and an upgrade to SCG's storage valuation software ($188,000). DRA does not oppose the proposed staffing increases, but objects to the software upgrade. SCG states that, "In order to effectively price storage services provided to off system customers, SCG needs to enhance its analytic capability to consider wheeling/locational cost differentials in addition to time differentials and to have it installed on two computers."[852]

SCG's justification does not explain why its current software is incapable of considering cost differentials or whether the new staff would be able to perform the necessary calculations without software. SCG should be able to justify new IT expenses by showing a compelling business case. Absent that showing, DRA recommends disallowing this expense of $188,000.

SCG is requesting $120,000 for market assessments to advance the biofuel market. DRA opposes this request because the production of natural gas has been deregulated for more than thirty years and sinks or swims on its own. Ratepayers should not be subsidizing market development for the natural gas commodity, which are markets where private sector players have an incentive for development.[853]

SCG is proposing an additional $260,000 above the five-year average of $216,000. SCG claims this increase is needed to meet more numerous and stricter air quality regulations.[854] SCG's Environmental Affairs staff act as liaisons to governmental agencies that regulate air quality as well as assisting large customers to maintain compliance with regulations.

---

[851] Exh. 539, p. 15

[852] Exh. 413, p. 79.

[853] Exh. 539, p. 15.

[854] Exh. 413, p. 81.

DRA recommends disallowing $130,000, half of SCG's proposed increase. While DRA acknowledges SCG's challenges in complying with air quality regulations, SCG does not provide justification for why large customers should have their compliance activities subsidized by ratepayers. Large customers should be able to comply with air quality regulations on their own without subsidies from SCG ratepayers.[855]

DRA opposes $11.272 million in capital expenditures for its proposal for a biomethane pilot project, the "Sustainable SoCal" program.[856] SCG proposes to capture gaseous emissions (raw biogas) from four wastewater treatment plants and convert it to pipeline quality biogas (biomethane).[857] SCG estimates that the biogas production cost will be *$14.31/MMbtu*.[858] After explaining its benefit-cost methodology, SCG concludes that biomethane is "a potentially cost-effective source of renewable energy for electric generation when compared to other renewable technologies such as [photovoltaic] thin film."[859]

DRA discusses biogas issues below in section 29.

10.10. Information - SDG&E Issues

This portion of the brief addresses SDG&E's forecasts for Customer Services and Information (CS&I) expenses for Test Year (TY) 2012. CS&I comprises customer outreach and assistance, account management for large customers, research, design and development programs (RD&D), emerging technologies management and some ongoing Smart Meter-related O&M expenses.[860] SDG&E is seeking an increase of $9,719,000 (59%) over 2009 expenses. SDG&E's CS&I request also includes $8.128 million in capital projects for 2012. SDG&E's 2010-2012 CS&I capital budget totals $25.484 million.

---

[855] Exh. 539, p. 16.

[856] *Id.*, pp. 16-19.

[857] Exh. 413, p. 88.

[858] *Id.*, p. 91 (emphasis added).

[859] *Id.*, p. 92.

[860] Exh. SDG&E-15, Vol. I, Ch. B, p. 2.

10.10.1. Customer Assistance

SDG&E is requesting $1.392 million for Customer Assistance in 2012.[861] This request is a $625,000 increase over the five year average of $767,000. The incremental costs come from increased Natural Gas Appliance Testing (NGAT), the Medical Baseline Customer Outreach program, and the TEAM Collaborative program (which provides bill education to customers with limited English proficiency). The majority of the proposed incremental costs, $550,000 are non-labor expenses.

DRA recommends maintaining the five year average of $767,000. As described below, DRA disagrees with SDG&E's justifications for incremental costs. In addition, SDG&E's 2010 recorded expenses were $752,000, which are in keeping with the five-year average.[862]

10.10.1.1. NGAT

SDG&E claims that its proposed $275,000 incremental NGAT increase is due to higher annual program goals and an increase in the cost per carbon monoxide test.[863] In a footnote to its testimony on NGAT, SDG&E notes that in 2009 SDG&E filed an Advice Letter to track NGAT costs associated with D.08-11-031, but that the Commission rejected that Advice Letter. In 2010 SDG&E filed a petition to modify D.08-11-031 in order to "allow IOUs to track the unanticipated and unforeseeable NGAT incurred costs, as a result of compliance with [D.08-11-031] …"[864] In D.10-12-002, the Commission granted SDG&E's request to track unanticipated NGAT costs in a memorandum account. Should SDG&E's NGAT costs from 2012-2014 exceed the five-year average (and the amount spent in 2010), SDG&E will be able to track those costs in the memorandum account. There is no reason why SDG&E's higher projected NGAT costs should be included in rates when SDG&E has a memorandum account to track these costs. Although "SDG&E anticipates a higher proportion of single family to multi-family

[861] Exh. SDG&E-15, Vol. II, Ch. B, p. 10.

[862] SDG&E 2010 Recorded Expense, April 11, 2011.

[863] Exh. SDG&E-15, Vol. II, Ch. B, p. 12.

[864] *Id.,* p. 13.

homes to be treated in the next LIEE program cycle (2012-2014),"865 there is no evidence to support that assumption.

10.10.1.2. Medical Baseline

SDG&E's request consists of $75,000 for an employee to raise awareness of the Medical Baseline (MBL) program and $200,000 for an outreach campaign.[866] SDG&E claims that this outreach is necessary for it to achieve an internal target of a 30% increase in MBL enrollment and for compliance with D.08-11-031, which requires 15% of LIEE enrollments to represent households with disabilities.[867]

In response to a DRA data request, SDG&E stated that it currently partners with 15 community-based organizations (CBOs) in order to disseminate information about the MBL program.[868] If SDG&E is unable to meet its MBL goals through its existing partnerships, the utility should seek out additional CBO partners and leverage their knowledge and resources to raise enrollment. There is no need for SDG&E to incur additional expenditures when CBOs, not SDG&E have the best on-the-ground networks to reach out to MBL customers.

10.10.1.3. TEAM Collaborative

SDG&E's request is $75,000 annually for a contract with Telecommunications Education and Assistance in Multiple-languages (TEAM) collaborative for bill education and outreach to customers with limited English proficiency.[869] DRA recommends that funding should be recovered through the CARE program. Funding TEAM through the CARE program will benefit low-income ratepayers by allowing for greater oversight than would exist if TEAM were funded as a GRC O&M expense. Moreover, low-income

---

[865] *Id.,* fn. 22.

[866] *Id.,* lns. 12-19.

[867] *Id.,* p. 14.

[868] SDG&E response to DRA data request DRA-SDG&E-30-MZX, Q.3.

[869] Exh. SDG&E-15, Vol. II, Ch. B, p. 15.

customers are not responsible for funding CARE programs and will benefit from not having to pay extra to maintain the TEAM program.

10.10.2. Clean Energy Programs

SDG&E is requesting to increase spending on its clean energy programs from $994,000 to $1.542 million, an increase of $548,000 or 55%.[870] Most of SDG&E's request relates to the Sustainable Communities Program (SCP). The SCP adds generation systems onto sustainably designed, energy efficient buildings. DRA evaluates the SCP capital requests in Exhibit DRA-11. DRA recommends an increase of $305,000 for SDG&E clean energy programs, a difference of $243,000.

10.10.2.1. Sustainable Communities Program

SDG&E is requesting $484,000 in incremental O&M expenses for the SCP.[871] SDG&E's request comprises:

- $241,000 for 3.5 FTEs who were assigned to SCP in 2009.[872]
- $70,000 for public education about SCP projects.
- $173,000 for 2 FTEs to support the incremental capital budget increase.

DRA recommends that the Commission disallow the proposed $243,000 for public education and two additional staff. DRA's O&M recommendation is consistent with its recommendation for the SCP capital budget described in Exhibit DRA-11. SDG&E's testimony describes how the SCP has steadily gained in popularity. Since potential SCP participants are discovering the program without outreach programs, there is no need for ratepayers to fund public education about how SCP is supporting model renewable generation and efficiency projects. In addition, as DRA stated in Exhibit DRA-11, SCP's proposed capital budget should be partially funded by commercial property owners. This SCP partnership would eliminate the need for the two proposed program support FTEs.

---

[870] *Id.,* p. 23.

[871] *Id.,* p. 24.

[872] SDG&E response to DRA data request DRA-SDG&E-21-MZX, Q.9.

10.10.3. Electric Clean Transportation

SDG&E's Electric Clean Transportation (ECT) program focuses on outreach and education, rate development, system impact and market analysis for electric vehicles. SDG&E is proposing to increase its 2009 budget of $717,000 by $2.23 million, an increase of 310%.[873] SDG&E's request would augment outreach and education programs for electric vehicle owners. DRA opposes SDG&E's request for additional ECT funding. DRA recommends maintaining the 2009 funding level of $717,000.

10.10.4. Communication, Education & Outreach

SDG&E's request for communication, education and outreach is $1.508 million.[874] It includes new staff as well as the development and dissemination of outreach materials. DRA opposes SDG&E's request on fundamental grounds. Although significant state and federal rebate programs exist for plug-in electric vehicle (PEV) owners, the cost of PEVs is over $30,000.[875] Both the PEV manufacturers and consumers have a strong interest in ensuring that consumers have the information they need when deciding to purchase and learning to operate a PEV. As SDG&E acknowledged in a data response, significant information about PEVs, PEV charging, best practices, etc. is available and SDG&E already makes that information available via its website.[876] SDG&E's role as an electric utility does not include marketing products manufactured by other companies.

10.10.5. PEV Engineering Support Expenses

SDG&E is requesting $446,000 for field outreach, and on-road and charger infrastructure support.[877] Three new staff would provide technical and safety information about charging facility installation and maintenance and engineering on-road support for

---

[873] Exh. SDG&E-15, Vol. II, Ch. B, p. 25.

[874] *Id.,* p. 29.

[875] See http://www.nissanusa.com/leaf-electric-car/index#/leaf-electric-car/estimator/index, and http://www.chevrolet.com/volt/, accessed July 18, 2011.

[876] SDG&E response to DRA data request DRA-SDG&E-30-MZX, Q.7.

[877] Exh. SDG&E-15, Vol. II, Ch. B, p. 31.

charging infrastructure development and deployment. SDG&E is attempting to devote resources to areas that are adequately covered by other businesses. Charging facilities come with operating instructions and consumers that want extensive safety assurances will access that information from the internet. Likewise, SDG&E is not the entity installing and maintaining on-road charging infrastructure. If the entities responsible for development and deployment of on-road charging infrastructure desire engineering support from SDG&E then they and not SDG&E's ratepayers should pay for that support. Thus, DRA recommends no ratepayer funding for these proposed expenses.

10.10.6. Incremental Market Assessment & Planning Expenses

SDG&E proposes an additional $275,000 for market assessment and planning along with Smart Grid/Electric Distribution integration planning.[878] As discussed above, there are other market players with a vested interest in assessment of the PEV market. SDG&E does not need additional staff to monitor PEV market trends. Likewise, SDG&E does not need staff to validate communications between charging stations and Smart Meters. It is the manufacturers' responsibility to ensure that their technologies are compatible with the Smart Meters so that SDG&E can collect, analyze and act upon the data.

10.10.7. Customer Communications and Research Services

SDG&E is requesting an increase of $3.397 million over the five year average of $4,922 million, an increase of 69%. SDG&E states that "Many of the incremental cost are linked to the capital requests for expanded website functionality, social media platforms and additional My Account upgrades …"[879]

DRA supports ensuring that customers can access necessary information via the internet and enabling customers to share concerns and feedback easily. DRA does not support significant spending on social networking, mass media communications, and

[878] *Id.,* p. 32.

[879] *Id.,* p. 49.

unnecessary web functionality because they are not required for SDG&E's provision of safe and reliable service. In particular, DRA opposes SDG&E spending on education and outreach relating to Smart Meters since a whole industry is developing that will supply products and services to consumers who wish to use their Smart Meters to reduce their electricity use. DRA's detailed recommendations are described below.

10.10.7.1. Mass Communications

SDG&E proposes spending $1.708 million on safety communications, Smart Meter outreach, and customer education. The safety communications will focus on preparedness for natural disasters, the Smart Meter outreach will focus on energy management opportunities and the additional customer education relates to use of Smart Meters for decisions such as bill payment and other e-services.[880]

DRA recommends disallowing SDG&E's mass communications request, except $100,000 to send safety communications to non-English speaking customers. SDG&E already has safety messaging and has not indicated that its existing messaging is deficient. Thus, there is no need for expanding messaging detail or messaging distribution. DRA supports the expenditure of $100,000 to translate existing English-only messaging into other languages.

SDG&E's Smart Meter outreach request is unreasonable because other businesses will provide customers with information on how to optimize Smart Meter use. SDG&E can provide information about viewing interval consumption data, bill payment, and e-service options on its website and customers that wish to access the information can do so via the internet. Due to their controversial nature, Smart Meters are receiving significant media attention. SDG&E has not shown any reason why customers need additional outreach in order to utilize their Smart Meters to the extent they desire.

[880] *Id.,* pp. 50-51.

10.10.7.2. Website Management

SDG&E proposes to enhance its website to support social media, customer notifications, customer research and design features such as graphics and navigation. SDG&E's request is an incremental $1.098 million, which includes 6 new FTEs.

DRA recommends the Commission allow an incremental $288,000 to cover beneficial website changes and customer notifications. DRA recommends disallowing upgrades for social media, graphics, and navigation, and other additional functionality. These upgrades are not essential to SDG&E's provision of safe and reliable service. In particular, social media upgrades are beyond core customer service provision because not all customers use social media and even those that do utilize social media do not necessarily use it for obtaining information from and communicating with their utility service providers.

10.10.7.3. Corporate Center Transfer

SDG&E is requesting an incremental $495,000 to fill positions that were retained by SCG. Sempra's 2010 reorganization created separate communications teams for each utility. This decision is not justified, and to the extend it is justified, seems based upon SDG&E's desire to create specialized communications related to Smart Meters.[881] As DRA's testimony demonstrates, most of SDG&E's Smart Meter-related communications are unreasonable. Therefore, SDG&E's need to have a communications staff separate from SCG is not reasonable. If SDG&E had a compelling rationale for creating a separate SDG&E communications team that rationale should have been included in SDG&E's testimony. DRA recommends disallowing SDG&E's corporate center transfer request.

10.10.8. RD&D

SDG&E is requesting an incremental increase of $3.251 million over its $1.526 million 2009 budget, a 213% increase. The new projects would cover renewables, energy storage, Smart Grid technologies and integration and PEV charging infrastructure.

---

[881] Exh. 1 (SDG&E-1) p. 8.

DRA recommends eliminating SDG&E's RD&D program. As SDG&E acknowledges, there are multiple governmental and non-governmental entities engaged in RD&D across the energy sector. Some of those RD&D projects will come to fruition and benefit SDG&E and its customers. In order for SDG&E to be aware of cutting edge technologies and remain connected to industry leaders DRA supports ratepayer funding of SDG&E's participation in collaborative organizations that share information and ideas. DRA does not, however, support a stand-alone SDG&E RD&D program because SDG&E's role as an investor-owned utility does not require its own RD&D funding.

SDG&E's role is to be a steward of its ratepayers by making prudent investments in systems and operations. SDG&E does not need to be on the cutting edge of RD&D because private industry and government research institutions already fulfill that role.[882] Furthermore, Sempra's Emerging Technologies O&M budget is forecast for $1.22 million for TY 2012. The staff in that group is tasked with keeping tabs on emerging technologies and making recommendations on whether Sempra should adopt them. SDG&E should focus its ratepayer dollars on providing safe and reliable service. California's electric ratepayers already pay a premium for advanced technologies such as Smart Meters, Smart Grid, renewables, and wide ranging energy efficiency programs. Ratepayers should not be asked to underwrite utility RD&D investments on top of their current obligations. DRA recommends the Commission limit the ever growing expansion of SDG&E's costs by limiting funding to core functions.

10.10.9. O&M Shared Services

SDG&E's shared services request is an incremental increase of $129,000 from a 2009 budget of $1.226 million, an increase of 10.5%. DRA recommends eliminating the Bio Fuels Market Development budget. As DRA's testimony evaluating SCG's Sustainable SoCal Biogas project demonstrates (Exh. DRA-14), Sempra has not yet designed an equitable and cost-effective biogas project. Since both SDG&E and SCG

[882] The California Energy Commission's PIER program and US Department of Energy invest substantial sums in electric and gas RD&D.

have staff dedicated to evaluating emerging technologies, it would be inefficient to have additional resources devoted solely to biogas market development. Once a cap and trade program is in place in California, large methane producers (i.e., wastewater treatment plants and dairies) have a regulatory directive (and financial incentive) to reduce methane emissions, they may be inclined to fund biogas programs. When that occurs, Sempra's emerging technologies staff can work with those entities to develop jointly funded, cost-effective biogas projects. In the meantime, Sempra ratepayers should not be funding biogas development costs in addition to evaluation of other emerging technologies.

10.10.10. Capital Expenditures

SDG&E is requesting five separate capital projects to upgrade the My Account portion of its website. SDG&E's request also includes a Customer Contact and Notification System, an upgrade to the Customer Relationship Management software, Phase 3 of the Customer Energy Network, and construction of the San Diego Energy & Environmental Center. In sum, SDG&E proposes to vastly expand information electronically available to customers and information customers receive from SDG&E. SDG&E's capital request totals $25.484 million between 2010 and 2012.

DRA sees value in website upgrades that enhance accessibility for low-income and marginalized populations. DRA also supports projects that enable deployment of applications with clear and widespread benefits. DRA supports the My Account Accessibility and Account Manager Enhancement 1 & 2 projects for these reasons.

DRA does not support new projects aimed specifically at mobile device users, projects that disseminate information customers can easily obtain elsewhere, or projects aimed at facilitating third party access to Smart Meter data. These types of projects are not reasonable because they do not provide ratepayers substantive value for their dollars and do not directly relate to the provision of safe and reliable service. DRA recommends disallowing the rest of SDG&E's proposed capital projects for these reasons, and as further detailed below.

10.10.10.1. My Account Products and Services

SDG&E justifies this $2.264 million project by claiming that the current software vendor platforms that comprise the My Account portion of the website cause user confusion and navigational difficulties. SDG&E also states that "The new structure will also help optimize customer access to utility services by supporting the recommendation and selection of utility product and service offerings based on an online shopping experience."[883]

SDG&E did not provide any examples of how the current My Account format impedes customer navigation. Moreover, if the My Account platform were in such disarray, it is unlikely that 35-40% of SDG&E customers would be My Account users.[884] It is unreasonable for SDG&E to upgrade portions of its website simply because they do not offer a purported state-of-the-art user interface. Furthermore, SDG&E is an electric service provider, not an online retailer, and upgrades that model an "online shopping experience" are far afield from SDG&E's core function of safe and reliable electric service provision.

10.10.10.2. My Account Mobile Services

This $1.363 million project would cater to only mobile device users by making activities available on SDG&E's website such as viewing/paying bills, balance/account statement information, and service order status and making them more easily viewable via mobile devices. This project is unreasonable because mobile users are one subset of customers, computers are widely accessible in private residences and public facilities (e.g., Libraries), and there is no pressing societal need for customers to have more easily viewable utility services through their mobile devices. Many mobile device users have access to the internet through their mobile device and can already access the information referenced above on their mobile device. SDG&E's proposed project would simply make the information fit better on a mobile device screen.

---

[883] *Id.,* p. 88.

[884] SDG&E response to DRA data request DRA-SDG&E-023-MZX, Q.5.

10.10.10.3. My Account Additional Environment

This $3.873 million project would support all of the other My Account upgrades by providing quality assurance testing environments and building out additional My Account software. Since the majority of the other My Account upgrades are not needed, this project is also unnecessary. SDG&E's My Account platform does not need a major overhaul and SDG&E should not be allowed to spend ratepayer dollars on an array of e-offerings.

10.10.10.4. Customer Contact and Notification System

The idea behind this $ 2.949 million project is giving customers the ability to receive "personalized automated communications through a combination of voice, text, and e-mail messages."[885] The "Preference Center" where customers will elect their communications preferences will also provide SDG&E with customer information it can use to develop "proactive and targeted outbound informational campaigns that are regularly deployed by customer programs to increase program participation."[886] This proposal appears to be a marketing ploy in the guise of a customer choice project.

This project because is beyond the scope of necessary customer communications, potentially duplicative of services that will be provided by third-party energy management companies, and appears to be a marketing tool. Customers currently have the choice of receiving a paper or an electronic bill. Customers who receive electronic bills receive notices via email when a new bill is available. Although some customers may wish to receive bill information via mobile device, their convenience should not be underwritten by ratepayers.

For other information, such as demand response events and usage change notifications, customers may soon be able to select a third-party service provider (or product) that will provide this information via a Smart Meter. Paying for SDG&E to provide this information would be duplicative, and would dampen the third-party services

---

[885] Exh. SDG&E-15, Vol. IV, Ch. B, p. 89.

[886] *Id.*

market. Other information such as outage updates and service confirmations should be available via the SDG&E website.

Finally, allowing more targeted marketing of informational campaigns is not sufficient justification to spend millions of ratepayer dollars. SDG&E already has the ability to gather information from customers through surveys and customer services interactions. SDG&E's proposals seem premised on the idea the existing websites are obsolete technology that must make way for new and exciting mobile applications. It is worth noting that while technology can facilitate customer service, technology alone cannot substitute for good customer service. Ratepayers cannot afford to pay for every new technology as soon as it hits the market. SDG&E's role is to adopt technologies that have proven benefits and cost effectiveness through others' efforts so that ratepayers may reap those benefits at a reasonable cost.

10.10.10.5. Customer Relationship Management System Upgrade

This $ 2.244 million project is a software upgrade that would "improve the utilities' ability to segment and deploy customer information via email or other electronic channels … and increase the ability to track outbound communication campaign effectiveness and efficiency …"[887] DRA objects to this project for the same reasons cited above in opposition to other projects that improve SDG&E and SCG's ability to track and deploy customer information. Both utilities already have channels to collect information about different customer segments. SDG&E provided no description of the ratepayer benefits of this project besides improved customer awareness and response rates. SDG&E did not compare this project to other methods for raising customer awareness of specific utility programs, nor explain which programs are in need of greater customer participation. Furthermore, SDG&E did not indicate that there are serious deficiencies with the current software. Lacking compelling need and proper justification this project should be disallowed.

---

[887] *Id*., p. 90.

10.10.10.6. Customer Energy Network – Phase 3

This is a $1.6 million SDG&E-specific project that would expand third party access to residential and small commercial customer data. DRA recommends that the Commission disallow this project for two reasons. First, the ratepayer benefits of third party access are unsubstantiated. In September 2011, Google will discontinue its PowerMeter program with SDG&E due to low customer usage.[888] SDG&E should not make further investments in third part access technology unless and until the factors that govern customer engagement are well established and the appropriate technologies are commercially available.

Second, given the potential for the third party energy management market,[889] the industry should pay SDG&E to develop platforms for third party access. Otherwise, ratepayers are subsidizing an industry which has no guarantee of success. SDG&E should treat all future third party access projects as contributed plant and require Contributions in Aid of Construction from third parties to fund it.

10.10.10.7. Energy Innovation Center (EIC)

Of all the projects reviewed in this section the EIC is by far the biggest at $8.8 million. SDG&E took Commission approval of a Demonstration Commercial Kitchen and used it to justify the construction of an entire green technologies building. This $8.826 million LEED-certified[890] building would demonstrate energy efficiency, clean transportation, renewable generation, and smart grid benefits.[891] DRA recommends the EIC be disallowed for the following reasons.

First, although the EIC is intended to be a "showcase" project, the technologies being showcased are already being "showcased" in the media, other buildings, and in the

---

[888] See http://googleblog.blogspot.com/2011/06/update-on-google-health-and-google.html, accessed July 25, 2011.

[889] The nationwide interest in the CPUC's Smart Grid Rulemaking R.08-12-009 is a testament to the level of private industry interest in customer energy management markets.

[890] LEED is a certification standard developed by the US Green Building Council. See http://www.usgbc.org/DisplayPage.aspx?CategoryID=19, accessed July 25, 2011.

[891] Exh. SDG&E-15, Vol. IV, Ch. B, p. 91.

competitive market. For example, the EIC would demonstrate PEV charging, yet PEVs are already on the road in the San Diego area and being heavily marketed by their manufacturers. People interested in owning a PEV can find information about charging readily available on a variety of websites and at PEV dealerships. Similarly, people interested in learning about LEED certification can access online resources as well as see LEED-certified buildings in the greater San Diego area.

Second, contrary to SDG&E's implications, there is no Commission directive to construct the EIC. As SDG&E notes, the Commission approved a budget for SDG&E's Demonstration Kitchen project in D.09-09-047. SDG&E has a $4.48 million O&M budget for the Demonstration Kitchen project that includes rent, labor, and marketing. Through January 2011, SDG&E had spent only $214,388.[892] SDG&E could have found a building in which to house the Demonstration Kitchen and had sufficient funds from its Energy Efficiency portfolio to pay the rent. There was no need for SDG&E to construct the EIC in order to house the Demonstration Kitchen.

Third, SDG&E is a partner in the California Center for Sustainable Energy Resource Center (CCSE), which has classroom space for giving energy efficiency seminars and demonstrating energy efficiency products. SDG&E claims that the CCSE does not have adequate classroom space and lacks a computer lab, requiring classes to be held offsite.[893] Lack of space, however, does not equal justification to build a new building. As SDG&E notes, it is able to find alternate venues to disseminate energy efficiency information when the need arises. SDG&E is fortunate to have funding since overcrowded public schools and other public institutions do not have the ability to rent other classroom space when needed. In addition, as noted above, the other technologies SDG&E wishes to showcase are already available for public viewing in other locales.

SDG&E's justifications for an $8.8 million capital investment do not stand up to scrutiny. The Commission should disallow the EIC.

---

[892] SDG&E response to DRA data request DRA-SDG&E-36-MZX, Revised, Q.1, March 14, 2011.

[893] SDG&E response to DRA data request DRA-SDG&E-21-MZX, Q.22.

10.11. Smart Meter Policy, AMO and MDO - SDG&E Issues

This is discussed in another section of this brief.

11. OTHER CUSTOMER ISSUES (E.G. DISABILITY)

12. INFORMATION TECHNOLOGY

DRA reviewed SD&E's and SCG's proposal for recovery of Information Technology (IT) costs. DRA's forecasting methodology is based on the following two factors:

> For existing cost centers: DRA's forecast is based on the base of 2009 and is then escalated using Global Insight escalation rates to 2012.
>
> For new cost centers from 2010: DRA used the 2010 actual as the base then escalated it using Global Insight to 2012.[894]

DRA's analyses regarding IT rely upon the above methodology for calculating TY 2012 costs. Because SDG&E and SCG's estimates of 2010 spending levels have shown to be inaccurate due to their insufficiently pessimistic assessment of the effects of the recession, using actual 2010 spending escalated by growth rates calculated by Global Insight provides a reasonable basis for forecasts of TY 2012 spending.

12.1 SDG&E Issues

12.1.1. O&M

DRA recommends $52.1 million for IT O&M expenses. SDG&E requested $55.6 million for IT O&M expenses. The difference of $3.4 million comes from the following reductions: $1.9 million in Home Area Network (HAN) related expenses, and $1.5 million from FTE changes to projects in maintenance and enhancement programming support, customer system support, information security and business planning. The remaining difference is based on DRA's use of a three-year weighted average method to forecast FTEs.

---

[894] Exh. 514, p. 4.

12.1.2. Capital Expenditures

DRA recommends $188.6 million895 for three years of capital expenditures for 2010-2012. SDG&E requested $202.3 million for three years of capital expenditures for 2010-2012. The difference is $13.7 million,[896] and comes mainly from the HAN project adjustment of $12.6 million, as discussed in DRA Exhibits 507 and 508. The remaining $1.1 million difference is based on DRA's use of a three-year weighted average method to forecast FTEs. The difference comes from recommended reductions to the following projects: $0.1 million work force reduction for the CMR Upgrade projects, $0.8 million for Integrated Test Facility, and $0.1 million for Net Energy Metering Application management (Table 21-8b).[897]

12.2 SoCalGas Issues

12.2.1. O&M

DRA recommends $51.0 million in IT O&M expenses, shared and non-shared. In contrast, SCG requested $52.4 million. The difference of $1.4 million is from Global Insight inflation rate adjustment on non-shared service inter-company billing of $1.3 million, and $0.1 million on customer care systems.

12.2.2. Capital Expenditures

DRA recommends $252.2million for three years of capital expenditures for 2010-2012.[898] SCG requested $252.5 million for three years of capital expenditures for 2010-2012. The difference of approximately $0.4 million[899] is from FTE changes to projects related to SCG meter quality handheld system replacement, based on DRA's use of a three-year weighted average method to forecast FTEs.[900] The differences are as follows:

---

[895] Exh. 514, p. 2 and Exh. 515, errata no. 1.

[896] Exh. 514, p. 2 and Exh. 515, errata no. 2.

[897] Exh. 514, p. 7 and Exh. 515, errata nos. 6 and 7.

[898] Exh. 514, p. 2 and Exh. 515, errata no. 3.

[899] Exh. 514, p. 2 and Exh. 515, errata no. 4.

[900] Exh. 514, p. 8 and Exh. 515, errata no. 11.

$0.1 million for the projects of Forecasting & Scheduling, $0.1 million for SCG Meter Reading Handheld/System Replacement, $0.2 million for Battery Plant Replacement.

13. BUSINESS SOLUTIONS/SUPPORT SERVICES

13.1 Common Issues

13.2. SoCalGas Issues

13.3. SDG&E Issues

14. ADMINISTRATIVE AND GENERAL – UTILITY SHARED AND NON-SHARED SERVICES

14.1 Supplier Services and Diverse Business Enterprises

14.1.1. SDG&E Issues

SDG&E forecasts $13.06 million for its TY 2012 Supply Services & Diverse Business Enterprises O&M expense. DRA does not oppose SDG&E's TY 2012 forecast for total O&M expense.[901]

14.1.2. SoCalGas Issues

SCG forecasts $19.52 million for its TY 2012 Supply Services & Diverse Business Enterprises O&M expense. SCG's TY 2012 forecast for its Supply Services & Diverse Business Enterprises O&M expenses is based on its 2009 recorded adjusted expenses and five-year averages, plus incremental expenses for activities within each cost center. DRA's estimate for SCG's Supply Services & Diverse Business Enterprises O&M expenses is $17.72 million.[902]

SCG is requesting $12.56 million, or an increase of $864,000 above 2009 recorded non-shared expenses for cost centers Logistics Shops North-Pool Warehousing (2SS001.000 and 2SS002.000) and Office Services (2SS003.000). SCG's workpapers revealed the Company used 2009 recorded adjusted expenses and a five-year average for its forecast and added $864,000 for TY 2012.[903] DRA recommends a TY 2012 forecast of $11.23 million. DRA used forecasting methods including a three-year average of

---

[901] Exh. 512, p. 1.

[902] *Id.*, p. 2.

[903] Exh. 272, pp. 2-11.

recorded labor and non-labor expenses and the 2010 recorded expenses as base year recorded for TY 2012.

In this cost category, SCG's forecasted an increase for 2010 costs, but as with many other cost categories, such costs actually declined in 2010. DRA takes issue with SCG's forecast methodology of 2009 recorded adjusted expenses and a five-year average to forecast TY 2012. SCG's forecasting methodologies do not reflect appropriate expectations for these cost centers based on historical data. DRA made its forecasts based on a three-year average which reflects the most current level of activity within these cost centers and historical expenses.[904] In all three of these categories, costs from 2008-2010 were lower than the costs for 2005-2007, with declines in 2010, so it is reasonable to base the forecast on a three-year average. DRA thus recommends $9.034 million for Logistics Shops North-pool Warehousing, as opposed to SCG's forecast of $9.797 million; and $2.198 million for Office Services, as opposed to SCG's forecast of $2.762 million.[905]

14.1.3. Shared Services

SCG is requesting $2.99 million or an increase of $355,000 above 2009 recorded shared expenses for cost centers: Logistics/Shops North (2200-0798.000) and Portfolio Management (2200-0620.000). SCG's workpapers revealed the Company used both 2009 recorded adjusted expenses and a five-year average for its forecast and added $355,000 for TY 2012.[906]

DRA recommends a TY 2012 forecast of $2.50 million. DRA used 2010 recorded expenses of $2.50 million as the basis to forecast TY 2012 expenses for Cost Centers Logistics/Shops North (2200-0798.000) and Portfolio Management (2200-0620.000). DRA opposes SCG's forecast methodology of 2009 recorded adjusted expenses and a five-year average to forecast TY 2012. SCG's forecasting methodologies do not reflect

---

[904] *See* Exh. 512, pp. 5-6.

[905] *Id.*, pp. 4-6 and Tables 19-3 and 19-4.

[906] Exh. 272, pp. 28-57.

the current downward trend for these cost centers. The 2005 to 2010 recorded expenses show decreases over the past four years.[907] In addition, 2010 recorded expenses reflect the most current level of activity within these cost centers given their decreases. For this reason, DRA recommends using 2010 recorded expense for cost centers Logistics/Shops North (2200-0798.000) and Portfolio Management (2200-0620.000) TY 2012.[908]

14.2. Environmental Services

14.2.1. SoCalGas & SDG&E Issues

SDG&E forecast $8.96 million for its TY 2012 Environmental Services O&M expense and a book value of $5.53 million. SDG&E's TY 2012 forecast for its Environmental O&M expenses were based on its 2009 recorded adjusted expenses plus additional incremental expenses for activities within each Cost Center. DRA's estimate for SDG&E's Environmental O&M expenses is $7.8 million and a book value of $5.53 million.

14.2.2. O&M Non-Shared Services Cost Center-1EV000.000-Environmental

Cost center 1EV000.000 records costs of two Treatment Storage & Disposal Facilities (TSDFs); cleanup, management and disposal of hazardous wastes and contamination; and environmental permits.[909] SDG&E requests $3.43 million or an increase of $566,000 above 2009 recorded expenses for cost center 1EV000.000. SDG&E used 2009 recorded expenses of $2.87 million as recorded base year costs for its forecast and added an incremental cost of $566,000 for TY 2012.[910]

14.2.2.1. DRA's Recommendation for TY 2012 for Non-Shared Services-Cost Center 1EV000.000

DRA recommends a TY 2012 forecast of $2.27 million which is a decrease of $599,000 to 2009 recorded expenses. DRA recommends using the 2010 recorded

---

[907] *See* Exh. 512, pp. 7-8 and Tables 19-5 and 19-6.

[908] *Id.*, p. 8.

[909] Exh. 325 (SDG&E-21) p. LPG-22.

[910] Exh. 326 (SDG&E-21) workpapers, pp. 5-14.

expenses of $2.27 million to forecast TY 2012 expenses for cost center 1EV000.000. Table 24-3 provides an overview of SDG&E Environmental O&M recorded adjusted data from 2005 to 2010 and TY 2012 forecast for cost center 1EV000.000.

DRA takes issue with SDG&E's forecast methodology and justification for adding incremental upward pressure items to support their forecast methodology. SDG&E's assumptions used to generate incremental increases are inaccurate and do not reflect actual expenses, despite a small increase of SDG&E customers. The 2005 to 2009 recorded expenses show no dramatic increases or fluctuations for labor and non-labor. In addition, 2010 recorded expenses reflect lower current spending within this cost center. For this reason DRA recommends using 2010 recorded expenses for TY 2012.

14.2.2. O&M Shared Services Cost Center 2100-(0206, 0632, 3022, 3035, 3282, 3588, 3589).000, Dir. Environmental Services

Shared services cost center records cost of compliance support provided by SDG&E staff to SoCalGas, and compliance support provided by SoCalGas staff to SDG&E, in the areas of air and water quality, land planning, natural and cultural resources, site assessment and mitigation, environmental laboratory sampling and analyses and hazardous waste management.[911]

14.2.2.1. DRA Recommendation for TY 2012 for Shared Services-Cost Center 2100-(0632, 3035, 3282)000, Dir. Environmental Services

SDG&E is requesting $7.61 million or an increase of $1.95 million above 2009 recorded expenses for cost centers 2100-(0206, 0632, 3022, 3035, 3282, 3588, 3589).000, Dir. Environmental Services. SDG&E used 2009 recorded expenses of $5.67 million as recorded base year costs for its forecast and added an increase of $1.95 million for TY 2012.

DRA recommends a TY 2012 forecast of $6.41 million, or an increase of $744,000 above 2009 recorded expenses. DRA recommends using the 2010 recorded

[911] Exh. 325 (SDG&E-21) pp. LPG-23-24.

expenses to forecast total shared services for TY 2012 expenses for cost centers under Dir. Environmental Services.

DRA takes issue with SDG&E's forecast methodology and justification for adding significant incremental items to their forecast methodology. SDG&E's assumptions used to generate the incremental increases are inaccurate and do not reflect actual historical expenses. DRA is using 2010 recorded expenses as the basis to forecast 2012 TY.

DRA takes issue with the proposed increase of $318,000 above 2009 recorded expense of $1.17 million for cost center 2100-0632.000 Environmental Lab Operations. The 2005 to 2009 recorded expenses show no fluctuations or dramatic increases. The 2010 recorded expenses reflect the most current level of activity within this cost center. For this reason DRA recommends 2010 recorded expense for TY 2012.

DRA takes issue with the proposed increase of $496,000 above 2009 recorded expense of $689,000 for cost center 2100-3035.000 Site Assessment & Mitigation. The 2005 to 2009 recorded expenses show no fluctuations or dramatic increases, In addition, SDG&E's recorded expenses for 2009 show a 6.4% decrease from 2008 and 2010 expenses show a 10.2% decrease from 2009 for this cost center. The 2010 recorded expenses reflect the most current level of activity within this cost center. For this reason DRA recommends 2010 recorded expense for TY 2012.

DRA takes issue with the proposed increase of $585,000 for cost center 2100-3282.000, Environmental Strategy Manager. SDG&E is requesting an increase of 121.6% from recorded 2009 for TY 2012. The 2005 to 2009 recorded expenses show no fluctuations or dramatic increases. In addition, 2010 recorded expenses reflect the most current level of activity within this cost center. For this reason, DRA recommends 2010 recorded expense for TY 2012.

14.3. Fleet Services

14.3.1. SDG&E Issues

SDG&E forecasts $40.09 million for its TY 2012 Fleet Services O&M expense. SDG&E's TY 2012 forecast for its Fleet Services O&M expenses were based on its 2009 recorded adjusted expenses, zero-based, five and three-year averages, and five-year linear

trends, plus incremental expenses for activities within each cost center. DRA's estimate for SDG&E's Fleet Services O&M expenses is $31.75 million, $8.34 million lower in expenses.[912]

DRA disagrees with SDG&E's forecasts in 5 cost categories within the Cost Centers of Ownership Costs, Maintenance Operations, and Maintenance Management.[913] SDG&E is requesting $31.64 million or an increase of $6.43 million above 2009 recorded non-shared expenses for cost centers: Ownership Costs (1FS005.001 and 1FS005.002), Maintenance Operations (1FS002.000 and 1FS002.002) and Maintenance Management (1FS003.000). SDG&E's workpapers revealed the Company used 2009 recorded adjusted expenses, zero-based, five-year averages, and five year linear trends, plus incremental expenses for activities within each cost center for its forecast and added $6.43 million for its TY 2012 estimate.[914]

DRA recommends a TY 2012 forecast of $23.86 million for these cost centers. DRA recommends using a combination of the three-year average of recorded labor and non-labor expenses and the 2010 recorded expenses as base year recorded for TY 2012. DRA takes issue with the proposed increase of $3.84 million above 2009 recorded expenses of $11.98 million for non-shared Ownership Costs for cost centers 1FS005.001 and 1FS005.002. DRA recommends $11.94 million for Ownership Costs for TY 2012. Costs in 2010 declined slightly in 2009, and SDG&E's forecast of $15.825 million in 2012 seems too steep an increase over 2010 actuals.[915] DRA's recommendation allows for significant growth over 2010.

DRA opposes the proposed increase of $2.42 million for cost centers 1FS002.000 and 1FS002.002 non-shared Maintenance Operations. SDG&E is requesting an increase of 19.0% above recorded 2009 costs for TY 2012. The 2010 actual recorded expenditures of $10.807 million were significantly lower than 2009 actuals of $12.732

---

[912] Exh. 513, p. 1.

[913] *See id.*, pp. 4-5 and Tables 20-3, 20-4, and 20-5.

[914] *See* Exh. 104, pp. 2-31.

[915] *See* Exh. 513, p. 5, Table 20-3.

million, and SDG&E's forecast of $15.152 million is unrealistic given the decline in 2010.[916] Therefore, a three-year average provides an appropriate method to forecast TY 2012 expenses for cost centers 1FS002.000 and 1FS002.002.

DRA opposes the proposed increase of $168,000 above 2009 recorded expenses of $492,000 for non-shared Maintenance Management cost center 1FS003.000. The 2005 to 2009 recorded expenses show only very small increases for the past three years. The 2010 recorded expenses reflect the most current level of activity within this cost center and are comparable to 2008 and 2009 levels.[917] For this reason, DRA recommends using 2010 recorded expense for TY 2012.

For shared services, DRA recommends $1.122 million, $243,000 less than SDG&E's forecast of $1.365 million.[918] SDG&E's workpapers revealed the Company used 2009 recorded adjusted expenses, three and four-year averages, plus incremental expenses for activities within each cost center for its TY 2012 forecast.[919] DRA proposes using 2010 recorded expenses of $1.12 million as the basis to forecast TY 2012 expenses for Cost Centers 2100-0203.000, 2100-3673.000, 2100-0188.000 and 2100-3411.000. The 2005 to 2010 recorded expenses show various fluctuations and SDG&E's estimate is close to the 2009 recorded figure, which is the highest level for the past 6 years. The 2010 recorded expenses reflect the most current level of activity within these cost centers.[920] For these reasons, DRA's approach is reasonable.

14.3.2. SoCalGas Issues

SCG forecasts $50.69 million for its TY 2012 Fleet Services O&M expense. SCG's TY 2012 forecast for its Fleet Services O&M expenses were based on its 2009 recorded adjusted expenses, zero-based, five and three-year averages, and five-year linear trends, five-year averages plus incremental expenses for activities within each cost

[916] *See id.*, Table 20-4.

[917] *See id.*, Table 20-5.

[918] *See id.*, Table 20-6.

[919] *See* Exh. 104 pp. 73-133.

[920] Exh. 513, pp. 8 – 9.

center. DRA's estimate for SCG's Fleet Services O&M expenses is $43.24 million, $7.45 million less in O&M.[921]

DRA disagrees with SCG's forecasts in 5 cost categories within the Cost Centers of Ownership Costs, Maintenance Operations, and Maintenance Management.[922] SCG is requesting $37.74 million or an increase of $7.48 million above 2009 recorded non-shared expenses for cost centers: Ownership Costs (2FS005.001 and 2FS005.002), Maintenance Operations (2FS002.000 and 2FS002.002) and Maintenance Management (2FS003.000). SCG's workpapers revealed the Company used 2009 recorded adjusted expenses, zero-based, five-year averages, and five year linear trends, plus incremental expenses for activities within each cost center for its forecast and added $7.48 million for TY 2012.[923]

DRA recommends a TY 2012 forecast of $30.34 million for these cost centers, or an increase of $87,000, which is 0.29% above 2009 recorded expenses. DRA recommends using the three-year average of recorded labor and non-labor expenses and the 2010 recorded expenses as base year recorded for TY 2012.[924]

DRA opposes the proposed increase of $4.06 million above 2009 recorded expenses of $16.06 million for non-shared Ownership Costs for cost centers 2FS005.001 and 2FS005.002. DRA recommends $17.26 million for Ownership Cost expenses for TY 2012.[925] The years 2008-2010 contain the highest and lowest values over the past six years[926] and are representative of ownership costs.

DRA opposes the proposed increase of $3.22 million for cost centers 2FS002.000 and 2FS002.002 non-shared Maintenance Operations. SCG is requesting an increase of

---

[921] Exh.513, p. 3.

[922] *See id.*, pp. 9-12 and Tables 20-7, 20-8, and 20-9.

[923] *See* Exh. 107, pp. 2-64.

[924] Exh. 513, p. 11.

[925] *Id.*, pp. 11-12.

[926] *See id.*, p. 10, Table 20-7.

24.5% above recorded 2009 costs for TY 2012.[927] Actual expenses in 2010 of $11.505 million were a significant drop from 2009 actuals of $13,168 million and in line with the 2008 expenses of $11.536 million, and SCG's 2012 prediction of $16,392 million would be a huge increase.[928] Therefore, DRA's use of a three-year average of $12.070 million provides an appropriate method to forecast TY 2012 expenses for cost centers 2FS002.000 and 2FS002.002.

DRA opposes the proposed increase of $191,000 above 2009 recorded expenses of $1.03 million for non-shared Maintenance Management cost center 2FS003.000.[929] Costs for 2008-2010 are very consistent, $1.072 million, $1.032 million and $1.015 million respectively.[930] The 2010 recorded expenses thus reasonably reflect recent cost trends within this cost center. For this reason, DRA recommends 2010 recorded expense for TY 2012 of $1.015 million.

For shared services, SCG is requesting $629,000, or an increase of $185,000 above 2009 recorded non-shared expenses, for the Asset Management cost center (2200-2148.000 and 2200-0802.000).[931] SCG's workpapers revealed the Company used 2009 recorded adjusted expenses, plus incremental expenses for activities within each cost center for its TY 2012 forecast.[932] DRA recommends a TY 2012 forecast of $361,000, based on a three-year average of 2008-2010. Spending in 2010 of $175,000 decreased dramatically from the 2009 level of $444,000 and the 2008 level of $463,000, and a request for $629,000 is contrary to that trend. DRA's recommendation provides for a substantial increase over 2010 spending and reflects the fluctuating levels over the three years.

---

[927] *Id.*, p. 12.

[928] *See id.*, p. 10, Table 20-8.

[929] *Id.*, p. 12.

[930] *See id.,* p. 10, Table 20-9.

[931] *Id.*, p. 13.

[932] *See* Exh. 107, pp. 73-133.

14.4. Real Estate, Land and Facilities

14.4.1. SDG&E and SoCalGas Issues

This portion of the brief addresses SDG&E's forecasts of $26.22 million for its TY 2012 REL&F Services O&M expense and a book value of $18.38 million. SDG&E's TY 2012 forecast for REL&F O&M expenses were based on its 2009 recorded adjusted expenses, five-year average plus incremental expenses for activities within each cost center. The DRA estimate for SDG&E's REL&F O&M expenses is $22.71 million and a book value of $16.28 million.

14.4.2. O&M Non-Shared Services Cost Centers: 1RE003.000, 1RE001.000 and 1RE002.000-REL&F

The non-shared services cost centers record costs of non-shared SDG&E Rent, O&M Facility Projects, non-shared Facility Maintenance, and Land Services, Easements and Land Right-of-Way (ROW).[933] SDG&E is requesting $7.84 million or an increase of $884,000 above 2009 recorded non-shared expenses for cost centers 1RE003.000, 1RE001.000 and 1RE002.000 for REL&F. SDG&E used 2009 recorded expenses as base year costs for its forecast and added $884,000 for TY 2012.[934]

DRA recommends a TY 2012 forecast of $6.43 million. DRA recommends using the three-year average of recorded labor and non-labor expenses for TY 2012. The 2005 to 2010 total recorded expenses show fluctuations for the past three years for cost centers 1RE003.000, 1RE001.000 and 1RE002.000 for total O&M non-shared services REL&F.

DRA takes issue with SDG&E's forecast methodology and justification for adding incremental upward pressure items to support their forecast methodology. SDG&E's assumptions used to generate the incremental increase, that were added to 2009 recorded expense, do not reflect future expected expenses within these cost centers. The last three years of total non-shared services show fluctuations. A three-year average provides an appropriate method to forecast total TY 2012 expenses for non-shared services.

---

[933] Exh. 163 (SDG&E-20) p. DGT-2.

[934] Exh. 164 (SDG&E-20) workpapers, p. 2-17.

14.4.3. O&M Shared Services Cost Centers for Shared Rents, Shared Facility Operations, Shared Facility Capital Programs and Shared Land Services & ROW

SDG&E is requesting $28.03 million or an increase of $3.82 million above 2009 recorded shared expenses for cost centers: Shared Rents (2100-0700.000, 2100-3030.000, 2100-3032.000), Shared Facility Operations (2100-0707.000, 2100-0708.000, 2100-3323.000, 2100-3409.000, 2100-3714.000), Shared Facility Capital Programs (2100-3025.000, 2100-3027.000, 2100-3028.000), Shared Land Services & ROW (2100-3023.000). SDG&E used 2009 recorded expenses as its base year and a five-year average for its forecast and included an increase of $2.15 million for TY 2012.[935]

DRA recommends a TY 2012 forecast of $23.29 million. DRA recommends using the three-year average of recorded labor and non-labor expenses and 2010 recorded expenses as base year recorded for TY 2012.

DRA takes issue with SDG&E's forecast methodology and justification for adding incremental items to support their forecast methodology. SDG&E's assumptions used to generate the incremental increases that were added to 2009 recorded expenses do not reflect future expected expenses within these cost centers. DRA is using 2010 recorded expenses as the basis for its forecast and a three-year average of recorded labor and non-labor expenses which provides an appropriate method to forecast TY 2012 expenses.

DRA takes issue with the proposed increase of $2.15 million above 2009 recorded expenses of $15.43 million for shared Rents cost centers 2100-0700.000, 2100-3030.000 and 2100-3032.000. The 2005 to 2009 recorded expenses show no fluctuations or dramatic increases. In addition, 2010 recorded expenses reflect the most current level of activity within this cost center. For this reason, DRA recommends 2010 recorded expense for TY 2012.

DRA takes issue with the proposed increase of $215,000 for cost centers 2100-0707.000, 2100-0708.000, 2100-3323.000, 2100-3409.000 and 2100-3714.000 shared

[935] Exh. 164 (SDG&E-20) workpapers, p. 23-171.

Facility Operations. SDG&E is requesting an increase of 5.44% above recorded 2009 costs for TY 2012. The 2005 to 2010 recorded expenses show fluctuations. A three-year average provides an appropriate method to forecast TY 2012 expenses for cost centers 2100-0708.000, 2100-3409.000 and 2100-3714.000. DRA is using 2010 recorded expenses as the basis to forecast 2012 TY for cost centers 2100-0707.000 and 2100-3323.000 based on the 2005-2010 recorded expenses showing no fluctuations or dramatic increases.

DRA takes issue with the proposed increase of $1.45 million above 2009 recorded expenses of $18.62 million for shared Facility Capital Programs cost centers 2100-3025.000, 2100-3027.000 and 2100-3028.000. The 2005 to 2009 recorded expenses show decreases for the past four years. In addition, 2010 recorded expenses reflect the most current level of activity within this cost center. For this reason DRA recommends using 2010 recorded expense for TY 2012.

DRA takes issue with the proposed increase of $51,000 for cost center 2100-3023.000 Shared Land Services & ROW. SDG&E is requesting an increase of 7.73% from recorded 2009 for TY 2012. The 2005 to 2010 recorded expenses show fluctuations. Therefore, a three-year average provides an appropriate method to forecast TY 2012 expenses for cost center 2100-3023.000.

14.4.4. Real Estate, Land and Facilities Capital Expenditures

SDG&E's capital expenditure forecast includes blanket projects, various projects less than $1 million and specific projects over $1 million. SDG&E's key drivers for facility capital projects are as follows: historical and forecasted growth and the increasing age of facilities at construction and operating centers, increased number of security, safety and environmental projects to meet regulatory requirements, providing for operational security of key facilities, and providing a safe work environment for employees, upgrades for facility energy efficiency and improvements to existing office

sites, improvements to aging infrastructure for HVAC, plumbing, electrical, repaving and other structural upgrades.[936]

Budget Code 701

SDG&E requests $4.79 million in 2010, $4.0 million in 2011 and $4.0 million in 2012 for Structures & Improvements Blanket (Budget Code 701). SDG&E's capital request consist of minor building modifications, upgrades and facility improvements to support corporate business initiatives, to extend the life of the asset or increase the functionality of the building or site.[937]

DRA takes issue with SDG&E's request of $4.79 million in 2010, $4.0 million in 2011 and $4.0 million in 2012 for Structures & Improvements Blanket (Budget Code 701). SDG&E discusses its request in its workpapers. DRA received inadequate data responses from SDG&E justifying its capital expenditure request. DRA is recommending a three-year average of $3.85 million in 2010, $3.85 million in 2011, and $3.85 million in TY 2012 for Structures & Improvements Blanket (Budget Code 701). DRA reviewed data responses, capital workpapers and testimony to make its analysis and recommendations.[938]

Budget Code 703

SDG&E requests $531,000 in 2010, $1.8 million in 2011 and $1.2 million in 2012 for Safety/Environmental Blanket (Budget Code 703). SDG&E's capital request consist of funding building and system modifications, site upgrades, and other facility improvements directed to safeguard SDG&E occupied facility and sites, protect employees and company property, adhere to codes and regulations, and reduce corporate liability in the safety and environmental areas.[939]

---

[936] Exh. 163(SDG&E-20) p. DGT-15.

[937] Exh. 163 (SDG&E-20) p. DGT-15.

[938] Exh. 164 (SDG&E-20) capital workpapers, p. DGT-2-3. SDG&E response to DRA data request DRA-SDG&E-056-MPS, Q.5; SDG&E response to DRA data request DRA-SDG&E-113-MPS, Q.8.

[939] Exh. 164 (SDG&E-20) capital workpapers, p. DGT-CWP-6.

DRA takes issue with SDG&E's request of $531,000 in 2010, $1.8 million in 2011 and $1.2 million in 2012 for Safety/Environmental Blanket (Budget Code 703). SDG&E discusses its request in its workpapers. DRA received inadequate data responses from SDG&E justifying its capital expenditure request. DRA is recommending a three-year average of $601,000 in 2010, $601,000 in 2011, and $601,000 in TY 2012 for Safety/Environmental Blanket (Budget Code 703). DRA reviewed SDG&E's data responses, capital workpapers and testimony to make its analysis and recommendations.[940]

Budget Code 708

SDG&E requests $1.28 million in 2010, $3.09 million in 2011 and $2.99 million in 2012 for Common Plant Blanket-Infrastructure & Reliability (Budget Code 708). SDG&E's capital request consist of funding building facility infrastructure to support basic building operations, as well as requirements specific to the business unit operations and initiatives. The projects include replacement of systems and major equipment affecting reliability, comfort and safety of employees at numerous sites throughout the portfolio.[941]

DRA takes issue with SDG&E's request of $3.09 million in 2011 and $2.99 million in 2012 for Common Plant Blanket-Infrastructure & Reliability (Budget Code 708). SDG&E discusses its request in its workpapers. DRA received inadequate data responses from SDG&E justifying its capital expenditure request. DRA is recommending a three-year average of $2.71 million in 2011, and $2.71 million in TY 2012 for Common Plant Blanket-Infrastructure & Reliability (Budget Code 708). DRA reviewed SDG&E's data responses, capital workpapers and testimony to make its analysis and recommendations.[942]

---

[940] Exh. 164 (SDG&E-20) capital workpapers, p. DGT-CWP-6. SDG&E response to DRA data request DRA-SDG&E-113-MPS, Q.8.

[941] Exh. 164 (SDG&E-20) p. DGT-CWP-9-14. SDG&E response to DRA data request DRA-SDG&E-113-MPS, Q.8.; SDG&E response to DRA data request DRA-SDG&E-056-MPS, Q.7.

[942] Exh. 164 (SDG&E-20) capital workpapers, p. DGT-CWP-6. SDG&E response to DRA data request DRA-SDG&E-113-MPS, Q.8.

Budget Code 709

SDG&E requests $816,000 in 2010, $1.2 million in 2011 and $996,000 in TY 2012 for Common Plant Blanket-Remodels and Reconfigurations (Budget Code 709). SDG&E's capital request consist of funding workspace remodels, relocations and reconfigurations. These workspace changes are required to upgrade work environments and adequately support company/departmental operations and directives.[943]

DRA takes issue with SDG&E's request of $816,000 in 2010, $1.2 million in 2011 and $996,000 in 2012 for Common Plant Blanket-Remodels and Reconfigurations (Budget Code 709). SDG&E discusses its request in its workpapers. DRA received inadequate data responses from SDG&E justifying its capital expenditure request for budget code 709. DRA is recommending a three-year average of $560,000 in 2010, and $560,000 in 2011, and $560,000 in TY 2012 for Common Plant Blanket-Remodels and Reconfigurations (Budget Code 709). DRA reviewed SDG&E's data responses, capital workpapers and testimony to make its analysis and recommendations.[944]

Budget Code 710

SDG&E requests $1.5 million in 2011 and $1.5 million in 2012 for Common Plant Blanket-Business Unit Expansions (Budget Code 710). SDG&E's capital request consist of funding building expansion and facility expansions and improvements that adequately support corporate business objectives and initiatives. The projects identified include Master Planning, Expansion and Relocation projects at various company buildings and facilities.[945]

DRA takes issue with SDG&E's request of $1.5 million in 2011, and $1.5 million in TY 2012 for Common Plant Blanket-Business Unit Expansions (Budget Code 710). SDG&E discusses its request in its workpapers. DRA received inadequate data responses

---

[943] Exh. 164 (SDG&E-20) capital workpapers, p. DGT-CWP-16-17.

[944] Exh. 164 (SDG&E-20) capital workpapers, p.DGT-CWP-16-17. SDG&E response to DRA data request DRA-SDG&E-113-MPS, Q.8; SDG&E response to DRA data request DRA-SDG&E-056-MPS, Q.3.

[945] Exh. 164 (SDG&E-20) capital workpapers, p. DGT-CWP-18.

from SDG&E justifying its capital expenditure request for budget code 710. DRA is recommending $0.0 million in 2010, $0.0 million in 2011, and $0.0 million in TY 2012 for Common Plant Blanket-Business Unit Expansions. SDG&E failed to provide supportive documentation and justification for Budget Code 710. DRA review SDG&E's data responses, capital workpapers and testimony to make its analysis and recommendations.[946]

Budget Code 8735

SDG&E requests $3.0 million in 2011 and $11.0 million in 2012 for (Budget Code 8735). SDG&E's capital request consist of funding building expansion on an existing building and UPS generator, and cooling infrastructure to meet the projected loads.[947]

DRA takes issue with SDG&E's request of $3.0 million in 2011, and $11.0 million in 2012 for RB Data Center Master Plan (Budget Code 8735). SDG&E discusses its request in its workpapers. DRA received inadequate data responses from SDG&E justifying its capital expenditure request for budget code 8735. DRA is recommending $0.0 million in 2010, $0.0 million in 2011, and $0.0 million in TY 2012 for RB Data Center Master Plan (Budget Code 8735). SDG&E failed to provide supportive documentation and justification for Budget Code 8735. DRA reviewed SDG&E's data responses, capital workpapers, and testimony to make its analysis and recommendations.[948]

Budget Code 7728

SDG&E requests $2.79 million in 2010, $4.76 million in 2011 and $1.27 million in 2012 for the San Diego Energy Innovation Center (Budget Code 7728). SDG&E's capital request consists of funding a project that is a tenant improvement of a 27,000 square foot facility on Clairemont Mesa Blvd., in the community of Clairemont. The

[946] Exh. 164 (SDG&E-20) capital workpapers, p. DGT-CWP-18. SDG&E response to DRA data request DRA-SDG&E-056-MPS, Q.9.

[947] Exh. 164 (SDG&E-20) capital workpapers, p. DGT-CWP-34-35.

[948] Exh. 164 (SDG&E-20) capital workpapers, p. DGT-CWP-34-35. SDG&E response to DRA data request DRA-SDG&E-056-MPS, Q.4.

project consist of design, environmental abatement, and construction to develop a 200-person flexible seminar room, a lighting demonstration room, commercial demonstration kitchen, smart "Green" Home demonstration space, 10 staff offices, resource library, lobby, and other support functions such as restrooms and hallways.[949]

DRA takes issue with SDG&E's request of $2.79 million in 2010, $4.76 million in 2011 and $1.27 million in 2012 for the San Diego Energy Innovation Center (Budget Code 7728). SDG&E discusses its request in its workpapers. DRA received inadequate data responses from SDG&E justifying its capital expenditure request for Budget Code 7728. DRA is recommending $0.0 million in 2010, $0.0 million in 2011, and $0.0 million in TY 2012 for the San Diego Energy Innovation Center (Budget Code 7728). Please see DRA's testimony on this issue in Exhibit DRA-18.

Various Other Projects Less Than $1 Million

SDG&E requests $1.76 million in 2010, $1.55 million in 2011, and $1.14 million in 2012 for various other projects less than $1 million.[950]

DRA takes issue with SDG&E's request of $1.76 million in 2010, $1.55 million in 2011 and $1.14 million in TY 2012 for various other projects less than $1 million (Budget Codes 700, 705, 707, 2782, 6721 and 7727). SDG&E discusses its request in its workpapers. DRA received inadequate data responses from SDG&E justifying its capital expenditure requests for these budget codes. DRA is recommending $0.0 million in 2010, $0.0 million in 2011 and $0.0 million in 2012 for various other projects less than $1 million (Budget Code 700, 705, 707, 2782, 6721 and 7727).[951]

---

[949] Exh. 164 (SDG&E-20) capital workpapers, p. DGT-CWP-31. SDG&E response to DRA data request DRA-SDG&E-056-MPS, Q.4.

[950] Exh. 163 (SDG&E-20) p. DGT-15.

[951] Exh. 163 (SDG&E-20) p. DGT-15. SDG&E response to DRA data request DRA-SDG&E-056-MPS, Q.4.

14.5. Emergency Preparedness & Safety

14.5.1. SDG&E and SoCalGas Issues

SDG&E is requesting $4.03 million or an increase of $546,000 above 2009 recorded shared expenses for cost centers 2100-0216.000, 2100-3572.000 and 2100-3415.000 for Safety Emergency Preparedness. SDG&E used 2009 recorded expenses as base year recorded and a five-year average of non-labor for its forecast and included an increase of $546,000 for TY 2012.[952]

DRA recommends a TY 2012 forecast of $3.05 million. DRA recommends using the three-year average of recorded labor and non-labor expenses for TY 2012. The 2005 to 2010 recorded expenses shows fluctuations for cost centers 2100-0216.000, 2100-3572.000 and 2100-3415.000 for O&M Shared Services Safety & Emergency Preparedness.

DRA takes issue with SDG&E's forecast methodology and justification for adding incremental upward pressure items to support their forecast methodology. SDG&E's assumptions that were used to generate the incremental increases, that were added to 2009 recorded expense, are inaccurate and do not reflect actual expenses within these cost centers despite SDG&E's customers increase. The 2005 to 2010 recorded expenses show small fluctuations. A three-year average provides an appropriate method to forecast TY 2012 expenses for cost centers 2100-0216.000, 2100-3572.000 and 2100-3415.000.

DRA takes issue with the proposed increase of $63,000 for cost center 2100-0216.000-Emergency Services South. Total recorded expenses for this cost center have been decreasing for the past five years. A three-year average provides an appropriate method to forecast TY 2012 expenses for cost center 2100-0216.000.

DRA accepts SDG&E's 2012 labor adjustment for cost center 2100-3572.000 SES Director-SDG&E. DRA takes issue with the proposed increase of $700,000 for non-labor for this cost center. The 2005 to 2010 recorded expenses show fluctuations. A three-year

[952] Exh. 191 (SDG&E-22) workpapers, pp. 5-8.

average provides an appropriate method to forecast TY 2012 expenses for cost center 2100-3572.000 SES Director-SDG&E

DRA takes issue with SDG&E proposed forecast for cost center 2100-3415.000 Utility Security Services. The 2005 to 2010 recorded expenses show fluctuations. A three-year average provides an appropriate method to forecast TY 2012 expenses for cost center 2100-3415.000 Utility Security Services.

In addition to the above, DRA takes issue with SDG&E's emergency blanket capital expenditure request. SDG&E's emergency services capital request consists of more flexible and up-to-date equipment and systems which will replace older and less efficient technology. Major components of SDG&E's emergency capital blanket are Audio-Visual Upgrades, and Emergency Service equipment and software (networking infrastructure).[953] DRA is recommending $113,000 in 2010, $113,000 in 2011 and $113,000 in 2012 for SES Equipment Blanket capital expenditures. DRA accepts the $113,000 as requested by SDG&E for 2010.

DRA takes issue with SDG&E's proposed request of $250,000 in 2011 and $250,000 in 2012 for audio-visual upgrades and Emergency Services equipment and software (networking infrastructure). SDG&E discusses its request in its workpapers (Budget Code 10873). DRA received the following response from SDG&E to a data request: "Budget code 10873 is for a safety equipment blanket. Blanket projects, including equipment upgrades, continuously happen as technology and infrastructure improves."[954]

DRA recommends $113,000 in 2010, $113,000 in 2011 and $113,000 in 2012 for SES Equipment Blanket capital expenditure. For example, SDG&E failed to provide all supporting documentation for Budget Code 10873 including recorded 2010 level of activity for this blanket. In addition, SDG&E failed to provide a cost-benefit analysis for this blanket or different bids from different vendors. DRA recommends the above

[953] Exh. 190 (SDG&E-22) p. SDD-8.

[954] SDG&E response to DRA data request DRA-SDG&E-114-MPS, Q.F.

amounts for capital expenditures based on its review of SDG&E's exhibits and workpapers, data requests and responses.

14.6. Human Resources, Disability and Workers' Compensation

14.6.1. SDG&E Issues

For SDG&E, DRA recommends Administrative and General (A&G) expenditures of $11.536 million, $4.02 million less than SDG&E's request of $15.556 million.[955]

SDG&E classified sub-account Diversity Affairs & Organizational Effectiveness-1HR008 as a non-shared service and these workgroups were transferred from Corporate Center to SDG&E as part of the 2010 company reorganization.[956] SDG&E stated: "The sole driver for the increase in costs for this area is the movement of this group from Corporate Center to SDG&E."[957] SDG&E forecasts $949,000 in TY 2012 for Diversity Affairs; however, only $330,000 is related to diversity activities. The balance of $619,000 is associated with activities supporting the Organizational Effectiveness function at SDG&E. SDG&E says it utilized a zero-based methodology to develop its TY 2012 forecast.

DRA recommends $570,000 for TY 2012 for labor and non-labor expense, the actual 2010 expenditures.[958] SDG&E asserts that such 2010 expenditures understate 2012 because the reorganization took place in April 2010.[959] As with numerous functional areas in this section, it is very difficult to keep track of all the moving parts associated with SDG&E's proposals, especially with respect to those new functions categorized by SDG&E as non-shared services.. DRA recommends that relying on recorded expenditures here is the best approach to estimate such costs.

SDG&E forecasts $1.577 million in TY 2012 for labor and non-labor expenses for staffing, an increase of $47,000 over 2009 recorded expenses of $1.533 million. SDG&E

---

[955] *See* Exh. 523, p. 3, Table 31-1; Exh. 524, Errata No. 3.

[956] Exh. 199, p. 5.

[957] Exh. 198, p. SEE-10.

[958] Exh. 523, pp. 7-8 and Table 31-4.

[959] Exh. 200, p. SEE-7.

utilized its historical 2005-2009 labor and non-labor recorded expenses and applied the base year recorded methodology with no incremental expenses planned to develop its TY 2012 forecast. DRA recommends $1.292 million for TY 2012 for labor and non-labor expense, the actual 2010 costs.[960] SDG&E's expectations for hiring for 2010 did not anticipate such a decline, and hiring in 2011 did not rebound to 2009 levels.[961] DRA's forecast is reasonable.

Similarly, SDG&E's forecast of relocation costs for 2012 hires is too optimistic. SDG&E forecasts $500,000 in TY 2012 for Non-Labor expenses which is an increase of 594% or $428,000 over 2009 recorded expenses of $72,000.[962] DRA recommends the 2009 recorded spending level given the clear decline in costs over the years in this spending area and the current economic climate. While SDG&E notes improving economic conditions,[963] they cannot show that its forecast is representative of the expected growth.

SDG&E forecasts $1.6 million for Long Term Disability in TY 2012, an increase of 20% or $274,000 over 2009 recorded expenses of $1.3 million. However, 2010 actual expenses declined to $1.073 million, and no figure from 2005 on is as high as SDG&E's forecast.[964] DRA thus recommends $1.073 million. SDG&E's reference to purported "escalation factors" above the base-level spending[965] failed to predict the 2010 downturn and should not be relied upon for 2012.

SDG&E forecasts $5.4 million for Workers Compensation in TY 2012, an increase of 29% or $1.217 million over 2009 recorded expenses of $4.1 million. SDG&E used its historical 2005-2009 non-labor recorded expenses and applied a zero-based

---

[960] *See* Exh. 523, pp. 8-9.

[961] *See* Exh. 200, p. 8 and Table 2.

[962] Exh. 523, p. 10.

[963] Exh. 200, p. 10.

[964] *See* Exh. 523, p. 12 and Table 31-7.

[965] Exh. 200, pp. 13-14.

method to develop its TY 2012 forecast.[966] DRA recommends $3.9 million for TY 2012 for NSE-non-labor expense for sub-account 1HR007.001 WC, based on actual 2010 expenses. Historical expenses for this sub-account have declined significantly after 2006,[967] and SDG&E's forecast is overoptimistic.

For shared-services, SDG&E forecasts $4.063 million for shared services for TY 2012. SDG&E's TY 2012 forecast of $4.063 million is an increase of $371,000 or 10% over 2009 recorded expenses of $3.692 million.[968] DRA recommends $3.197 million for shared services.[969]

14.6.2. SoCalGas Issues

SCG forecasts $27.179 million for non-shared services for TY 2012. SCG's TY 2012 forecast of $27.179 million is an increase of $3.792 million or 15% over 2009 recorded expenses of $23.387 million.[970] DRA recommends $23.224 million.[971]

SCG forecasts $385,000 in TY 2012 for relocation costs, an increase of 670% or $335,000 over 2009 recorded expenses of $50,000. SCG provided its historical 2005-2009 for Non-Labor recorded expenses and applied a five-year average methodology with additional incremental increases to accommodate external hires to develop its TY 2012 forecast.[972] DRA recommends $50,000, as SCG fails to justify its request based on current hiring trends. A 670% increase for Non-Labor Relocation costs is excessive.[973]

SCG forecasts $4.739 million in TY 2012 for Long Term Disability (LTD) expenses, an increase of 15% of $634,000 over 2009 recorded expenses of $4.105

---

[966] Exh. 523, p. 13.

[967] *See id.*, p. 14, Table 31-8.

[968] Exh. 200, p. 54.

[969] Exh. 523, pp. 15-19 and Exh. 524, errata no. 5.

[970] Exh. 202, p. 2.

[971] Exh. 523, p. 22 and Exh. 524, errata no. 8.

[972] Exh. 202, p. 33.

[973] Exh. 523, pp. 22-24.

million. SCG used its historical 2005-2009 for Non-Labor recorded expenses and applied NSE-zero based method to develop its TY 2012 forecast.

DRA recommends $4.165 million.[974] DRA recommends a 4-year average (2007-2010) as a reasonable approach to estimating TY LTD NSE expenses since this sub-account has remained at a stable expense level over the past four years. The 4-year average is also comparable to the 2010 recorded figure.[975]

SCG forecasts $16.8 million in TY 2012 for Workers Compensation expenses, an increase of 10% or $1.5 million over 2009 recorded expenses of $15.2 million. SCG used its historical 2005-2009 for Non-Labor recorded expenses and applied NSE-zero based method to develop its TY 2012 forecast. DRA recommends $14.4 million for TY 2012.[976] DRA used a 4-year average from 2007-2010 as expenses during these years were fairly stable and 2010 actual costs showed a decline from 2009.[977]

For Diversity Affairs, DRA opposes SCG's inclusion of $122,000 cost for Organizational Effectiveness (OE) within the Diversity fund request. SCG is already forecasting $1.1 million under shared services for Organizational Effectiveness-2200-0840.[978]

For President and Chief Operating Office expenses, SCG forecasts $1.7 million in TY 2012, an increase of $423,000 over 2009 recorded expenses of $1.3 million.[979] DRA recommends $1.188 million based on a 5-year average (2006-10) for labor and 4-year average (2007-10) for non-labor.[980] SCG has adopted a reorganization plan that adds an executive position, and DRA recommends that during these difficult economic times it is

---

[974] *Id.*, p. 24.

[975] *Id.*, p. 25 and Table 31-15.

[976] *Id.*, p. 25.

[977] *See id.* p. 26 and Table 31-16.

[978] *Id.*, p. 28.

[979] Exh. 201, p. SEE-22, Table SCG-SEE-17.

[980] Exh. 523, pp. 29-30.

unreasonable for ratepayers to pay for an additional executive position solely because SCG decided to reorganize.

SCG forecasts $6.4 million for shared services for TY 2012. SCG's TY 2012 forecast of $6.4 million is an increase of $465,000 or 8% over 2009 recorded expenses of $5,934 million.[981] DRA recommends $5.5 million, with a disallowance for employee development.[982] SCG forecasts $1.1 million in TY 2012, which is an increase of $871,000 over 2009 recorded expenses of $277,000.[983]

14.7. Controller, Regulatory Affairs and Finance

14.7.1. SDG&E Issues

For SDG&E, non-shared services, DRA recommends a forecast of $9.538 million which is $2.691 million less than SDG&E's request of $12.229 million.[984]

SDG&E forecasts $2.051 million in TY 2012 for Cost Accounting, which is an increase of $700,000 over 2009 recorded expenses of $1.981 million.[985] SDG&E says it utilized its historical 2005-2009 recorded expenses for both Labor and Non-Labor expenses and applied a 5-year average methodology to develop its TY 2012 forecast.

DRA recommends $2,009,000 for TY 2012 after adjusting Cost Accounting Non-Labor expense. Using recorded year 2009 data is a reasonable approach to estimating TY Non-Labor expenses for Cost Accounting because of the low fluctuation over the past few years.[986] The 5-year average from 2006-2010 is also equal to $65,000.

The Claims Payments & Recovery sub-account 1CN010 is classified as a non-shared service sub-account where net payments for all third party property damage, bodily injured and recovery claims are recorded for SDG&E. SDG&E forecasts $6.9 million in TY 2012 for non-labor expenses, which is an increase of $670,000 over 2009

---

[981] Exh. 201, p. 73.

[982] *See* Exh. 523, p. 31, Table 31-20, and pp. 31-33.

[983] Exh. 201, p. 86.

[984] Exh. 525, p. 2 and Table 32-1.

[985] Exh. 340, p. 5.

[986] Exh. 525, p. 8 and Table 32-4.

recorded expenses of $6.2 million. SDG&E utilized its historical 2005-2009 non-labor recorded expenses and applied a 3-year average methodology to develop its TY 2012 forecast.

DRA recommends $4.7 million for TY 2012 for Non-Labor expense of sub-account Claims, Payments & Recovery.[987] DRA utilized SDG&E's 2010 recorded adjusted expenses provided upon DRA request. Because such costs declined after 2009, rather than increased as predicted, the 2010 actual expense is a reasonable estimate.[988]

For FERC and CAISO compliance, non-shared services, SDG&E forecasts $1.138 million in TY 2012, which is an increase of $466,000 over 2009 recorded expenses of $672,000.[989] After a flurry of activity in recent years, particularly regarding El Paso Natural Gas Company, 2012 would appear to have fewer FERC matters requiring SDG&E participation. DRA thus recommends $704,000 based on a 2-year average (2009–2010) as a reasonable approach, as those years had similarly lower FERC activity.

For SDG&E, shared services, DRA recommends a forecast of $14.334 million which is $248,000 less than SDG&E's request of $14.582 million.[990] These differences are attributable to Business Controls, Senior VP Finance – Regulatory and Legislative Affairs, and California Case Management.[991]

14.7.2. SoCalGas Issues

For SCG's non-shared services, DRA recommends a forecast of $7.430 million which is $2.1 million less than SCG's request of $9.530 million.[992]

The Claims Payments & Recovery sub-account 2CN010 is classified as a non-shared service sub-account where net payments for all third party property damage, bodily injured and recovery claims are recorded for SCG. These net payments are

---

[987] Exh. 525, p. 8.

[988] Exh. 525, p. 9 and Table 32-5.

[989] *See* Exh. 525, pp. 10-11 and Table 32-6.

[990] Exh. 525, p. 2 and Table 32-1.

[991] *See* Exh. 525, pp. 15-19.

[992] Exh. 525, pp. 2-3 and Table 32-2.

recorded as Non-Labor expenses. SCG forecasted $7.3 million in 2012 for Non-Labor expenses, which is an increase of $605,000 over 2009 recorded expenses of $6.7 million. SCG utilized its historical 2005-2009 Non-Labor recorded expenses and applied a 3-year average methodology to develop its TY 2012 forecast.[993]

DRA recommends $5.2 million for TY 2012, based on a 5 year average (2006–2010). This approach is reasonable because it captures the fluctuating costs over the past few years.[994]

For SCG's shared services, DRA recommends a forecast of $12.401 million which is $289,000 less than SCG's request of $12.690 million.[995] These differences are in recommendations for California Case Management and FINL planning.[996]

14.8. Legal and External Affairs

DRA entered into Joint Stipulations with SDG&E[997] and SCG[998] regarding the requirement that Utility attorneys record all their time worked, as they currently do. Per the stipulations, SDG&E attorneys will have to record their time worked and for any other Sempra entity, such as Sempra or SCG, but not their time for SDG&E; similarly, SCG attorneys will not have to record their time working on SCG matters, but they do have to record their time working for other Sempra entities such as SDG&E or Sempra. DRA believes the stipulation resolves all of our concerns regarding timekeeping and should be adopted.

15. CORPORATE CENTER COSTS ALLOCATED TO UTILITIES

Sempra Energy's Corporate Center incurs costs for functions and services at all of Sempra's business units for the following divisions: 1) Communications, 2) Finance, 3) Human Resources, 4) Legal, 5) External Affairs, 6) Executive (Governance), 7)

---

[993] Exh. 525, p.

[994] Exh. 525, p. 22 and Table 32-14.

[995] Exh. 525, pp. 2-3 and Table 32-2 and Exh. 526, errata nos. 1 and 2.

[996] Exh. 525, p.23, Table 32-15 and Exh. 525, errata no. 7.

[997] Exh. 234.

[998] Exh. 235.

Facilities/Assets, and 8) Pensions and Benefits. The costs incurred at the Corporate Center are then charged back to the business units for which the costs where incurred using one of three methods that Sempra believes most equitably apportions costs to the level of service provided. The three methods are direct assignment, casual/benefit allocation and multi-factor allocation. Costs charged by the Corporate Center to SDG&E and SoCalGas are recorded in the related FERC Administrative and General (A&G) Account 923 for each utility.

DRA recommends a reduction of $48.980 million dollars from Sempra's Test-Year 2012 forecasts of costs for the Corporate Center. Corporate Center developed its 2012 Test Year forecast costs by adding or subtracting incremental changes between 2005 and 2009 to the 2009 base year adjusted recorded, then applying the change in allocation.[999] The forecast 2012 costs are then allocated among SDG&E, SCG, and Global/Retained[1000]. Sempra's Test-Year 2012 forecast for the Corporate Center is $116.099 million.

15.1. Communications and Investor Relations[1001]/ Reorganization

Sempra's presentation of Communications and Investor Relations in the application and the testimony was as part of Corporate Center Finance and DRA addressed the department accordingly under Finance in both its report and this brief. Since no provision was made for discussion of Sempra's 2010 Reorganization of Corporate Center in the briefing outline, this section will address Reorganization.

15.1.1. Corporate Center Reorganization And 2010 Data

In early 2010, Sempra Energy implemented a reorganization that belies much of the justification Sempra claimed, while having significant impact on this test year 2012

[999] See Exh. 273, p. BAF-WP-18.

[1000] Corporate Center expenses that are not recoverable in ratemaking (lobbying, contributions, corporate branding) are not billed to business units and are referred to as "retained" at Corporate Center. Exh. 272, p.BAF-3

[1001] Discussion of Communications and Investor relations is under finance, this section will discuss Reorganization a key decision that impacted all Corporate Center costs.

rate case. The reorganization transferred "many Corporate Center and Global shared functions into the business units"[1002], thus rendering some of the historical data for Corporate Center expenses unrepresentative of the test year breakdown of expenses. DRA was then compelled to rely on 2010 data where available as not only the most recent data but the data that represented the test year Corporate Center expense world because of the reorganization. In many instances, DRA's recommendation was simply a disallowance based on a discrepancy that was created because the pre- and post-reorganization data represented significant cost differences.

Sempra must have known that the timing of the reorganization would have significant implications for test year 2012 rate proceedings and should be made responsible for any costs differences that arise from the use of the 2010 data.

15.1.2. Corporate Center Reorganization And Business Unit Control

Sempra maintains that the reorganization "was intended to give the business entities more control and accountability for their respective businesses"[1003]. However, this rationale for the Reorganization flies in the face of some of the justifications that Sempra provided in this proceeding for the costs that were retained at the Corporate Center. Sempra claimed that Corporate Center procured insurance policies for all of the business units, because to do so allowed Corporate Center to use economies of scale even when the regulated utilities are made to pay higher deductibles on the same policies that cover Sempra's Global Business units. It would seem that if the regulated utilities were given more control and accountability over their affairs, it would include the right not to subsidize Sempra Global Business Units on Corporate Center costs for which the regulated utilities might pay less individually. Corporate Center continued to incur costs allocated to the regulated utilities on costs that are not applicable for any service provided to the regulated utilities such as International Taxes. Again, it would seem that a more appropriate reorganization would prevent such a practice.

[1002] Exh. 272, p.BAF-10

[1003] *Id.*

Sempra does not present any evidence or rationale on how the Corporate Center activities that were returned to the business units were selected or what criteria made showed that business units would benefit from more control and accountability if some cost centers were returned to their control.

15.2. Finance

DRA recommends that the Commission disallow $7.760 million dollars of the funds forecast for Corporate Center Finance allocated to SDG&E and SoCalGas because these funds were forecasted to fill Corporate Finance positions that are not vacant, positions that are not justified, reduce duplication of costs and to reflect DRA's use of the most recent available data for the forecast. The other difference between Sempra's forecast and DRA's recommendation is due to the use of different yearly averages. Corporate Center is forecasting $57.899 million in costs for Test Year 2012.[1004] Corporate Center proposes allocating $27.652 million of these costs to the Utilities, $13.232million to SDG&E and $14.419 million to SCG, respectively.

Corporate Center Finance Department is responsible for raising and managing capital and maintaining the financial integrity of the Sempra Energy companies. The Department consists of the Chief Finance Officer, Accounting Services, Tax Services, Treasury, Investor Relations, Corporate Planning, Risk Management, and the Financial Leadership Program.

15.2.1. Cost Center 1100-0039 – Executive VP & CFO

DRA had recommended the removal of $277,000 from the forecast for Executive VP & CFO for SoCalGas as a duplication of costs. Corporate Center is forecasting $972,000 for test year 2012. Corporate Center claims it uses the Average CFO allocation method which results in 28.72% allocated to SDG&E, 28.5% allocated to SCG and 44.8% to Global/Retained. DRA had assumed that SDG&E does not have a Chief Financial Officer and therefore, it is appropriate to allocate 28.72% of this cost center. While because SCG does have a Chief Financial Officer, allocating costs from Corporate

[1004] See Exh. 272, p.BAF-14.

Center for Chief Financial Officer would be duplication of costs. Thus, DRA recommendation that no allocation of costs be charged to SoCalGas only for this Test-Year forecast is generous and conservative.

In response to DRA's recommendation, Sempra argues that "DRA has confused the issue. In fact, it is SDG&E that has a CFO, and SCG does not.[1005]" In preparation for hearings DRA discovered that Mr. Robert M. Schlax serves as Executive VP & CFO for both SDG&E and SoCalGas[1006]. It is evident from Exhibit 279 that Sempra is the party confusing the issue and none of these costs should be allocated to SDG&E and SoCalGas.

Sempra also argues that the VP and CFO performs key leadership that is located at the corporate center and thus apportions the cost of this position to all three business units. However, it appears that in order to do include Sempra Global in the apportionment of costs for an employee who clearly works for only SDG&E and SoCalGas Sempra would have to lump in cost known for its regulated business unit with the cost for the Sempra Global and then re-seggregate those costs again using one of its allocation methods. At the very least, Sempra Global should have been directly assigned to that business unit and not having done so, the entire allocation for this cost center seems deliberately confusing.

Corporate Center is forecasting an allocation of $279,000 to SCG for this cost center. The impact of DRA's audit adjustment for the multi-factor allocation[1007] and the use of different escalation rates for labor and non-labor results in reduction to Corporate Center's forecast of $22,000. DRA recommends $254,000 be allocated to SCG for Test Year 2012.

[1005] Exh. 272, p.BAF-15

[1006] See Exh. 279.

[1007] See Exh. 489, Report on the Results of Examination.

15.2.2. Accounting Shared Services (A-2)

DRA recommends that the Commission disallow $2.270 million dollars of Sempra's Corporate Center Forecasts for Accounting Shared Services. Accounting Shared Services includes the Controller, corporate-level accounting and consolidated financial reporting, and other Accounting related functions that are consolidated at Corporate Center. Corporate Center is forecasting $9.176 million for Test Year 2012 for Accounting Shared Services. Corporate Center is allocating $4.592 million to SDG&E and $4.583 million (escalated) to SoCalGas, respectively.[1008]

DRA's recommended disallowance for Accounting Shared Services are in the following areas:

i. $413,000 for SVP Controller and $228,000 for Assistant Controller are duplicate costs that should not be allocated to SDG&E and SCG;

ii. $262,000 for Corporate Accounting Special Projects should not be allocated to SDG&E and SCG to reflect using the last recorded 2010 as the forecast basis;

iii. $105,000 for Accounting Research should not be allocated to SDG&E and SCG to reflect using the last recorded 2010 as the forecast basis;

iv. $49,000 for Financial Report Director to reflect using the last recorded 2010 as the forecast basis;

v. $56,000 for Financial Reporting to reflect using the last recorded 2010 as the forecast basis;

vi. $1.142 million for Financial Reporting D&T Fees to reflect using the last recorded 2010 as the forecast basis;

vii. $29,000 for an allocation adjustment.

(Exh. 497, p.3.)

15.2.2.1. Cost Center 1100-0338 SVP Controller and 1100-0054 Assistant Controller

DRA removed $776,000 from Cost Center 1100-0338 and $274,000 from Cost Center 1100-0054 for the Test Year 2012 forecast, which is comprises the entire forecasts for the two cost centers. Corporate Center uses the Average Controller allocation method

[1008] See Exh. 272, p. BAF-17.

to 27.02% to SDG&E and 26.16% to SCG, but SDG&E and SCG each have a Controller; therefore, allocating costs from Corporate Center's SVP Controller cost center is duplication of costs. SDG&E and SCG each have a Vice President – Controller.

15.2.2.2. Cost Center 1100-0012 Corporate Acct Special Projects

DRA recommends a disallowance of $317,000 from the Test Year 2012 forecast for Corporate Account Special Projects. Corporate Center uses the Multi-Factor Basic allocation method to allocate 41.54% to SDG&E and 41.52% to SCG. Corporate Center created this cost center in 2010 to replace Cost Center 1100-0345 Dir. of Corp Finl Acctg and merged responsibilities from Cost Center 1100-0044.[1009]

Sempra has not provided evidence to support the costs for these special projects. Corporate Center has not sufficiently described and supported how they relate to Sempra's regulated Utilities. Therefore, DRA recommends that none of the costs for Corporate Account Special Projects be allocated to SDG&E and SoCalGas for the test year 2012. In response to DRA's recommendation and the justification that Sempra has not provided evidence to support this forecasts or even described the special projects, Sempra argues that it provided such evidence in response to DRA's Data Request DRA-SDG&E-001-DFB, Question 15[1010]. Leaving aside the implicit admission in this argument that Sempra's Application indeed did not make the case for the forecast, hence Sempra's reliance on Data Request sent subsequent to the filing of the Application, the response Sempra provided to the DRA's data request was still inadequate.

> In 2010, the Financial Accounting Director was set to retire and the cost center was discontinued. Cost center 1100-0112 was established and staffed by a director from Global, whose position was eliminated in the corporate reorganization. This new cost center assumed the responsibility of the former Financial Accounting Director, as well as additional Accounting Research duties.

[1009] See Exh. SDG&E-23 or SCG-17, page BAF-39.

[1010] Exh. 272, p.BAF17.

(Exh. 276, Attachment A, p.25.)

The only rational Sempra has provided here is that a new position was created for the benefit of one of its Global business units employees whose original position was surplus to the Company's needs. DRA sees no reason why ratepayers should subsidize such practices.

15.2.2.3. Cost Center 1100-0347 Accounting Research

DRA recommends the $124,000 be allocated to SDG&E and $126,000 be allocated to SCG for the test year 2012. This recommendation includes the impact of DRA's audit adjustment[1011] for the multi-factor allocation and the use of different escalation rates for labor and non-labor. Corporate Center is forecasting $425,000 for test year 2012 for Accounting Research at the Corporate Center and uses the Multi-Factor Basic allocation method to allocate 41.54% to SDG&E and 41.52% to SCG.

It is interesting to note that in Response to DRA-SDG&E-001, Question 15, Sempra claimed that one of the responsibilities for the Corporate Account Special Duties cost center is "additional accounting research". Here now lies a completely separate unit that does exactly the same thing. DRA's recommendation in reducing the forecast for Accounting Research is reasonable and conservative.

In Decision (D.) 89-12-057, the Commission stated that if costs have shown a trend in a certain direction over three or more years, the last recorded year is an appropriate base estimate.[1012] Costs in this area have trended lower over the past three years. Therefore, DRA used the last recorded year 2010 expense of $292,000 as the basis for its forecast, thereby removing approximately $107,000 from the unescalated part of the forecast for this cost center. After applying the escalation rates the results is a forecast of $311,000.

[1011] See Exh. 489, Report on the Results of Examination.

[1012] 34 CPUC 2nd p. 231.

15.2.2.4. Cost Center 1100-0047 Financial Reporting Director

Corporate Center is forecasting $311,000 for test year 2012 for Financial Reporting Director. Corporate Center uses the Multi-Factor Basic allocation method to allocate 41.54% to SDG&E and 41.52% to SCG. Based on DRA's review of non-labor, the last recorded year expense of $33,000 in 2010, is an appropriate base estimate. DRA removed approximately $47,000 from the un-escalated forecast for this cost center. After applying the escalation rates the results is a forecast of $276,000 for test year 2012. DRA recommends the $110,000 be allocated to SDG&E and $111,000 be allocated to SCG for the test year 2012. This recommendation includes the impact of DRA's audit adjustment[1013] for the multi-factor allocation and the use of different escalation rates for labor and non-labor.

15.2.2.5. Cost Center 1100-0048 Financial Reporting

Corporate Center is forecasts $926,000 for test year 2012 for Financial Reporting and used the Multi-Factor Basic allocation method to allocate 41.54% to SDG&E and 41.52% to SCG.

In Decision (D.) 89-12-057, The Commission stated that if costs have shown a trend in a certain direction over three or more years, the last recorded year is an appropriate base estimate.[1014] Non-labor costs in this area have trended lower over the past three years. Therefore the last recorded year 2010 of $838,000 as the bases used by DRA for forecasting.

Therefore, DRA removed $33,000 from un-escalated forecast for this cost center. After applying the escalation rates the result is a forecast of $891,000 for test year 2012. DRA recommends that $355,000 be allocated to SDG&E and $360,000 be allocated to SCG for the test year 2012. This recommendation includes the impact of DRA's audit

---

[1013] IBID.

[1014] 34 CPUC 2nd p. 231.

adjustment[1015] for the multi-factor allocation and the use of different escalation rates for labor and non-labor.

15.2.2.6. Cost Center 1100-0219 Financial Reporting D&T Fees

DRA recommends a disallowance of $1.142 million dollars from the un-escalated forecast for Financial Reporting D&T Fees. After applying the escalation rates the results is a forecast of $5.830 million for test year 2012. DRA recommends that $2.320 million be allocated to SDG&E and $2.351 million be allocated to SCG for the test year 2012.

15.2.2.7. Accounting Shared Services Allocation Adjustment

DRA's audit adjustment[1016] for multi-factor allocation has an impact on the Accounting Shared Services costs. The impact on the multi-factor allocation adjustment results is an additional reduction of $29,000 to costs allocated to SDG&E ($17,000) and SCG ($12,000) for the Test Year 2012. The following table summarizes DRA's recommended forecast:

15.2.3. Tax Services (A-3)

Corporate Center Tax Department is responsible for federal, state, local, and international tax planning and compliance, regulatory tax research and compliance, financial tax accounting and ratemaking tax accounting, establishing tax policy governance for Sempra Energy and all its business units. Corporate Center is forecasting $9.123 million for Test Year 2012, of which it allocates $1.795 million dollars to SDG&E and $1.688 million dollars to SCG, respectively.[1017]

15.2.3.1. Cost Center 1100-0046 VP of Corporate Tax

Corporate Center is forecasting $827,000 for the test year 2012 Corporate Tax costs and uses a Causal Tax Services method to allocate 20.66% to SDG&E and 19.43%

[1015] See Exh. 489, Report on the Results of Examination.

[1016] Ibid.

[1017] See Exh. SDG&E-23 or SCG-17, p. BAF-19.

to SCG. DRA recommends a disallowance of $442,000 from labor and $179,000 from non-labor costs to reflect only one Full Time Equivalent (FTE) in this cost center. After applying the escalation rates this results in a forecast of $221,000 of which DRA recommends that $45,000 be allocated to SDG&E and $42,000 be allocated to SCG for the test year 2012. This recommendation includes the impact of DRA's audit adjustment[1018] for the multi-factor allocation and use of different escalation rates.

Corporate Center if forecasting three FTEs for this cost center in test year 2012[1019] but provides no justification for the additional FTEs and does not indicate whether these FTEs were transferred from another cost center within this section. There is a lack of evidence to justify the ratepayer benefit associated with the proposed new FTEs.

15.2.3.2. Cost Center 1100-0373 Domestic Tax Compliance

Corporate Center is forecasting $2,338,000 for the test year 2012 for Domestic Tax Compliance and uses a Causal Tax Services method to allocate 20.66% to SDG&E and 19.43% to SCG. In D. 89-12-057, the Commission stated that if costs have fluctuated over a period of time, then an averaging method should be used[1020] in rate case forecasts. The costs for Domestic Tax Compliance have fluctuated from $2.375 million in 2005 to $2.104 million in 2010[1021]. Therefore, a four year average method for forecasting costs is appropriate for this cost center and results in an adjustment to labor of $283,000 and $208,750 to non-labor. After applying the escalation rates results in labor forecast of $1.599 million and non-labor forecast of $375,000.

DRA recommends that $403,000 be allocated to SDG&E and $380,000 be allocated to SCG for the test year 2012. This recommendation includes the impact of DRA's audit adjustment[1022] for the multi-factor allocation and the use of different escalation rates.

[1018] See Exh. 489, Report on the Results of Examination.

[1019] See Exh. 273 BAF-75.

[1020] 34 CPUC 2nd page 231.

[1021] Exh. 497, p. 19; See Table 26-10, 2005 – 2010 Recorded Costs.

[1022] See Exh. 489, Report on the Results of Examination.

15.2.3.3. Cost Center 1100-0374 International Tax

Corporate Center is forecasting $1.849 million for this cost center and uses a Causal Tax Services to allocate 20.66% to SDG&E and 19.43% to SCG. DRA's audit adjustment[1023] impacts this cost center. DRA recommends that none of these costs be allocated to SDG&E and SoCalGas for Test Year 2012.

Sempra's rebuttal to this recommendation is remarkable. Therefore, it is hereby restated in its entirety:

> DRA proposes a disallowance of the entire $693,000 allocation to the utilities, apparently based solely on the cost center name. Again, there appears to be no comprehension of the average allocation methodology explained above, despite ample support provided via data responses DRA-SDG&E-019, Q.22 and AUDITOR-DR-017,Q2 (attached), prepared direct testimony (SDG&E Exhibit – 23 and SCG Exhibit-17, at page BAF-19) and workpapers (BAF-WP-536)
>
> For allocation purposes, the departments *overall* is averaged, and each cost center uses the same average allocation rates. For example, this cost center performs work primarily on international matters, and its TY 2012 allocation to the utilities is 40%. Other tax cost centers work primarily on utility matters, and their TY2012 allocations to the utilities is also only 40%. It should be recognized that the allocation from Tax Services to the utilities is designed to be reasonable when viewed from a whole department perspective. In light of the overall impact of Sempra Energy's methodology, the allocation for this cost center is reasonable and appropriate. Thus, the Commission should adopt Sempra Energy's TY 2012 request of $1.849 million.

(Exh. 276, p. BAF-21 – BAF-22)

Thus, in response to DRA's argument that it is inappropriate to make ratepayers of domestic regulated utilities with no international business activities pay a portion of international tax, Sempra has argued that it has been doing so for year with not only international tax cost centers but with other cost centers as well. Further, to impose any

[1023] IBID.

part of the Corporate Center responsibility for international taxes on Sempra's regulated utilities, would violate Sempra's own allocation methodology which states:

> All costs that relate to specific business unit are direct-assigned to that business unit. An example would be outside legal costs associated with a specific case. Non-labor costs can be specifically identified to a business unit directly by entering charges through the accounts payable system or journal entries to the general ledger.

(Exh. 273, p.BAF-4.)

Why is Sempra's international taxes not directly assigned to Sempra's global business unit when it is a "[n]on-labor cost that can be specifically identified to a business unit directly by entering charges through the accounts payable system or journal entries to the general ledger"?[1024]

15.2.3.4. Cost Center 1100-0399 Tax Law Group

Corporate Center is forecasting $1.104 million for this cost center and uses the Causal Tax Services method to allocate 20.66% to SDG&E and 19.43% to SoCalGas. The 2010 recorded non-labor costs were $82,000 as compared to 2009 recorded costs of $499,000. In D. 89-12-057, the Commission stated that if costs have shown significant fluctuations in recorded expenses from year to year an average of recorded expenses over a period of time is reasonable bases.[1025] Non-labor costs fluctuated from $1.255 million in 2007 ($931,000 in 2008 and $499,000 in 2009) to $82,000 in 2010. The non-labor costs in 2009 and 2010 decreased significantly from the 2007 costs. DRA used the two year average (2009-2010) to arrive at the test year 2012 forecast for non-labor costs which results in an adjustment to non-labor costs of $106,500. After applying the escalation rates results in DRA forecast for labor costs of $755,000 and non-labor costs of $312,000 for Test year 2012 before allocation. DRA recommends that a total of $217,000 be allocated to SDG&E and $205,000 be allocated to SoCalGas. This

---

[1024] *Id.*

[1025] 34CPUC 2nd p. 231.

recommendation includes the impact of DRA's audit adjustment[1026] for the multi-factor allocation and the use of different escalation rates.

15.2.3.5. Tax Services Allocation Adjustment

DRA's audit adjustment[1027] for multi-factor allocation has an impact on the Tax Services costs. The impact on the multi-factor allocation adjustment and the use of different escalation rates results in an additional reduction of $10,000 to costs allocated to SDG&E ($6,000) and SoCalGas ($4,000) for the Test Year 2012. The following table summarizes DRA's recommended forecast:

15.2.4. Treasury (A-4)

DRA recommends disallowance of $1.615 million dollars from Corporate Cash Management out of Sempra's forecast of $31.190 million dollars for the Treasury (A-4) cost center to reflect the use of three-year average method in the forecast, and $113,000 to reflect audit adjustments to the multi-factor allocation methodology.

Sempra's Treasury Department is responsible for managing the liquidity needs and overall capital structure of Sempra Energy companies, which includes the issuance and redemption of debt and equity. Corporate Center is forecasting $31.190 million for Test Year 2012. Corporate Center is allocating $3.917 million to SDG&E and $5.245 million to SCG, respectively.

15.2.4.1. Cost Center 1100-0224 Corporate Cash Management

Corporate Center is forecasting $19.626 million for this cost center and directly assigns $2.308 million to SDG&E, $3.258 million to SCG, and $14.060 million to Sempra Global. Costs in this cost center have fluctuated from $14.027 million in 2005 ($8.743 million in 2006, $8.402 million in 2007, $14.295 million in 2008, and $10.018 million in 2009) to $17.477 million in 2010. In D. 89-12-057, the Commission stated that if costs have shown significant fluctuations in recorded expenses from year to year

[1026] See Exh. 489, Report on the Results of Examination.

[1027] See Exh. 489, Report on the Results of Examination.

an average of recorded expenses over a period of time is a reasonable estimate basis.[1028] DRA used a three-year average (2008-2010) to forecast for the test year 2012.

Using a three year average is a difference of $5.696 million dollars between DRA's forecast and Sempra's forecast for this cost center leaving a forecast of $13.930 million for test year 2012. DRA recommends that $1.639 million of the forecast be directly assigned to SDG&E and $2.312 million directly assigned to SCG. This recommendation includes the impact of DRA's audit adjustment[1029] for the multi-factor allocation.

15.2.4.2. Treasury Allocation Adjustment

DRA's audit adjustment[1030] for multi-factor allocation has an impact on the Treasury costs. The impact on the multi-factor allocation adjustment and the use of different escalation rates results in an additional reduction of $113,000 to costs allocated to SDG&E ($64,000) and SCG ($49,000) for the Test Year 2012. The following table summarizes DRA's recommended forecast:

Table 26-13
Comparison of DRA and Corporate Center Test Year 2012 Forecast (Escalated)
Treasury (In Thousands of 2009 Dollars)

		DRA		Total	Corporate Center		Total	Amount
		SDG&E	SCG		SDG&E	SCG		CC>DRA
A.4-1	1100-112 SVP Treasurer & Staff	$ 136	$ 138	$ 274	$ 157	$ 157	$ 314	$ 40
A.4-2	1100-00113 Cash Management	$ 329	$ 334	$ 663	$ 343	$ 343	$ 686	$ 23
A.4-3	1100-0119 Finance Director	$ 334	$ 338	$ 672	$ 348	$ 348	$ 696	$ 24
A.4-4	1100-0120 Pens & Trust Inv Dir.	$ 287	$ 291	$ 578	$ 300	$ 299	$ 599	$ 21
A.4-5	1100-0224 Corporate Cash Mgmt.	$ 1,639	$ 2,312	$ 3,951	$ 2,308	$ 3,258	$ 5,566	$ 1,615
A.4-6	1100-0225 Corp. TTEE & Rate Agency	$ 429	$ 808	$ 1,237	$ 429	$ 808	$ 1,237	$ (0)
A.4-7	1100-0393 Corp. Economic Analysis	$ 29	$ 29	$ 58	$ 31	$ 31	$ 62	$ 4
A.4-8	1100-0052 VP Mergers & Acquisitions	$ -	$ -	$ -	$ -	$ -	$ -	$ -
A.4-9	1100-0392 Corporate Development	$ -	$ -	$ -	$ -	$ -	$ -	$ -
A.4-10	1100-0059 Development - Reed	$ -	$ -	$ -	$ -	$ -	$ -	$ -
A.4-11	1100-0060 Development Sahagian	$ -	$ -	$ -	$ -	$ -	$ -	$ -
				$ -			$ -	$ -
		$ 3,183	$ 4,250	$ 7,432	$ 3,915	$ 5,245	$ 9,160	$ 1,728

[1028] 34 CPUC 2nd p. 231.

[1029] See Exh. 489, Report on the Results of Examination.

[1030] IBID.

15.2.5. Investor Relations/Shareholder Services (A-5)

The Investor Relations/Shareholders Services Department is responsible for communicating Sempra Energy's goals and financial data, including significant new disclosures required by the (SEC). Corporate Center is forecasting $2.411 million for Test Year 2012. Corporate Center is allocating $954,000 to SDG&E and $932,000 to SCG, respectively.

15.2.5.1. Cost Center 1100-0375 VP Investor Relations

Corporate Centers forecast for this cost center includes costs for one additional FTE, but Sempra has not provided the justification for this new FTE. Therefore, DRA's recommendation is to disallow the $157,000 from labor cost for this FTE in the forecast. Corporate Center is forecasting $544,000 for this cost center and uses the Multi-Factor Basic to allocate 41.54% to SDG&E and 41.52% to SCG.

After applying the escalation rate, DRA's recommendation results in a labor forecast of $272,000. The non-labor forecast is $105,000. Therefore, DRA's forecast for test year 2012 is $377,000 for this cost center before allocation to SDG&E and SoCalGas. DRA recommends a total of $150,000 allocated to SG&E and $152,000 allocated to SoCalGas for test year 2012. This recommendation includes the impact of DRA's audit adjustment[1031] for the multi-factor allocation and use of different escalation rates.

15.2.5.2. Investor Relations/Shareholder Services Allocation Adjustment

DRA's audit adjustment[1032] for multi-factor allocation has an impact on the Investor Relations/Shareholder Services costs. The impact on the multi-factor allocation adjustment and use of different escalation rates results in an additional reduction of $317,000 to costs allocated to SDG&E ($68,000) and SCG ($249,000) for the Test Year 2012. The following table summarizes DRA's recommended forecast:

[1031] See Exh. 489, Report on the Results of Examination.

[1032] See Exh. 489, Report on the Results of Examination.

Table 26-15
Comparison of DRA and Corporate Center Test Year 2012 Forecast (Escalated)
Investor Relations/Shareholder Services
(In Thousands of 2009 Dollars)

		DRA		Total	Corporate Center		Total	Amount
		SDG&E	SCG		SDG&E	SCG		CC>DRA
A.5-1	1100-00375 VP Investor Relations	$ 150	$ 152	$ 302	$ 226	$ 226	$ 452	$ 150
A.5-2	1100-0042 Investor Relations	$ 660	$ 457	$ 1,117	$ 728	$ 706	$ 1,434	$ 317
A.5-3	1100-0382 Executive Projects	$ -	$ -	$ -	$ -	$ -	$ -	$ -
		$ 810	$ 609	$ 1,419	$ 954	$ 932	$ 1,886	$ 467

15.2.6. Corporate Planning (A-6)

Corporate Planning facilitates the planning and performance measurement process for Sempra Energy and for Corporate Center, and develops shared service allocations to all business units. Corporate Center is forecasting $2.369 million for Test Year 2012. Corporate Center is allocating $609,000 to SDG&E and $609,000 to SoCalGas, respectively.[1033]

15.2.6.1. Cost Center 1100-0342 Financial Systems

Sempra is forecasting $704,000 for this cost center and uses the Multi-Factor Split to allocate 25.01% to SDG&E and 24.99% to SCG. The non-labor costs have fluctuated slightly over the record period 2005 through 2009. DRA has reviewed the non-labor costs and recommends using last recorded year 2010 of $251,000 as a basis for the forecast. DRA has removed $121,000 from non-labor costs, which results in an escalated forecast of $123,000 before allocation to SDG&E and SCG. DRA test year 2012 forecast for this cost center is $428,000. DRA recommends a total of $169,000 allocated to SG&E and $170,000 allocated to SCG for test year 2012. This recommendation includes the impact of DRA's audit adjustment[1034] for the multi-factor allocation and the use of different escalation rates.

[1033] See 272 .AF-24.

[1034] See Exh. 489, Report on the Results of Examination.

15.2.7. Risk Management (A-7)

Risk Management Department directs the corporate insurance program, including the property/casualty self-insurance program, and risk control activities for property/casualty for all Sempra Energy companies. Property and Liability Insurance are addressed in Exhibit DRA-27 Corporate Center Insurance. Corporate Center is forecasting $1.449 million for Test Year 2012. Corporate Center is allocating $467,000 to SDG&E and $467,000 to SoCalGas, respectively.

15.2.7.1. Cost Center 1100-0010 VP Risk Analysis & MGMT

Corporate Center is forecasting $813,000 for this cost center and uses Multi-Factor Split to allocate 25.01% to SDG&E and 24.99% to SCG. This is a new cost center created in 2010 to oversee Risk Management practices.[1035] Corporate Center has provided no testimony to justify the creation of this cost center and the addition of six new FTEs. DRA recommends removing these costs from the test year 2012 forecast.

15.2.7.2. Risk Management Allocation Adjustment

DRA's audit adjustment[1036] for multi-factor allocation has an impact on the Risk Management costs. The impact on the multi-factor allocation adjustment and use of different escalation rates results in an additional reduction of $18,000 to costs allocated to SDG&E ($7,000) and SCG ($11,000) for the Test Year 2012. The following table summarizes DRA's recommended forecast:

15.2.8. Financial Leadership Program (A-8)

The Financial Leadership Program (FLP) attracts and develops talented young accounting staff.[1037] Corporate Center is forecasting $1.488 million for Test Year 2012. Corporate Center is allocating $618,000 to SDG&E and $618,000 to SCG, respectively.

[1035] See Exh. 273, p. BAF-WP-161.

[1036] See Exh. 489, Report on the Results of Examination.

[1037] See Exh. 272, p.BASF-26.

Table 26-20
Financial Leadership Program
2005-2009 Recorded / 2012 Forecast
(In Thousands of 2009 Dollars)

		Base Year 2009	2009-2012 Incr/(Decr)	2012 Forecast	2012 Escalated	2012 Allocated	2012 SDG&E	2012 SoCalGas
A.8-1	1100-0340 Acctg. & Finance Rotation	$ 1,159	$ 233	$ 1,392	$ 1,488	$ 1,236	$ 618	$ 618
A.8-2	1100-0344 Acctg. & Fin Internship	$ 89	$ (89)	$ -	$ -	$ -	$ -	$ -
		$ 1,248	$ 144	$ 1,392	$ 1,488	$ 1,236	$ 618	$ 618

15.2.8.1. Cost Center 1100-0340 Acctg & Finance Rotation

Corporate Center is forecasting $1.392 million for this cost center and uses Multi-Factor Basic method to allocation 41.54% to SDG&E and 41.52% to SCG. The Utilities have rotational/internship program included in their test year 2012. The costs associated with Corporate Center's rotation program costs is a duplication of costs already included in SDG&E's and SCG's test year 2012 forecast. Ratepayers should not be required to fund the Utilities' rotation/internship program costs and also the Corporate Center's rotation program. Therefore, DRA has removed $1.392 million from this cost center. DRA recommends that none of the costs from Accounting and Finance Rotation be allocated to SDG&E and SoCalGas for the Test Year 2012.

15.2.9. Summary of Finance (A)

The following table summaries DRA's recommendations for Corporate Center Finance:

Table 26-21
Comparison of DRA and Corporate Center Test Year 2012 Forecast
(Escalated) Finance
(In Thousands of 2009 Dollars)

	Corporate Center Divisions (a)	DRA Forecast (b)	Corp.Center Forecast (c)	Amount CC>DRA (d=c-b)	Percentage CC>DRA (e=d/b)
A-1	CFO	$ 257	$ 556	$ 299	116%
A-2	Accounting Services	***$ 6,906***	$ 9,176	***$ 2,270***	***33%***
A-3	Tax Services	$ 2,195	$ 3,483	$ 1,289	59%
A-4	Treasury	$ 7,432	$ 9,163	$ 1,728	23%
A-5	Investor Relations	$ 1,419	$ 1,886	$ 467	33%
A-6	Corporate Planning	$ 1,172	$ 1,218	$ 46	4%

A-7	Risk Management	$ 510	$ 935	$ 424	83%
A-8	Financial Leadership Program	$ 0	$ 1,236	$ 1,235	851950%
	Total	***$ 19,891***	$ 27,652	***$ 7,759***	***39%***

15.3. Human Resources (D)

DRA recommends a disallowance of $1.424 million dollars from Sempra's forecasts of test year 2012 costs for Corporate Center Human Resources. Human Resources Division is responsible for specific services not found in Sempra Energy's subsidiary organizations, including SDG&E and SoCalGas related to the support and maintenance of the Company's employees. Corporate Center is forecasts $18.271 million for Test Year 2012 and proposes to allocate $6.057 million dollars to SDG&E and $7.848 million dollars to SoCalGas, respectively.

DRA's recommendation was derived as follows:

1) $3,000 for HR SVP (D-1) for allocation adjustment;
2) $104,000 for Compensation & Benefits (D-2) should not be allocated to SDG&E and SCG;
   a) $102,000 Executive Compensation to reflect the use of last recorded 2010 as the forecast basis; and
   b) $2,000 for allocation adjustment.
3) $9,000 for Payroll/IHRIS (MyInfo) (D-3) allocation adjustment should not be allocated to SDG&E and SCG;
4) $886,000 for Employee Development should not be allocated to SDG&E and SCG o remove duplication of costs;
5) $423,000 for Employee Programs should not be allocated to SDG&E and SCG o remove duplication of costs.

15.3.1. Human Resources Senior VP (D-1)

Human Resources Senior VP oversees the entire Human Resources Division and provides human resource services to the Corporate Center and all business units. Corporate Center is forecasts $981,000 for Test Year 2012 and proposes to allocate

$394,000 to SDG&E and $505,000 to SoCalGas, respectively. DRA test year 2012 forecast is $89600. DRA recommends that $390,000 be allocated to SDG&E and $506,000 llocated to SCG. This recommendation includes the impact of DRA's audit adjustment for the multi-factor allocation and use of different escalation rates.

15.3.2. Compensation & Benefits (D-2)

Compensation & Benefits Division administers employees' compensation and benefit programs, including compensation and benefits plan design, contract negotiations, vendor management and cost control responsibilities. Sempra forecasts $3.848 million dollars for Test Year 2012 Compensation and Benefits costs and proposes to allocate $1.570 million to SDG&E and $1.820 million to SoCalGas, respectively. DRA recommends a disallowance of $104,000 dollars from Compensation and Benefits, $2,000 of which is based on audit adjustment to Sempra's multi-factor allocation method.

15.3.2.1. Cost Center 1100-0136 Executive Compensation

Corporate Center is forecasting $960,000 for Executive Compensation and uses Causal Executives method to allocate 40.98% to SDG&E and 29.69% to SoCalGas. The expenses for Executive Compensation have remained relatively stable for the three or more years. In D. 89-12-057, the Commission stated that if costs have relatively stable for three or more years, the last recorded year is an appropriate base estimate.[1038] DRA used 2010 recorded of $770,000 to forecast for the test year 2012. DRA removed $126,000 from this cost center, after applying escalation rates, results in forecast of $825,000 before allocation to SDG&E and SoCalGas. DRA recommends that $335,000 be allocated to SDG&E and $243,000 be allocated to SoCalGas for the test year 2012. This recommendation includes the impact of DRA's audit adjustment for the multi-factor allocation and use of different escalation rates.

[1038] 34 CPUC 2nd p. 231.

15.3.2.2. Compensation Benefits Allocation Adjustment

DRA's audit adjustment for multi-factor allocation has an impact on the Compensation Benefits costs. The impact on the multi-factor allocation adjustment and use of different escalation rates results in an additional reduction of $2,000 to costs allocated to SDG&E ($1,000) and SCG ($1,000) for the Test Year 2012. The following table summarizes DRA's recommended forecast:

Table 26-30
Comparison of DRA and Corporate Center Test Year 2012 Forecast (Escalated)
Compensation Benefits
(In Thousands of 2009 Dollars)

		DRA		Total	Corporate Center		Total	Amount
		SDG&E	SCG		SDG&E	SCG		CC>DRA
D.2-1	1100-0134 Comp & Benefits Dir.	$ 620	$ 810	$ 1,430	$ 621	$ 810	$ 1,431	$ 1
D.2-2	1100-0135 Compensation	$ 285	$ 372	$ 657	$ 285	$ 372	$ 657	$ 0
D.2-3	1100-0136 Executive Compensation	$ 335	$ 243	$ 577	$ 393	$ 285	$ 679	$ 102
D.2-4	1100-0137 HR Acct, & Budgets	$ 270	$ 353	$ 623	$ 270	$ 353	$ 623	$ 0
D.2-5	1100-0276 Employees Benefits Service	$ -		$ -	$ -	$ -	$ -	$ -
D.2-6	1100-0348 Corporate Compliance VP	$ -	$ -	$ -	$ -	$ -	$ -	$ -
		$ 1,510	$ 1,777	$ 3,287	$ 1,570	$ 1,820	$ 3,389	$ 104

15.3.3. MyInfo-Payroll & HR Information Systems (D-3)

MyInfo Division provides HR and payroll system support, maintains employees' databases, and develops management information systems and reports for SDG&E, SoCalGas, and all other Sempra Energy companies. Sempra forecasts $8.814 million dollars for the Test Year 2012 MyInfo-Payroll & HR Information Systems costs. Corporate Center is proposing to allocate $3.465 million to SDG&E and $4.841 million to SoCalGas, respectively. The impact of DRA's audit adjustment for the multi-factor allocation and use of different escalation rates results in a forecast of test year 2012 forecast is $8.811 million. DRA recommends $3.466 million be allocated to SDG&E and $4.831 million be allocated to SoCalGas.

15.3.4. Corporate Staffing & Development (D-4)

Corporate Human Resources (CHR) is responsible for day-to-day employee relations, staffing and recruiting for Corporate Center only. Sempra forecasts $1.067

million for Test Year 2012 and proposes to allocate $443,000 to SDG&E and $443,000 to SoCalGas, respectively.

15.3.4.1. Cost Center 1100-0130 HR Business Partner

DRA recommends that none of the forecasted costs for HR Business Partner be allocated to SDG&E and SoCalGas for test year 2012. However, Sempra is forecasting $1.067 million dollars for this cost center and uses Multi-Factor Basic method to allocate 41.54% to SDG&E and 41.52% to SoCalGas. These expenses are duplicates of costs that are incurred at SDG&E and SoCalGas. Ratepayers should not be asked to fund duplicate costs.

Even if this Commission were to award Sempra any part of this Corporate Center cost, there is no rational basis for allocating more than 80% of this cost center to Sempra's regulated utilities, while less than 18% is allocated to Sempra Global. The very justification that Sempra provides for the cost center belies these allocations:

> The Corporate Human Resources ("CHR") function is responsible for day-to-day employee relations, staffing, and recruiting **for Corporate Center only**. The department provides a broad range of human resources advisory and support services to all Corporate Center functions that **provide shared services to SDG&E and SoCalGas**. [Emphasis added.]

(Exh. 272, p.BAF-47:1-5.)

Sempra must be made to realize that, not only does it have the burden of proof in this case, but in instances where ratepayer contributions are likely to be used for to pay for Sempra Global services, whether deliberately or inadvertently, the burden must be strictly imposed. In this instance, Sempra acknowledges that this CHR provides services only to the Corporate Center but suggests that those services at the Corporate Center are for SDG&E and SoCalGas only.

Further, there is little justification for Sempra to have four Corporate Human Resources Divisions, one at Corporate Center and three at each of the business units,

SDG&E, SoCalGas and Global, when employees like CFO Mr. Schlax[1039] are hired with a particular business unit in mind and directors are moved from the cost center to the business unit with relative ease. The redundancy is very wasteful of ratepayer resources and this appears throughout Sempra's Human Resources forecasts. DRA's recommendation of zero costs to SDG&E and SoCalGas should be adopted.

15.3.4.2. Employee Programs (D-5)

Employee Programs develop and implement and manage corporate policies and programs for charitable contributions and corporate memberships. Corporate Center is forecasting $3.561 million for Test Year 2012 and proposing to allocate $183,000 to SDG&E and $239,000 to SCG, respectively. DRA recommends that none of the costs forecasted for these programs be allocated to SDG&E or SoCalGas because they are duplicative of costs already being incurred at both utilities.

15.3.4.3. Cost Center 1100-0155 Corp Comm Partnerships

Corporate Center is forecasting $295,500 for this Corporate Center Corp. Comm. Partnership and uses the Causal FTE's method to allocate 40.75% to SDG&E and 53.15% to SCG. The 2010 reorganization resulted in staff and programs being transferred to the Utilities, discontinued programs, and reduced staff.[1040] Therefore, allocating costs to SDG&E and SCG is a duplication of costs that are now incurred at SDG&E and SCG. DRA recommends that zero costs be allocated to SDG&E and SCG for the test year 2012.

15.3.4.4. Cost Center 1100-0170 Internal Communications

Corporate Center is forecasting $155,000 for this cost center and uses the Causal FTE's method to allocate 40.75% to SDG&E and 53.15% to SCG. The 2010 reorganization resulted in staff and programs being transferred to the Utilities, discontinued programs, and reduced staff.[1041] Therefore, allocating costs to SDG&E and

---

[1039] Exh. 279, p. 2.

[1040] Exh. 273, p. BAF-WP-302.

[1041] Exh. 273, p. BAF-WP-308.

SoCalGas is a duplication of costs that are now incurred at SDG&E and SoCalGas. DRA recommends that zero costs be allocated to SDG&E and SoCalGas for the test year 2012.

15.3.4.5. Summary of Human Resources (D)

The following table summarizes DRA's recommended forecast for Human Resources:

Table 26-34
Comparison of DRA and Corporate Center Test Year 2012 Forecast (Escalated)
Human Resources
(In Thousands of 2009 Dollars)

		DRA		Total	Corporate Center		Total	Amount
		SDG&E	SCG		SDG&E	SCG		CC>DRA
D.1	Human Resources SVP	$ 390	$ 506	$ 896	$ 394	$ 505	$ 899	$ 3
D.2	Compensation & Benefits	$ 1,510	$ 1,777	$ 3,287	$ 1,570	$ 1,820	$ 3,391	$ 104
D.3	Payroll/HRIS (MyInfo)	$ 3,466	$ 4,831	$ 8,297	$ 3,465	$ 4,841	$ 8,306	$ 9
D.4	Employee Development	$ -	$ -	$ -	$ 443	$ 443	$ 886	$ 886
D.5	Employee Programs	$ -	$ -	$ -	$ 183	$ 239	$ 423	$ 423
		$ 5,366	$ 7,114	$ 12,480	$ 6,055	$ 7,848	$ 13,905	$ 1,424

15.4. Legal

DRA recommends a disallowance of $18.635 million dollars from Sempra's test year 2012 forecasts for Corporate Center Law Department as follows:

1) $657,000 for General Counsel (C-1) as SDG&E and SoCalGas each has its own General Counsel. SDG&E and SoCalGas each has a Law Department as well;

2) $293,000 for Law Department (C-2) should not be allocated to SDG&E and SoCalGas to reflect the removal of $565,100 in costs for unjustified addition of two FTEs;

3) $17.686 million for Outside Legal (C-3) should not be allocated to SDG&E and SoCalGas as Corporate Center has not provided any justification for the types of services for the test year;

Sempra describes its Corporate Center Law Department (CCLD) as follows:

> As discussed above, CCLD attorneys are available to provide legal advice and support for all of the Sempra Energy business units, including SDG&E and SCG, and represents them in

> certain, unique legal matters. CCLD is responsible for the delivery, quality and cost of the legal services it provides to the Sempra Energy business units. CCLD is comprised of attorneys and support staff providing cost-effective legal support in the following practice areas: Litigation/Labor, Regulatory/Environmental, and Commercial/Corporate Law.

(Exh. 272, p.BAF-25.)

It says nothing to note about the services a law department provides to say that the lawyers "are available to provide legal advice and support" to business units that already have their own legal departments, nor does it inform the proceeding to say that they department "is responsible for the delivery, quality and costs of the legal services it provides". These statements may well describe any law firm in the San Diego service, does it follow that ratepayers should pay for those law firms as well.

There should be clear and convincing evidence of the need to maintain a Corporate Center legal department separate from the business units' in-house departments and given the unfettered discretion that Sempra apparently has to hire outside counsel, almost at leisure, justified with only a chart showing the name of the outside counsel and the amount they have charged to date.

Sempra claims also claims that CCLD coordinates the retention and oversight of outside firms, including legal fee arrangements, but why is this unique to CCLD when the outside counsel is being hired for services unique to a particular business unit? It should be noted that in connection with the 2010 Reorganization, employees (including attorneys and legal staff) were transferred to SDG&E and SoCalGas to form their respective law departments at those regulated utilities. Clearly, these transferred lawyers retain the experience to coordinate the retention and oversight of outside firms from their respective business unit law departments.

Corporate Center is forecasting $38.012 million for Test Year 2010. Corporate is proposing to allocate $15.693 million to SDG&E and $10.119 million to SCG, respectively.

15.4.1.1. General Counsel (C-1)

The General Counsel has overall responsibility for all Sempra Energy legal matters and the provision of legal services for all the Sempra Energy companies. The General Counsel also oversees the work of all the CCLD attorneys, coordinates the retention and hiring of outside counsel, and provides legal advice to Sempra management. Corporate Center is forecasts $856,000 for test Year 2012 and proposes to allocate $381,000 to SDG&E and $276,000 to SoCalGas, respectively.

DRA recommends a disallowance of the entire costs allocated to the regulated utilities, which amount is $657,000.

15.4.1.2. Cost Center 1100-141 Executive VP & General Counsel

Corporate Center is forecasting $856,000 for this cost center and uses the Direct-Sempra LawPack method to allocate 44.48% to SDG&E and 32.24% to SCG. Prior to the 2010 Reorganization, SDG&E and SoCalGas did not have a Law Department. After the reorganization SDG&E and SoCalGas now have their own separate Law Departments. Both SDG&E and SCG law departments have a Senior Vice President General Counsel. Allocating costs from this cost center to SDG&E and SCG would be a duplication of costs. Therefore, DRA removed the Corporate Center's General Counsel costs of $856,000 from this cost center. DRA recommends a complete disallowance of the costs allocated to SDG&E and SoCalGas for Senior Vice President General Counsel for the test year 2012.

15.4.2. Corporate Center Law Department (C-2)

Corporate Center Law Department (CCLD) is forecasting $8.767 million for Test Year 2012. Corporate Center is proposing to allocate $4.078 million to SDG&E and $2.904 million to SCG, respectively.

15.4.2.1. Cost Center 1100-0144 Legal

Corporate Center is forecasting $8.767 million for this cost center and uses the Direct-Sempra LawPack method to allocate 44.48% to SDG&E and 32.24% to SCG.

With the 2010 Reorganization approximately 81 Corporate Center employees transferred to the Utilities.[1042] CCLD is forecasting the addition of two FTEs for "anticipated growth".[1043] CCLD provides no justification in its testimony for the need of these two FTEs or evidence that the FTEs will benefit ratepayers in the test year 2012. It is indeed curious that a year after a reorganization that created separate law departments for the business units, CCLD is not forecasting growth at the Corporate Center.

DRA recommends a disallowance of $400,000 in labor costs and associated non-labor costs of $165,100 from the forecast. After applying the escalation labor rate this results in a labor forecast of $5.414 million and a non-labor forecast of $1.895 million, a total forecast of $7.309 million, before allocation to SDG&E and SCG. DRA recommends that $4.218 million be allocated to SDG&E and $2.959 million to SoCalGas. This recommendation includes the impact of DRA's audit adjustment for the multi-factor allocation and use of different escalation rates.

15.4.3. Outside Legal (C-3)

CCLD coordinates the retention and hiring of outside legal services for Sempra Energy business units including SDG&E and SCG. Corporate Center is forecasting $27.596 million for Test Year 2012. Corporate Center is proposing to allocate $10.949 million to SDG&E and $6.737 million to SCG, respectively.

15.4.3.1. Cost Center 1100-0145 Outside Legal

CCLD is forecasting $27.596 million for this cost center and uses the Direct-Sempra LawPack method to allocate 44.48% to SDG&E and 32.24% to SoCalGas. CCLD is directly assigning $17.686 million to SDG&E ($10.949 million) and SoCalGas ($6.737 million) for Outside Legal Services. When CCLD is unable to provide the legal services, outside counsel is hired[1044]. CCLD has been unable to provide DRA has

[1042] See SDG&E-23 or SCG-17 workpapers, page BAF-WP-243.

[1043] IBID.

[1044] Exh. 272, BAF-37

removed $17.686 million from this cost center. DRA recommends that zero costs be allocated to SDG&E and SCG for the test year 2012.

15.4.4. Summary of Legal (C-3)

The following table summarizes DRA's recommended forecast:

Table 26-27
Comparison of DRA and Corporate Center Test Year 2012 Forecast (Escalated)
Legal
(In Thousands of 2009 Dollars)

		DRA		Total	Corporate Center		Total	Amount
		SDG&E	SCG		SDG&E	SCG		CC>DRA
C.1	General Counsel	$ -	$ -	$ -	$ 381	$ 276	$ 657	$ 657
C.2	Law Department	$ 4,218	$ 2,959	$ 7,177	$ 4,363	$ 3,106	$ 7,469	$ 292
C.3	Outside Legal	$ -	$ -	$ -	$ 10,949	$ 6,737	$ 17,686	$ 17,686
		$ 4,218	$ 2,959	$ 7,177	$ 15,693	$ 10,119	$ 25,812	$ 18,635

15.5. External Affairs (Governance (B))

External Affairs (Corporate Relations) provides overall policy guidance for the Sempra Energy companies' interaction with external constituents. Corporate Relations provides policy guidance to ensure compliance with enterprise-wide objectives. Corporate Center is forecasting $6.612 million for Test Year 2012 and proposing to allocate $1.061 million to SDG&E and $1.120 million to SoCalGas, respectively.

15.5.1. Communications (E-1)

Corporate Center Communications Division oversees most shareholder communications, including media related activities (broadcast and print) and earnings announcements. Corporate Communications also supports communications for the Sempra Energy companies and communications for utility and business unit customers and communities in which they do business. Corporate Center if forecasting $2.661 million for Test Year 2012 and proposing to allocate $519,000 to SDG&E and $519,000 to SoCalGas, respectively. DRA test year 2012 forecast for this Communications Division is $2.126 million. DRA recommends $503,000 be allocated to SDG&E and

$508,000 be allocated to SoCalGas. This recommendation includes the impact of DRA's audit adjustment for the multi-factor allocation and use of different escalation rates.

15.5.2. Government Affairs (E-2)

Government Affairs Division is responsible for management of federal legislation and advocacy and represents Sempra Energy and its affiliates on all federal legislative issues that have the potential to directly impact the Sempra Energy companies. Corporate Center is forecasting $3.952 million for Test Year 2012. Corporate Center is proposing to allocate $542,000 to SDG&E and $602,000 to SCG, respectively.

15.5.2.1. Cost Center 1100-0150 VP Corp Relations

Sempra is forecasts $697,000 for this cost center and uses Average VP Corporate Relations to allocate 23.76% to SDG&E and 25.17% to SoCalGas. Corporate Center is forecasting an additional FTE in test year 2012 for "consulting and additional division support after 2010 reorganization and reductions."[1045] Corporate Center provides insufficient justification in its testimony for this additional FTE. Therefore, DRA removed $176,000 the FTE from the test year labor forecast. After applying the labor escalation rate results in a labor forecast of $159,000 before allocation to SDG&E and SCG.

Non-labor costs have shown a downward trend from 2007 to 2010 ($503,000, $410,000, $142,000, and $109,000 respectively). DRA used 2010 recorded for non-labor of $109,000 for the test year 2012. After applying the escalation rate non-labor forecast is $117,000.

DRA's total forecast for this cost center is $276,000. DRA recommends that $61,000 be allocated to SDG&E and $65,000 be allocated to SCG using the same ratios Sempra used for its allocation for the test year 2012. This recommendation includes the impact of DRA's audit adjustment for the multi-factor allocation and use of different escalation rates.

[1045] Exh. 276, p. BAF-WP-340.

15.5.2.2. Cost Center 1100-0157 Govt Programs & Corp Responsibility

Corporate Center is forecasting $611,000 for this costs center and uses Causal Local Govt Affairs method to allocate 40.16% to SDG&E and 48.29% to SCG. The expenses in this cost center have fluctuated from year to year. In D. 89-12-057, the Commission stated that if costs have shown significant fluctuations in recorded expenses from year to year an average of recorded expenses over a period of time is a reasonable estimate bases.[1046] DRA used a four-year average (2007-2010) to forecast for the test year 2012. After applying the escalation rates this results in forecast for this cost center of $483,000. DRA recommends that $190,000 be allocated to SDG&E and $231,000 be allocated to SoCalGas. This recommendation includes the impact of DRA's audit adjustment for the multi-factor allocation and use of different escalation rates.

15.5.3. Summary of External Affairs (E)

The following table summarizes DRA's recommended forecast:

Table 26-37
Comparison of DRA and Corporate Center Test Year 2012 Forecast (Escalated)
External Affairs
(In Thousands of 2009 Dollars)

		DRA		Total	Corporate Center		Total	Amount
		SDG&E	SCG		SDG&E	SCG		CC>DRA
E.1	Communications	$ 503	$ 508	$ 1,012	$ 519	$ 519	$ 1,038	$ 26
E.2	Government Affairs	$ 382	$ 427	$ 809	$ 542	$ 602	$ 1,144	$ 334
E.3	External Affairs	$ -	$ -	$ -	$ -	$ -	$ -	$ -
		$ 885	$ 936	$ 1,821	$ 1,061	$ 1,120	$ 2,181	$ 360

15.6. Executive[1047] (Governance (B))

This area groups together certain functions that represent the highest level of leadership of Sempra Energy. Governance Department includes Internal Audit,

[1046] 34 CPUC 2nd p. 231.

[1047] None of the Corporate Center Departments in Sempra's Testimony was referred to as "Executive", what most corresponds to this heading from the testimony is "Governance" and DRA is inserting its discussion of Governance under "Executive" for this reason.

Corporate Secretary, Board of Directors, and Executive. Corporate Center is forecasting $10.815 million for Test Year 2012. Corporate Center proposes to allocate $3.118 million to SDG&E and $2.931 million to SCG, respectively.

DRA recommends a disallowance of $845,000 for Corporate Center's Governance allocations to SDG&E and SoCalGas as follows:

a) $577,000 for Internal Audit (B-1) should not be allocated to SDG&E and SoCalGas;
   1) $404,000 for Audit Fin & Ops to reflect the removal of $391,000 in labor costs for seven FTE position which Corporate Center provides no justification for. To reflect the use of last recorded 2010 for non-labor forecasting basis;
   2) $157,000 for Audit Quality Assurance as Corporate Center has not provided any justification for this cost center;
   3) $15,000 for allocation adjustment should not be allocated to SDG&E and SoCalGas.

b) $181,000 for Corporate Secretary (B-2) should not be allocated to SDG&E and SoCalGas to reflect the use of last recorded 2010 for the forecast basis;

c) $86,000 for allocation adjustment should not be allocated to SDG&E and SoCalGas

15.6.1. Internal Audit (B-1)

The Internal Audit Department is centralized at Corporate Center for all business units. Internal Audit conducts general control reviews in operational, financial, and information systems areas, as well as conducting testing on behalf of management for Sarbanes-Oxley 404 compliance. Corporate Center is forecasting $4.911 million for Test Year 2012 and proposing to allocate $2.139 million to SDG&E and $1.953 million to SoCalGas, respectively.

15.6.1.1. Cost Center 1100-0041 Audit Fin & OPS

Corporate Center forecasts $1.454 million for this cost center and uses Causal-Audit Plan method to allocate 43.56% to SDG&E and 39.77% to SCG. Corporate Center is forecasting five new FTEs and two replacements to fill vacated positions.[1048]

[1048] Exh. 276, p. BAF-WP-189.

Corporate Center's testimony provides no justification for the five new FTEs and filling two vacant positions. DRA has removed $391,000 for these seven FTEs from the test year 2012 labor forecast. After applying the labor escalation rate this results in a labor forecast of $766,000 before allocation to SDG&E and SCG.

Non-labor costs have shown a downward trend over the past five years. DRA reviewed the non-labor costs and recommends using last recorded year 2010 of $289,000 as a basis for the forecast. DRA has removed $57,000 from the non-labor forecast. After applying the non-labor escalation rate results in a non-labor forecast of $310,000 before allocation to SDG&E and SCG. DRA's test year 2012 forecast is $1.076 million before allocation to SDG&E and SCG. DRA recommends that $465,000 be allocated to SDG&E and $426,000 be allocated to SoCalGas. This recommendation includes the impact of DRA's audit adjustment for the multi-factor allocation and the use of different escalation rates.

15.6.1.2. Cost Center 1100-0050 Audit Quality Assurance

Corporate Center is forecasting $190,000 for this cost center and uses Causal-Audit Plan method to allocate 43.56% to SDG&E and 39.77% to SoCalGas. This cost center was created in 2009 to "Contract labor realigned from cost center 1100-0380."[1049] The recorded cost for 2009 was $167,000 with three FTEs. However, 2010 recorded costs was $23,000 without an FTE. Corporate Center's testimony provides no justification for this cost center. Therefore, DRA has removed the costs from the test year 2012 forecast. DRA recommends that none of the costs for Audit Quality Assurance be allocated to SDG&E and SoCalGas for this cost center.

15.6.1.3. Internal Audit Allocation Adjustment

DRA's audit adjustment[1050] for multi-factor allocation has an impact on the Internal Audit costs. The impact on the multi-factor allocation adjustment and use of different escalation rates results is an additional reduction of $15,000 to costs allocated to

[1049] Exh. 276, p. BAF-WP-201.

[1050] See Exh. 489, Report on the Results of Examination.

SDG&E ($10,000) and SCG ($5,000) for the Test Year 2012. The following table summarizes DRA's recommended forecast:

Table 26-24
Comparison of DRA and Corporate Center Test Year 2012 Forecast (Escalated)
Internal Audit
(In Thousands of 2009 Dollars)

		DRA		Total	Corporate Center		Total	Amount
		SDG&E	SCG		SDG&E	SCG		CC>DRA
B.1-1	1100-0349 VP Audit Services	$ 201	$ 185	$ 386	$ 203	$ 185	$ 388	$ 2
B.1-2	1100-0041 Audit Rin & Ops	$ 465	$ 426	$ 891	$ 677	$ 618	$ 1,295	$ 404
B.1-3	1100-0453 Audit Fin & Ops II	$ 496	$ 455	$ 951	$ 500	$ 457	$ 957	$ 6
B.1-4	1100-0454 Audit Info Tech	$ 455	$ 417	$ 872	$ 458	$ 419	$ 877	$ 5
B.1-5	1100-0380 Environmental Compliance	$ 217	$ 199	$ 415	$ 218	$ 199	$ 417	$ 2
B.1-6	1100-0050 Audit Quality Assurance	$ 0	$ -	$ 0	$ 83	$ 75	$ 158	$ 158
				$ -			$ -	$ -
		$ 1,833	$ 1,681	$ 3,515	$ 2,139	$ 1,953	$ 4,092	$ 577

15.6.2. Corporate Secretary (B-2)

Corporate Secretary oversees the corporate governance of Sempra Energy and each major business unit within Sempra Energy, including SDG&E, SoCalGas, and the three Global businesses. Corporate Center is forecasting $854,000 for Test Year 2012 and proposing to allocate $355,000 to SDG&E and $355,000 to SCG, respectively.

15.6.2.1. Cost Center 1100-0143 Corporate Secretary

Corporate Center is forecasts $854,000 for this cost center and uses the Multi-Factor Basic to allocate 41.54% to SDG&E and 41.52% to SoCalGas. Expenses in this cost center have been stable for three years. Therefore, it is appropriate to use the last recorded data for forecasting test year 2012 costs. In D. 89-12-057, the Commission stated that if costs have relatively stable for three or more years, the last recorded year is an appropriate base estimate.[1051] Therefore, DRA used 2010 recorded of $615,000 to forecast for the test year 2012. DRA removed $182,000 from this cost center. After applying the escalation rates, this results in a forecast of $660,000 before allocation to SDG&E and SCG. DRA recommends that $262,000 be allocated to SDG&E and $266,000 be allocated to SCG for the test year 2012. This recommendation includes the

[1051] 34 CPUC 2nd p. 231.

impact of DRA's audit adjustment for the multi-factor allocation and the use of different escalation rates.

15.6.3. Summary of Executive/Governance (B)

The following table summaries DRA's recommendations for Corporate Center Governance:

Table 26-25
Comparison of DRA and Corporate Center Test Year 2012 Forecast (Escalated)
Governance
(In Thousands of 2009 Dollars)

	Governance (a)	DRA Forecast (b)	Corp.Center Forecast (c)	Amount CC>DRA (d=c-b)	Percentage CC>DRA (e=d/b)
B-1	Internal Audit	$ 3,515	$ 4,092	$ 577	16%
B-2	Corporate Secretary	$ 529	$ 710	$ 181	34%
B-3	Board of Directors	$ 1,161	$ 1,247	$ 86	7%
B-4	Executive	$ -	$ -	$ -	0%
	Total	$ 5,204	$ 6,049	$ 845	16%

15.6.4. Executive Compensation

15.7. Facilities/Assets (F) - Depreciation & Rate of Return

Certain cost centers are grouped together as they relate to the physical environment and tools used in providing shared services. This includes the depreciation expense of corporate capital assets and annual property taxes. Also included are the security services provided to protect corporate assets and employees. Corporate Center is forecasting $15.699 million for Test Year 2012 and proposing to allocate $4.929 million to SDG&E and $5.338 million to SoCalGas, respectively.

15.7.1. Depreciation/Rate of Return (F-1)

Corporate Center assets are comprised primarily of office leasehold improvements, furniture, desktop equipment, application software, and enterprise-wide information systems. Corporate Center is forecasting $11.788 million for Test Year 2012

and proposing to allocate $3.707 million to SDG&E and $3.928 million to SoCalGas, respectively. DRA's audit adjustment[1052] for the multi-factor allocation impacts allocations to SDG&E and SoCalGas for test year 2012. DRA recommends that $3.576 million be allocated to SDG&E and $3.811 million to SoCalGas.

15.7.2. Property Taxes (F-2)

Property tax expense is paid at Corporate Center only for property owned by the Sempra Energy parent, and generally includes office equipment and leasehold improvements. Corporate Center is forecasting $533,000 for Test Year 2012. Corporate Center is proposing to allocate $205,000 to SDG&E and $203,000 to SCG, respectively. DRA's audit adjustment for the multi-factor allocation impacts allocations to SDG&E and SCG for the test year 2012. DRA recommends that $200,000 be allocated to SDG&E and $197,000 be allocated to SoCalGas.

15.7.3. Corporate Security Services (F-4)

Corporate Security Services (CCS) Division is responsible of for the development and management of programs and policies for security systems, security investigations, workplace violence avoidance, and security risk management services. Corporate Center is forecasting $3.126 million for Test Year 2012 and proposing to allocate $1.002 million to SDG&E and $1.192 million to SCG, respectively. DRA test year 2012 forecast is $3.126 million. DRA recommends that $991,000 be allocated to SDG&E and $1.183 million be allocated to SCG. This recommendation includes the impact of DRA's audit adjustment for the multi-factor allocation and use of different escalation rates.

15.7.4. Summary of Facilities/Assets (F)

The following table summarizes DRA's recommended forecast:

[1052] See Exh. 489, Report on the Results of Examination.

Table 26-39
Comparison of DRA and Corporate Center Test Year 2012 Forecast (Escalated)
Facilities/Assets
(In Thousands of 2009 Dollars)

		DRA		Total	Corporate Center		Total	Amount
		SDG&E	SCG		SDG&E	SCG		CC>DRA
F-1	Depreciation/Rate of Return	$ 3,576	$ 3,811	$ 7,387	$ 3,707	$ 3,928	$ 7,635	$ 248
F-2	Property Taxes	$ 200	$ 197	$ 397	$ 220	$ 218	$ 438	$ 41
F-3	Other Facilities	$ -	$ -	$ -	$ -	$ -	$ -	$ -
F-4	Security Services	$ 991	$ 1,183	$ 2,174	$ 1,002	$ 1,192	$ 2,194	$ 20
	Total	$ 4,767	$ 5,192	$ 9,958	$ 4,929	$ 5,338	$ 10,267	$ 309

15.8. Pensions & Benefits (G)

Corporate Center Pension and Benefits includes Supplemental Executive Retirement Plan (SERP) and Long-Term Incentive Plan (LTIP). Corporate Center is forecasting $94.595 million for Test Year 2012 Pension and Benefits and proposing to allocate $15.529 million to SDG&E and $14.704 million to SoCalGas.

DRA recommends a disallowance of $19.643 million dollars for Corporate Center's Pensions and Benefits as follows:

1. $1.657 million for Employee Benefits (G-1) should not be allocated to SDG&E and SCG to reflect DRA's recommendation to Corporate Center's forecast;
   a. $1.011 million for P&B Overhead to reflect the impact of DRA's labor adjustments; and,
   b. $646,000 for BOD Pension to remove costs that should not be funded by SDG&E's and SCG's ratepayers.
2. $324,000 for Payroll Taxes (G-2) should not be allocated to SDG&E and SCG to reflect the impact of DRA's recommendation to Corporate Center's forecast;
3. $4.683 million for Incentive Compensation (G-3) should not be allocated to SDG&E and SCG to be consistent with DRA's recommendations regarding Incentive Plans in Exhibit DRA-28;
4. $6.883 million for Long Term Incentives (G-4) should be allocated to SDG&E and SCG to be consistent with DRA's recommendations regarding Incentive Plans in Exhibit DRA-28; and,

5. $6.096 million for Supplemental Retirement (G-5) should not be allocated to SDG&E and SCG to be consistent with DRA's recommendations regarding Supplemental Retirement Plans in Exhibit DRA-28.

15.8.1. Employee Benefits (G-1)

This category contains all health and welfare plans available to Corporate Center employees. The major benefits included are pensions, medical, dental, disability, life insurance, and retirement savings plans as well as other postretirement benefit costs. Corporate Center is forecasting $12.866 million for Test Year 2012 and proposing to allocate $4.224 million to SDG&E and $4.191 million to SoCalGas, respectively.

15.8.1.1. Cost Center 1100-0802 P&B Overhead

Corporate Center forecasts $12.088 million for this cost center and uses Weighted Average Overheads method to allocate costs to SDG&E and SCG. DRA's adjustments to labor impact the P&B Overheads forecasted for test year 2012. DRA reduced labor by over $4.5 million, which results in a $1.282 million reduction to P&B Overheads. DRA test year 2012 forecast is $1.729 million and DRA recommends that $3.382 million be allocated to SDG&E and $3.376 million to SoCalGas for test year 2012. This recommendation includes the impact of DRA's audit adjustment for the multi-factor allocation.

15.8.1.2. Cost Center 1100-0814 BOD Pension

Corporate Center is forecasting $778,000 for this cost center and uses Multi-Factor Basic to allocation 41.52% to SDG&E and 41.52% to SoCalGas. SDG&E and SoCalGas already fund Board of Directors (BOD) fees, retainers and expenses and should not be expected to fund BOD pensions. DRA recommends that none of these costs be allocated to SDG&E and SoCalGas for the test year 2012.

15.8.2. Payroll Taxes (G-2)

Corporate Center is forecasting $3.815 million for Test Year 2012 and proposing to allocate $1.231 million to SDG&E and $1.221 million to SoCalGas, respectively.

15.8.2.1. Cost Center 1100-0803 Payroll Taxes

Corporate Center is forecasting $3.815 million for this cost center and uses the Weighted Average Overheads method to allocate SDG&E and SoCalGas. DRA's adjustments to labor impact the Payroll Taxes forecasted for the test year 2012. DRA reduced labor by over $4.5 million, which results in a $411,930 reduction to Payroll Taxes. After applying the escalation rate, DRA test year 2012 forecast is $3.379 million of which DRA recommends that $1.065 million be allocated to SDG&E and $1.063 be allocated to SoCalGas. This recommendation includes the impact of DRA's audit adjustment for the multi-factor allocation and use of a different escalation rate.

15.8.3. Incentive Compensation (G-3)

Corporate Center's Incentive Compensation Plan (ICP) costs are included for all eligible employees, based on overall performance results. Corporate Center is forecasting $11.886 million for Test Year 2012 and proposing to allocate $3.213 million to SDG&E and $3.174 million to SoCalGas, respectively.

15.8.3.1. Cost Center 1100-0800 Executive ICP

Corporate Center is forecasting $4.530 million for this cost center and uses the Weighted Average Overheads method to allocate SDG&E and SCG. DRA has removed 70% of incentive costs, consistent with DRA's recommendation in Exhibit 520 Compensation and Incentives. Therefore, DRA recommends that $189,000 be allocated to SDG&E and $189,000 be allocated to SCG for the test year 2012. Tis recommendation includes the impact of DRA's audit adjustment for the multi-factor allocation and use of a different escalation rate.

15.8.3.2. Cost Center 1100-0801 ICP Overheads

Sempra is forecasting $7.355 million dollars for this cost center and uses the Weighted Average Overheads method to allocate the amount to SDG&E and SoCalGas. DRA has removed 70% of incentive costs, consistent with DRA's recommendation in Exhibit 520 Compensation and Incentives, and reduced labor by over $4.5 million, which results in a $778,090 reduction to ICP Overheads. DRA test year 2012 forecast is $6.530

million. DRA recommends that $665,000 million be allocated to SDG&E and $665,000 million be allocated to SoCalGas for test year 2012. This recommendation includes the impact of DRA's audit adjustment for the multi-factor allocation.

15.8.4. Long-Term Incentives (G-4)

Long-Term Incentive Plans (LTIP) recognizes significant leadership contributions. LTIP is based on corporate performance results. Corporate Center is forecasting $35.198 million for Test Year 2012 and proposing to allocate $3.529 million to SDG&E and $3.355 million to SoCalGas, respectively.

DRA recommends a disallowance of all long-term incentives, consistent with DRA's recommendations in Exhibit 520.

15.8.5. Supplemental Retirement (G-5)

Supplemental Executive Retirement Plan (SERP) is payments made to eligible executives. Corporate Center is forecasting $30.83 million for Test Year 2012 and proposing to allocate $3.331 million to SDG&E and $2.764 million to SoCalGas, respectively. Ratepayers already make appropriate pension plan contributions required under pension law, and there is no reason for ratepayers to provide even more funding to further supplement executive retirement expenses. If Corporate Center wants to provide supplemental benefits to a number of highly compensated employees, then these costs should appropriately be borne by shareholders.

Regulatory Commissions in California's neighboring states have examined the issue of supplemental retirement benefits, and have properly declined to include such expenses in revenue requirements. The reasoning used by these other Commissions for rejecting utility requests for ratepayer funding of supplemental pension costs are equally applicable in California. In 2006, the Arizona Corporation Commission rejected such a proposal from Southwest Gas Corporation:

> … we believe that the record in this case supports a finding that the provision of additional compensation to Southwest Gas' highest paid employees to remedy a perceived deficiency in retirement benefits relative to the Company's other employees is

> not a reasonable expense that should be recovered in rates. Without the SERP, the Company's officers still enjoy the same retirement benefits available to any other Southwest Gas employee and the attempt to make these executives "whole" in the sense of allowing a greater percentage of retirement benefits do not meet the test of reasonableness. If the Company wishes to provide additional retirement benefits above the level permitted by IRS regulations applicable to all other employees it may do so at the expense of its shareholders. However, it is not reasonable to place this additional burden on ratepayers. (Arizona Corporation Commission, Decision No. 68487, February 23, 2006)

(Exh. 297, p.51.)

The Nevada Public Service Commission reached the same conclusion in a 2002 decision of a Nevada Power Company rate case, finding that, "the SERP should be the responsibility of the shareholders."[1053] The Oregon Public Utilities Commission did the same in a 2001 PacifiCorp rate case, stating:

> Staff proposes to remove the entire cost of SERP, approximately $806,000 from the revenue requirement. Staff argues that PacifiCorp's executives are already well compensated, receiving on average 4.3 times the average compensation of non-officers. Further, these executives are already covered by a regular retirement plan, the expense of which is covered in customer rates. Finally, PacifiCorp did not establish that SERP was a necessary expense. The Commission has not allowed recovery of SERP expenses in other utility rate cases. PacifiCorp has not persuaded us that it is necessary to pay SERP to hire and retain executive officers. The SERP costs are not allowed.

(Oregon Public Utilities Commission, Order No. 01-787, September 7, 2001)

DRA's recommendations pertaining to Corporate Center's SERP is consistent with DRA's policy in the SoCalGas and SDG&E Test Year 2008 GRCs[1054], Southern

[1053] Nevada Public Service Commission, Docket Nos. 01-10001 and 01-10002, March 29, 2002.

[1054] A.06-12-009 and A.06-12-010, respectively.

California Edison Company (SCE) Test Year 2009 GRC[1055], and Pacific Gas and Electric Company[1056] Test Year 2011[1057]. DRA recommends disallowance of the entire Supplemental Retirement allocation to SDG&E and SoCalGas for the Test Year 2012.

15.8.6. Summary of Pension & Benefits (G)

The following table summarizes DRA's recommended forecast:

Table 26-41
Comparison of DRA and Corporate Center Test Year 2012 Forecast (Escalated)
Pension & Benefits
(In Thousands of 2009 Dollars)

		DRA		Total	Corporate Center		Total	Amount
		SDG&E	SCG		SDG&E	SCG		CC>DRA
G.1	Employee Benefits	$ 3,382	$ 3,376	$ 6,758	$ 4,224	$ 4,191	$ 8,415	$ 1,657
G.2	Payroll Taxes	$ 1,065	$ 1,063	$ 2,128	$ 1,231	$ 1,221	$ 2,452	$ 323
G.3	Incentive Compensation	***$ 855***	***$ 849***	***$ 1,704***	$ 3,213	$ 3,174	$ 6,387	***$ 4,683***
G.4	Long-Term Incentives	$ (0)	$ (0)	$ (0)	$ 3,529	$ 3,355	$ 6,884	$ 6,884
G.5	Supplemental Retirement	$ (0)	$ (0)	$ -	$ 3,331	$ 2,764	$ 6,095	$ 6,095
				$ -				
		$ 5,302	***$ 5,288***	***$10,590***	$ 15,529	$14,704	$30,233	***$ 19,643***

15.9. Insurance

DRA recommends that Sempra's forecast of insurance costs in this rate case be reduced by of $14.416 million dollars to adjust for over-allocation of certain property insurance and corporate liability costs to SDG&E and SoCalGas, DRA Auditor's adjustment to Sempra's calculation of its multi-factor allocation and for Surety Bond costs that Sempra should not have allocated to its regulated utilities[1058].

Sempra's Energy Risk Management group (Risk Management) procures insurance for all of Sempra's business units and charges those costs out using direct assignment and

[1055] A.07-11-011

[1056] A.09-12-020

[1057] Exh. 279, p.52

[1058] Exh. 497, p.3.

allocation to SDG&E and SoCalGas, or Sempra Global. Direct assignment or allocation is the method Risk Management uses to charge costs for policies procured for a particular business unit. Risk Management maintains that its goal "is to reasonably and equitably bill insurance costs to business units, associating the costs as closely as possible to the coverage being provided to each business unit"[1059]. The forecast of costs for insurance in this rate case was segregated by policy type.

Sempra's test-year 2012 forecast of insurance costs in this rate case are: 1) $91,225 million dollars in liability insurance for SDG&E, an increase of $40,835 million dollars over 2009 recorded figures and $12,309 million dollars in liability insurance for SoCalGas; 2) $5,430 million dollars in property insurance for SDG&E and $3,299 million for SoCalGas; and 3) $854,000 in Surety Bonds for SDG&E and $257,000 for SoCalGas. The total amount of the requested insurances costs is $113,374 million, an increase of $42,707 million dollars over 2009 recorded costs.

DRA's recommended reduction $14.416 million is only 15 percent of the total insurance costs forecasted for test-year 2012 and fairly conservative given the reasons for the adjustments.

15.9.1. Differences in Escalation Rates

The main difference between DRA's recommended adjustments to Sempra's insurance policy forecasts and the forecasts themselves is the escalation rate. Sempra uses an arbitrary 3.5% escalation rate that is not based on any study or known objective parameters[1060], while DRA uses a 1.015%[1061] and 1.023%[1062] derived from Global Insight Power Planner, First Quarter 2010.

[1059] Exh. 214, MBD-3; Exh. 215, MBD-3.

[1060] RT, Vol. 22, pp.2735:21 – 2736:26.

[1061] Exh. 497, p.7

[1062] Exh. 497, p.11.

Sempra argument against DRA's use of Global Insight Power Planner is interesting, giving Sempra's own justification for its arbitrary 3.5% rate. Regarding DRA's proposed escalation rate, Sempra stated:

> DRA is recommending lower escalation rates than proposed by Insurance & Risk by using Global Insight Power planner index as the basis for their escalation rates. However, they provide no rationale or justification for its use.

(Exh. 217, MBD-3.)

Leaving aside the fact that Global Insight Power planner index is a well accepted industry yardstick for establishing escalation rates, the following is Sempra's justification for its use of 3.5% escalation rates on cross examination.

> Q. Again, I understand your explanation. What I'm trying to understand is why 3.55 as opposed to, say, 4 percent or 3 percent?
>
> A. It is just a number which in discussions with my brokers we sort of settled on. That number could have been 2.75 percent. …
>
> Q. So what I'm trying – another think I am trying to get at is this was not informed by any particular studies that we can objectively look at or any index that's out there?
>
> A. That is correct. This is based on the professional opinion of my brokers and myself [Mauray B. DeBont].

(RT, Vol. 22, p.2735:21 – 2736:26)

It is not clear whether the "brokers" Mr. DeBont referred to in his testimony participated in any of the studies that formed the basis of the Global Insight Power planner index, nor is it certain that these "brokers" are part of "Insurance & Risk" which Mr. DeBont mentioned in his rebuttal to DRA's proposed escalation as having derived Sempra's escalation factor[1063]. In either case, Mr. DeBont does not appear confident in supporting this escalation solely on the basis of his own professional judgment. Sempra

[1063] Exh. 217, MBD-3

has failed to establish the burden of proof necessary to support imposing millions of dollars in insurance costs on ratepayers with its escalation factor.

Sempra also claims that the Global Insight Power planner is a national index that is not specific to region or policy type[1064]. Yet, neither region nor policy type was a factor in how Sempra's witness, Mr. DeBont and his "brokers", derived the proposed 3.5% escalation[1065].

> Q. So your escalation rates took into consideration regions, the specific region. Is that what you're saying here [Exh. 217, MBD-3]?
>
> A. By specific region and /or policy type, we are looking at the what we call risk profile. And a good example for that would be the wildfire insurance program. That's liability insurance we have. And by Electric region. Its topography and the climate lends itself to a unique risk exposure from other utility companies in the United States. So that's why I would say I reference to a comment specific to the region by. [sic]
>
> Q. For Sempra Global retained, what region do you use to make that analysis?
>
> A. For the global business units it an be the area that they operate in. And again, that would only apply to specific types of insurance. By example, one of the global business units, Sempra LNG, has an LNG receiving terminal in Cameron, Louisana. Though we no longer purchase hurricane insurance coverage for Cameron LNG, that would be an example of a region, regional element that we would consider for Cameron LNG alone. And that would be for property insurance alone.

(RT, Vol. 22, p.2747:1 – 2748:1)

It should be noted that Sempra procured a lot of the insurance policies forecasted in this rate case for its regulated utilities and its Sempra global unit as well, upon the

---

[1064] Exh. 217, MBD-4

[1065] RT. Vol. 22, pp.2735:21 – 2736:26

grounds that it enjoys economies of scale by doing so[1066]. However, regardless of the type of insurance or whether the coverage extends to Sempra global under the same policy, the same 3.5% escalation was used to forecast the costs[1067]. Thus, Sempra's 3.5% escalation is not specific to region or type of policy either. In fact, when the trend for the particular policy supported a lower escalation, Sempra stubbornly insisted on applying its 3.5% escalation.

> Q. Let me tell you where I am going with this. Across the board there is a 3.5 escalation for all your cost centers. But in this particular insurance there appears to be a trend, at least for 2010, to reduce the rates because of the nature of the market. I am wondering why you did not – that trend did not affect the escalation for this particular insurance?
>
> A. It's a good question, but I think it's one – and my apologies for repeating myself, but again, going forward beyond 12 months, our general feeling is that insurance rates tend to increase. …

(RT, Vol. 22 DeBont, p.2741:14 – 27.)

Sempra cannot support the 3.5% escalation it has proposed and has its argument that DRA's reliance on Global Insight Power planner index is not justified is misleading. Therefore, DRA recommends that the Commission adopt its proposed escalation rates for the insurance forecasts in this proceeding.

15.9.2. $13.486 Million Dollars of Sempra's Liability Insurance Should Not Be Allocated to SDG&E and SoCalGas

Sempra's Liability Insurance provides coverage for third party bodily injury, property damage or personal injury including such damages arising from wildfires, wrongful acts committed by employee benefit program fiduciaries, radiation exposure from Sempra's to Nuclear facilities, workers compensation claims above Sempra's authorized self-insurance, financial loss arising from mismanagement and any third-party damages arising out of the Yuma 500kV transmission system operations.

[1066] RT, Vol. 22 DeBont, p.2743:1-6.

[1067] RT., Vol. 22 DeBont, p.2741:14-27.

DRA recommends that the Commission reduce Sempra's forecast of $103.534 million dollars for Liability Insurance by $13.486 million dollars as follows:

a. $8.981 million should not be allocated to the Utilities for Excess Fire (Wildfire Liability);
b. $1.623 million should not be allocated to SDG&E for Wildfire Reinsurance;
c. $1.953 million should not be allocated to the Utilities for Board of Directors Insurance;
d. $87,656 should not be allocated to the Utilities for Excess Workers Compensation;
e. $112,118 should not be allocated to the Utilities for SONGS Nuclear Liability;
f. $730,000 should not be allocated to the Utilities to reflect DRA's Auditor adjustment regarding multi-factor allocation.

15.9.3. Wildfire Liability

DRA reduced the wildfire liability coverage by $8.981 million dollars by removing a first installment of Wildfire Reinsurance payment of $8.376 million from the 2010 forecast of $40.729 million dollars and then escalating the remaining sum[1068] of $32.353 by 1.023% using a Global Insight Power planner index. Thus DRA recommends a TY 2012 forecast of $33.891 million before allocations to SDG&E and SoCalGas. . The Wildfire Liability allocation for SDG&E is $33.715 million and for SCG is $.119 million for the TY 2012. This recommendation includes the impact of DRA's audit adjustment[1069] for the multi-factor allocation.

15.9.4. SDG&E Wildfire Property Reinsurance

DRA recommendation for a reduction of the Wildfire Property Reinsurance is solely based on its escalation of the 2010 recorded adjusted figures as opposed to Sempra's use of its 3.5% escalation. Risk Management is forecasting $35.779 million for Wildfire Property Damage Reinsurance for the TY 2012. DRA escalated the 2010

[1068] After subtracting the first install of the Reinsurance payment: 40.729 [minus] 8.376 = 32.353

[1069] See Section 25 on Audit.

adjusted recorded costs of $32.606 million by 1.023%[1070] for 2011 and 2012. DRA recommends a TY 2012 forecast of $34.156 million. The Wildfire Liability Reinsurance for SDG&E is $34.156 million for TY 2012. This recommendation includes the impact of DRA's audit adjustment[1071] for the multi-factor allocation.

15.9.5. Board of Directors Insurance

Sempra unjustly allocates approximately 83% of its Directors and Officers Insurance to its regulated utilities leaving Sempra global with responsibility for only 17%. The Commission, in D.00-02-046, allowed PG&E to recover half of its Directors and Officers insurance costs from ratepayers, while the other half was to be recovered from shareholders.[1072] The Commission's reasoning was that the Directors and Officers insurance benefited both the utility's shareholders and ratepayers. Further, in D.96-01-011[1073] the Commission found it appropriate to allocate 50% of the Directors and Officers insurance costs to shareholders to reflect the benefits they received from this insurance. The Commission, in D.04-03-034, stated:

> However, D&O insurance protects directors and officers from activities that benefit both shareholders and customers. Therefore, we will adopt an amount for D&O insurance that allocates the costs of D&O insurance equally between shareholders and customers.

(D. 04-03-034, mimeo, pp. 32 and 33.)

DRA's recommendation seeks to conform Sempra's TY 2012 forecast proposal to this Commission policy, as Sempra has failed to show any justification for deviating from this established Commission policy. Further, DRA escalated the last recorded year by 1.023% to derive the recommended sum of $3.897 million dollars.

[1070] See Global Insight Power Planner First Quarter 2010.

[1071] See Exh. 489, Report on the Results of Examination.

[1072] D.00-02-046, mimeo p. 305.

[1073] 64 CPUC2d 241, 319 for Southern California Edison Company.

In D.89-12-057, The Commission stated that if costs have shown a trend in a certain direction over three or more years, the last recorded year is an appropriate base estimate. Costs in this area have trended lower over the past four years; therefore the last recorded year 2010 is the basis used by DRA for forecasting. DRA escalated the 2010 recorded $3.719 million by 1.023% for 2011 and 2012. DRA recommends a TY 2012 forecast of $3.897 million before allocations to SDG&E and SCG. The allocation to SDG&E would have been $1.551 million and to SCG would have been $1.572 million. DRA recommends that Directors and Officers insurance be adjusted by $1,953,000 to appropriately reflect 50% for the TY 2012. This recommendation includes the impact of DRA's audit adjustment[1074] for the multi-factor allocation.

15.9.6. Excess Workers Compensation Insurance

Sempra is forecasting $2.142 million in Excess Workers Compensation Liability Insurance for the TY 2012. The 2010 recorded cost for this cost center as $1.961. DRA recommendation for simply escalates the 2010 recorded cost of $1.961 million by 1.023% for 2011 and 2012 for a TY 2012 forecast of $2.055 million Risk Management provides coverage for compensation above authorized self-insurance maintained by Corporate Center, SDG&E, and SCG in California and outside of California.

15.9.6.1. Cost Center 1100-0429 – Excess Workers

Risk Management is forecasting $2.142 million in Excess Workers Compensation Liability Insurance for the TY 2012. The 2010 recorded cost for this cost center was $1.961 million. The last recorded year 2010 is the basis used by DRA for forecasting since it reflects the most recent available insurance costs. DRA escalated the 2010 recorded $1.961 million by 1.023% for 2011 and 2012. DRA recommends a TY 2012 forecast of $2.055 million before allocations to SDG&E and SCG. This is an adjustment of $87,750 over Sempra's TY 2012 proposal. DRA recommends that $882,000 be allocated to SDG&E and $1.096 million allocated to SoCalGas in TY 2012. This

[1074] See Exh. 489, Report on the Results of Examination.

recommendation includes the impact of DRA's audit adjustment for the multi-factor allocation.

15.9.6.2. Cost Center 1100-0439 –Global Workers

Sempra also forecasts $321,000 for TY 2012 with 99.46% being allocated to Global. Risk Management used a Causal – Non-Calif. Workers Comp allocation method, which resulted in $1,000 being allocated to SDG&E. DRA recommends that none of the costs from this cost center be allocated to SDG&E in TY 2012 because the updated allocation factor results in 99.74% allocation to Global. This recommendation includes the impact of DRA's audit adjustment for the multi-factor allocation.

15.9.7. SONGS Nuclear Liability

This insurance protects SDG&E and the co-owners of SONGS against claims from third parties for bodily injury or property damage arising from radiation hazards at SONGS. Risk Management is forecasting $462,000 for TY 2012. This liability insurance is 100% allocated to SDG&E. The 2010 recorded costs were $334,000. Costs in this area have trended slightly higher over the past four years. The last recorded year 2010 serves as an appropriate basis for the TY forecasting since it is the most recent cost. DRA escalated the 2010 recorded $334,000 by 1.023%[1075] to arrive at TY forecast. DRA recommends a TY 2012 forecast of $350,000 allocated to SDG&E. This recommendation includes the impact of DRA's audit adjustment[1076] for the multi-factor allocation

Sempra states that the SONGS Nuclear liability insurance is issued solely by Nuclear Electric Insurance Limited (NEIL) as a result of which Sempra has more specific information to use in forecasting the policy costs, reducing the uncertainty often associated with forecasting other policy costs.

[1075] See Global Insight Power Planner, First Quarter 2010.

[1076] See Exh. 489, Report on the Results of Examination.

> Q. Given that that policy is provided by the Nuclear Electric Insurance Limited, and I believe you state they are the only people that provide this coverage –
>
> A. That's correct.
>
> Q. What market pressures did you consider in setting an escalation factor for that?
>
> A. Not to say that forecasting is easy, but with one insurer and the nature of NEIL, NEIL is what we would call a mutual insurer. All the insured from NEIL are nuclear facility owners. And we have a very unique or different relationship than with traditional insurance marketplace. So when we are able to look at forecasting, we have some more specific information. Certain members are participating in various committees. …

(RT, Vol. 22 DeBont, p.2737:28 – 2738:18.)

This relationship that Sempra and other nuclear facilities have with NEIL supports DRA's use of the last recorded year and the Global Insight Power planner index in its recommendation.

15.9.8. DRA's Audit Adjustments

DRA's audit adjustment[1077] for multi-factor allocation has an impact on the property insurance costs. The impact on the multi-factor allocation adjustment results in an additional reduction of $730,000 to costs allocated to SDG&E and SCG for the TY 2012.

15.9.9. Cost Center 1100-0433 – Group Executive

DRA also protests the use of ratepayer funds to provide an umbrella liability for named executives. Sempra provides an "umbrella liability for named executives, excess of executives' own personal lines insurance policies."[1078] Sempra forecasts $94,000 for this cost center and allocates $78,000 to SDG&E and SCG in TY 2012. Ratepayers

---

[1077] Ibid.

[1078] See SDG&E24 or SCG-18, page MBD-25.

should not be required to fund this type of liability insurance. This type of policy serves to protect the interests of a limited, well compensated group of executives and Sempra provides no evidence that this expenditure serves ratepayer interests. DRA recommends that none of these costs be allocated to SDG&E and SCG in TY 2012. This recommendation includes the impact of DRA's audit adjustment[1079] for the multi-factor allocation.

15.9.10. Recap of DRA's Proposals On Sempra's Liability Insurance Forecasts

The following tables summarize DRA's recommendations for Liability Insurance for TY 2012.

Table 27-11
Risk Management Liability Insurance Forecast
(2009$ - dollars in thousands)

	Description (a)	DRA Recommends (b)	Risk Management (c)	Amount RM>DRA (d=c-b)	Percentage RM>DRA (e=d/b)
B-1	General Excess	$ 15,833	$ 16,413	$ 581	4%
B-2	Fire	$ 67,990	$ 78,594	$ 10,604	16%
B-3	D&O	$ 1,561	$ 3,515	$ 1,953	125%
B-4	Fiduciary	$ 1,380	$ 1,430	$ 50	4%
B-5	Workers Comp	$ 1,978	$ 2,065	$ 87	4%
B-6	SONGS Liability	$ 715	$ 828	$ 113	16%
B-7	Other Liability	$ 29	$ 108	$ 79	277%
B-8	Broker Fees	$ 562	$ 581	$ 20	3%

[1079] See Exh. 489, Report on the Results of Examination.

Total	$ 90,048	$ 103,534	$ 13,486	15%

Table 27-12
San Diego Gas & Electric Company
Liability Insurance Forecast
(2009$ - dollars in thousands)

	Description (a)	DRA Recommends (b)	SDG&E (c)	Amount SDG&E>DRA (d=c-b)	Percentage SDG&E>DRA (e=d/b)
B-1	General Excess	$ 7,863	$ 8,209	$ 345	4%
B-2	Fire	$ 67,872	$ 78,444	$ 10,572	16%
B-3	D&O	$ 775	$ 1,758	$ 982	127%
B-4	Fiduciary	$ 685	$ 715	$ 30	4%
B-5	Workers Comp	$ 882	$ 921	$ 39	4%
B-6	SONGS Liability	$ 715	$ 827	$ 112	16%
B-7	Other Liability	$ 20	$ 59	$ 40	203%
B-8	Broker Fees	$ 279	$ 291	$ 12	4%
	Total	$ 79,091	$ 91,224	$ 12,132	15%

Table 27-13
Southern California Gas Company Liability Insurance Forecast
(2009$ - dollars in thousands)

	Description (a)	DRA Recommends (b)	SCG (c)	Amount SCG>DRA (d=c-b)	Percentage SCG>DRA (e=d/b)

B-1	General Excess	$ 7,970	$ 8,209	$ 239	3%
B-2	Fire	$ 119	$ 150	$ 31	27%
B-3	D&O	$ 786	$ 1,757	$ 971	124%
B-4	Fiduciary	$ 694	$ 715	$ 20	3%
B-5	Workers Comp	$ 1,096	$ 1,144	$ 48	4%
B-6	SONGS Liability	$ 0	$ 0	$ 0	231%
B-7	Other Liability	$ 9	$ 48	$ 39	437%
B-8	Broker Fees	$ 283	$ 291	$ 8	3%
	Total	$ 10,956	$ 12,313	$ 1,357	12%

15.10. $887,000 for Corporate Property Insurance Should Not Be Allocated To SDG&E's and SCG's TY 2012

Risk Management' Property Insurance covers Primary Property All-Risk, Excess Property All-Risk, SONGS Property, Crime, Other Property and Broker Fees. The following table shows Risk Management's Property Insurance base year 2009 recorded, TY 2012 forecast and allocation between SDG&E and SCG:

Table 27-3
Risk Management Property Insurance Forecast
(2009-2012 - 2009$ - dollars in thousands)

	Services Provided	2009 Recorded	2009-2012 Incr/(Decr)	2012 Forecast	Utility Allocation	Percentage Allocated
A-1	Primary All-Risk	$ 8,296	$ (1,138)	$ 7,158	$ 2,765	39%
A-2	Excess Property	$ 6,524	$ 488	$	$ 4,474	64%

	All Risk			7,012		
A-3	SONGS Property	$ (360)	$ 1,379	$ 1,020	$ 1,020	100%
A-4	Crime	$ 225	$ (48)	$ 177	$ 147	83%
A-5	Other Property	$ 198	$ 72	$ 270	$ 116	43%
A-6	Broker Fees	$ 240	$ 10	$ 250	$ 208	83%
	Total	$ 15,123	$ 763	$ 15,887	$ 8,729	55%

Sempra forecasts a 5% increase in Property Insurance costs and proposes to assign 55% of the TY 2012 forecast Property Insurance costs to SDG&E and SCG. Out the 55% of Property Insurance costs assigned to both Utilities, SDG&E is allocated 62% and SCG is allocated 38%.

15.10.1. Excess Property All-Risk

Risk Management's Excess Property All-Risk insurance responds to physical damage losses that exceed the Primary property insurance program limits.[1080] Sempra assumed a projected 5% growth in property values per year for 2011-2012 and a 3.5% escalation factor for market pressure.

There is simply no logic in Sempra's claim of 5% growth in property values per year for 2011-2012 in this recessionary climate and Sempra has been unable to justify that claim on further examination.

> Q. What I'm primarily trying to understand is where they are getting the projections of growth in property values for the test year. Can you tell me what particular – where that projection is coming from, what data, what study is informing that?
>
> A. It is not particularly a study. As I responded earlier, this just comes from our conversation with the insurance broker.

[1080] See Exh. SDG&E-24 or SCG-18, p. MBD-11.

(RT, Vol. 22 DeBont, p.2721:18-27.)

DRA fails to understand how Sempra could expect to justify millions of dollars in increases to rates by simply claiming they were told to do so by some non-descript brokers in some vague hearsay discussions that cannot be supported by any objective indicia of proof.

Consistent with the general economic climate, Excess Property All-Risk has shown a downward trend from 2006 through 2010. In Decision (D.) 89-12-057, the Commission stated that if costs have shown a trend in a certain direction over three or more years, the last recorded year is an appropriate base estimate. Costs in this area have trended lower over the past four years; therefore the last recorded year 2010 is the basis used by DRA for forecasting. DRA escalated the 2010 recorded amount of $5.53 million by 1.015%[1081] for 2011 and 2012 and recommends a TY 2012 forecast of $5.742 million before allocations to SDG&E and SCG. The Excess Property All-Risk allocation for SDG&E should be $2.257 million and for SCG is $1.407 million for the TY 2012. This recommendation includes the impact of DRA's audit adjustment[1082] for the multi-factor allocation.

15.10.2. SONGS Nuclear Property Insurance

Nuclear insurance for the San Onofre Nuclear Generating Station (SONGS) is provided by Nuclear Electric Insurance Limited (NEIL). Risk Management is forecasting $964,000 for the TY 2012. Nuclear insurance is 100% allocated to SDG&E.

Costs in this area have shown an upward trend from 2005 to 2009. Therefore the last recorded year is an appropriate basis for estimating the Test-Year forecast. The 2010 recorded costs were $868,000 and DRA escalated it by 1.015%[1083] for 2011 and 2012. DRA recommends a forecast of $901,282 for SONGS Nuclear insurance for SDG&E's

[1081] See Global Insight Power Planner, First Quarter 2010.

[1082] See Exh. 489, Report on the Results of Examination.

[1083] See Global Insight Power Planner, First Quarter 2010.

TY 2012. This recommendation includes the impact of DRA's audit adjustment[1084] for the multi-factor allocation.

15.10.3 Property Insurance Allocation Adjustment

DRA's audit adjustment[1085] for multi-factor allocation has an impact on the property insurance costs. The impact on the multi-factor allocation adjustment results in an additional reduction of $14,000 to costs allocated to SDG&E ($7,000) and SCG ($7,000) for the TY 2012.

15.10.4. Recap of DRA's Recommendations for Property Insurance

The following tables summarize DRA's recommendations for Property Insurance for TY 2012.

Table 27-6
Risk Management Property Insurance Forecast
(2009$ - dollars in thousands)

	Description (a)	DRA Recommends (b)	Risk Management (c)	Amount RM>DRA (d=c-b)	Percentage RM>DRA (e=d/b)
A-1	Primary All-Risk	$ 2,764	$ 2,765	$ 1	0%
A-2	Excess Property All Risk	$ 3,664	$ 4,474	$ 810	22%
A-3	SONGS Property	$ 957	$ 1,020	$ 63	7%
A-4	Crime	$ 141	$ 147	$ 6	4%
A-5	Other Property	$ 116	$ 116	$ 0	0%
A-6	Broker Fees	$ 200	$ 208	$ 7	4%

[1084] See Exh. 489, Report on the Results of Examination.

[1085] See Exh. 489, Report on the Results of Examination.

Total	$ 7,842	$ 8,729	$ 887	11%

Table 27-7
San Diego Gas & Electric Company
Property Insurance Forecast
(2009$ - dollars in thousands)

	Description (a)	DRA Recommends (b)	SDG&E (c)	Amount SDG&E>DRA (d=c-b)	Percentage SDG&E>DRA (e=d/b)
A-1	Primary All-Risk	$ 1,476	$ 1,476	$ 0	0%
A-2	Excess Property All Risk	$ 2,257	$ 2,756	$ 499	22%
A-3	SONGS Property	$ 957	$ 1,020	$ 63	7%
A-4	Crime	$ 70	$ 73	$ 3	5%
A-5	Other Property	$ 1	$ 1	$ 0	7%
A-6	Broker Fees	$ 100	$ 104	$ 4	4%
	Total	$ 4,860	$ 5,430	$ 569	12%

Table 27-8
Southern California Gas Company
Property Insurance Forecast
(2009$ - dollars in thousands)

	Description (a)	DRA Recommends (b)	SCG (c)	Amount SCG>DRA (d=c-b)	Percentage SCG>DRA (e=d/b)
A-1	Primary All-Risk	$ 1,288	$ 1,289	$ 1	0%
A-2	Excess Property All Risk	$ 1,407	$ 1,718	$ 311	22%

A-3	SONGS Property	$	-	$ -	$ -	0%
A-4	Crime	$	71	$ 73	$ 2	3%
A-5	Other Property	$	115	$ 115	$ 0	0%
A-6	Broker Fees	$	101	$ 104	$ 3	3%
	Total	$	2,982	$ 3,299	$ 317	11%

Surety bonds guarantee Sempra's contractual performance obligations to other parties and Sempra is forecasting $1.162 million for TY 2012 before allocations to SDG&E and SCG. The 2010 recorded costs were $1.067 million.

In D.89-12-057, The Commission stated that if costs have shown a trend in a certain direction over three or more years, the last recorded year is an appropriate base estimate. Costs in this area have trended slightly higher over the past three years; therefore the last recorded year 2010 is the bases used by DRA for forecasting. DRA escalated the 2010 recorded amount of $1.067 million by 1.023%[1086] for 2011 and 2012. Using the escalated amount, DRA recommends a TY 2012 forecast of $1.117 million before allocations to SDG&E and SCG. From this amount, $821,000 should be allocated to SDG&E and $247,000 allocated to SCG in TY 2012.

16. SHARED SERVICES AND ASSETS

16.1. Shared Services Policy and Billing

The following summarizes DRA's recommendations for shared services:

- DRA does not take issue with the way shared services costs are being presented in this application;
- DRA does not take issue with SCG's and SDG&E's shared services billing process;

[1086] See Global Insight Power Planner, First Quarter 2010.

- DRA does not take issue with SCG's and SDG&E's allocation of shared services costs;
- DRA recommends lower direct costs compared to SCG's and SDG&E's forecasts;
- DRA recommends lower allocations of overhead costs compared to SCG's and SDG&E's forecasts;
- DRA recommends lower retained and allocations-in costs compared to SCG's and SDG&E's forecasts;
- DRA recommends SCG and SDG&E create and include a shared services module in the RO model for the next GRC filing.[1087]

DRA's forecasts of Shared Services Expenses are compared with SDG&E's and SCG's on Tables 34-1 and 34-2, respectively.[1088]

DRA recommends that SCG and SDG&E make the shared services costs more accessible in the RO model for the next GRC. It is a difficult and time-consuming process for DRA staff to extract the shared services costs from various spreadsheets when adjustments are made in the current model. The RO model would be more efficient and user-friendly if the shared services costs were presented in one module in the same manner as the presentation of Operations and Maintenance expenses or Administrative and General expenses. In this case, once Sempra provided instructions to create tables by extracting data from different modules to match the tables in the SCG and SDG&E shared services exhibits, the tables were created readily and easily. DRA recommends that both SCG and SDG&E create and include a shared services module as part of the RO model in the next GRC filing.[1089]

[1087] Exh. 528, p. 1.

[1088] *Id.*, pp. 2-3.

[1089] *Id.*, p.7.

17. EMPLOYEE ISSUES (GENERIC EMPLOYEE-RELATED ISSUES)

17.1. 2012 Staffing Levels

17.1.1. SoCalGas

17.1.2. SDG&E

17.2. Compensation and Benefits

17.2.1.SoCalGas

17.2.1.1. Compensation

For TY 2012, SCG requests $30.6 million, which is $7.3 million below the 2009 recorded amount of $37.9 million, for the Short-Term Incentive Program.[1090] SCG requests $5.4 million, which is $2.1 million above the 2009 recorded amount of $3.2 million, for the Long-Term Incentive Program.[1091] DRA recommends $7.5 million in ratepayer funding for the SCG Short-Term Incentive Plan. DRA's recommendation is $23.1 million lower than SCG's request of $30.6 million.[1092] DRA recommends no ratepayer funding for the Long-Term Incentive Program for SCG. The allocation of forecast expenses for the Short-Term Incentive Plan for SCG should be 30 percent to ratepayers and 70 percent to shareholders. DRA's recommendation is $5.4 million lower than SCG's request.[1093]

The short-term incentive plan, also known as the Incentive Compensation Plan (ICP), is a program that recognizes and rewards employee contributions to meeting customer service, safety, supplier diversity, financial and project completion goals.[1094] The ICP is based on financial and operating measures, and individual performance.

SCG forecasts an expense amount of $30.6 million for the ICP in TY 2012. This amount is a decrease of $7.3 million compared to the 2009 recorded amount of $37.9 million. Although the forecast is lower than the base year recorded level, SCG states that

---

[1090] Exh. 375, p. DSR-8.

[1091] *Id.*, p. DSR-10.

[1092] Exh. 520, p. 2.

[1093] *Id.*

[1094] Exh. 375 p. DSR-7.

the 2009 amount exceeded its target but that the TY 2012 value is based on target performance.[1095]

SCG's forecast of $30.6 million assumes that each and everyone of its employees, from executives to union employees, gets a bonus. In SCG's TY 2012 forecast, the executives each will receive an average of $170,000 per year in addition to their basic pay. The non-executive employees will each receive an average of $14,000 per year in addition to their basic pay. The union employees will each receive an average of $300 per year in addition to their pay.

The SCG TY 2012 request is determined by forecasting a significant increase in the number of non-executive and union employees, while the number of executives remains the same. SCG forecasts an increase of 16 percent in the number of non-executive employees, and 6 percent in the number of union employees. Overall, SCG's 2012 forecast assumes a total employee increase of 8.4 percent above the 2009 recorded level.

This level of aggressive growth in the employee forecast has not been seen in recent years. The last significant growth during the 2005-2010 period was in 2006, when the company's total employee count increased by 4 percent. Since then, there has been no growth in the total number of employees from year to year. In fact, the number of employees declined every year from 2006 to 2010.

DRA is not convinced that SCG will need to hire the high number of employees and compensate these employees the amount identified in the 2012 ICP forecast.[1096]

DRA does not agree with the level of employees to be compensated as identified by SCG for the Short-Term Incentive Plan. Compared to SCG's estimates, DRA forecasts a lower level of FTEs based on a lower level of work activities and minimal customer growth.[1097] SCG's actual payout is significantly above market and is out of

---

[1095] Exh. 375, SCG-19, p. DSR-8.

[1096] Exh. 520, pp. 5-6.

[1097] *See* Exs. 501 & 502.

range for various employee categories, in accord with D.95-12-055.[1098] SCG has been exceeding its target payouts for the past 6 years.[1099]

Based on DRA's review of SCG's testimony, workpapers, responses to data requests and the results of the Towers Study, DRA recommends $26.4 million as an initial starting point to develop the forecast for the ICP program for TY 2012.[1100] The target performance level has been relatively stable ranging from $20.3 million to $26.0 million between 2005 and 2009, and the 2010 target compensation amount of $26.4 million is comparable to historical target levels. The 2005-2009 average for target compensation is $23.2 million.[1101]

DRA recommends a different funding approach compared to SCG's request for TY 2012. SCG requests 100 percent ratepayer funding for its ICP program. DRA takes issue with SCG's request and recommends that the ICP funding should, instead, be allocated 30 percent to ratepayers and 70 percent to shareholders for several reasons. The ICP is an unresolved issue for SCG.[1102] ICP funding should be shared because it benefits both ratepayers and shareholders. Shareholders should fund the ICP for cost control purposes.

In the adopted settlement agreement for SCG for the TY 2008 revenue requirement, SCG agreed to 50 percent funding of the requested ICP amount.[1103] In other words, ratepayers would only be responsible for 50 percent of the expenses for the ICP program.

In D.00-02-046, the Commission stated the following with regard to PG&E's performance incentive plan:

[1098] D.95-12-055, 1995 Cal. PUC Lexis 965, 63 CPUC.2d 570.

[1099] Exh. 520, p. 8

[1100] *Id.*

[1101] Exh. 375, Appendix I, Southern California Gas Company—2012 General Rate Case Total Compensation Study, p. 3.

[1102] *See* D.09-06-052, mimeo, p. 52.

[1103] D.08-07-046, Appendix 2, p. 8.

> We find no compelling evidence for a change in our current practice of allowing 50% recovery of targeted incentives from ratepayers. As we have held, shareholders and ratepayers alike benefit from the good performance that incentive programs such as PIP [Performance Incentive Plan] seek to encourage. We continue to believe that equal sharing of cost is fair, and that it provides appropriate incentives to the utility to perform in ways that benefit ratepayers and shareholders alike. Moreover, since the actual payout is less than the target payout in ay year when employees do not perform well enough to earn targeted payouts, there is an unacceptable risk of over collection of costs in the test year if we allow the inclusion of 100% of targeted payout in rates. Continuing our policy of allowing 50% of targeted payouts mitigates this concern.[1104]

In D.93-03-025, the Commission also ruled that the sharing of incentive expenses between ratepayers and shareholders is reasonable. The Commission stated:

> Regarding executive short-term incentives… We find including 50% of these incentives in rates is reasonable…As noted above, reducing the amount of incentive for which ratepayers bear the cost is reasonable in light of current economic circumstances…[1105]

In the recently issued decision on the PG&E TY 2011 revenue requirement, D.11-05-018, the Commission adopted the settlement agreement between PG&E and DRA reducing ratepayer funding for PG&E employees' short-term incentive plan by more than 40 percent.[1106]

In addition to DRA's recommendation that the expenses for the short-term incentive plan be shared between ratepayers and shareholders, DRA recommends no ratepayer funding of incentives for the eight executives, and splitting the remaining expenses 30/70. Based on this split, DRA recommends ratepayers' share for the ICP should be $7.5 million for TY 2012. This number is derived by subtracting the SCG

[1104] D.00-02-046, mimeo, p. 259.

[1105] D.09-03-025, p. 135.

[1106] D.11-05-018, Attachment 1, Settlement Agreement.

executive compensation amount of $1.3 million from the $26.4 million ICP starting point, (as discussed above), and multiplying the $25.1 million by 30 percent.[1107]

Ratepayers should not be responsible for $1.3 million in compensation for SCG's eight executives. The eight executives' base salaries already reflect a high level of compensation in addition to other employee benefits received from ratepayer funding such as pensions, PBOPs, medical, dental, etc., and numerous fringe benefits that executives receive.

Of the remaining $25.1 million, shareholders should pay for 70 percent and ratepayers should pay for 30 percent of the expenses because shareholders benefit from at least 70 percent of the incentive-based goals. Shareholders should pay for the 35 percent of the ICP expenses that are classified Financial Measures. Ratepayers and shareholders should share equally the 15 percent classified as Operating Measures. The shareholder/ratepayer ratio for the remaining 50 percent that makes up the Individual Performance Measure should be 55/45.[1108]

SCG requests $5.4 million in expenses for its Long-Term Incentive Plan. This amount is an increase of $2.1 million above the 2009 amount of $3.2 million.[1109]

DRA opposes ratepayer funding for SCG's Long-Term Incentive Plan. Costs for the Long-Term Incentive Plan have been excluded from rates in the past. Given the FAS123R accounting rule changes in 2006, which require expensing of long-term incentive costs, SCG proposes to include the $5.4 million in rates. Before the accounting rule changes, the use of long-term incentives were never funded by ratepayers but resulted in dilution of stockholder value. After the accounting changes, the financial effect is the same – dilution of stockholder value. The fact that costs are now expensed does not result in any change to SCG's financial position as a company. The prior treatment of stock options resulted in a dilution of stock price and shareholder value and DRA's proposal of zero ratepayer funding of SCG long-term incentive requests will

[1107] Exh. 520, p. 11.

[1108] *Id.*, pp. 12-13.

[1109] Exh. 375, p. DSR-10.

result in a similar impact. Therefore, shareholders are not treated differently relative to the ratemaking treatment prior to the accounting ruling changes.

DRA recommends rejecting SCG's proposal for ratepayer funding of long-term incentives because it would saddle ratepayers with a new expense while producing no commensurate value. The long-term incentives, which are comprised of stock options, are clearly shareholder-related expenses and are not appropriate ratepayer expenses. SCG has not justified why these incentive costs should now be charged to ratepayers.[1110] Indeed, in Decision D.09-03-025, the Commission rejected SCE's request to include $23.304 million in long-term incentives in its TY 2009 forecast.[1111]

17.2.1.2. Benefits

17.2.2. SDG&E

17.2.2.1. Compensation,

DRA recommends $12.6 million in ratepayer funding for the SDG&E Short-Term Incentive Plan. DRA's recommendation is $33 million lower than SDG&E's request of $45.6 million. The allocation of forecast expenses for the Short-Term Incentive Plan for SDG&E should be 30 percent to ratepayers and 70 percent to shareholders. . DRA recommends no ratepayer funding for the Long-Term Incentive Program for SCG. DRA's recommendation is $10.1 million lower than SDG&E's request.[1112]

SDG&E's forecast of $45.6 million assumes that 14 executives and 3,771 non-executives get a bonus.[1113] In SDG&E's TY 2012 forecast, each executive will receive an average of $144,293 per year in addition to their basic pay.[1114] The non-executive employees will each receive an average of $12,443 per year in addition to their basic pay.[1115] SDG&E's TY 2012 forecast is based on an increase in the number of

---

[1110] Exh. 520, p. 15.

[1111] D.09-03-025, p. 134.

[1112] Exh. 520, p. 2.

[1113] Exh. 373, p. 12.

[1114] *Id.* $140,951.86*2.37% (inflation)=$144,293.

[1115] *Id*. $12,154.81*2.37% (inflation)=$12,443.

employees, the average cost per employee by class, either as executive or non-executive, and an applied inflation rate. SDG&E's actual payout, however, is significantly above market and is out of range for various employee categories, in accordance with D.95-12-055. SDG&E has been exceeding its target payouts for the past 5 years.

For the TY 2012 forecast, DRA evaluated the target and actual ICP amounts for each year from 2005-2010. The target performance level for 2005-2010 ranges between $35 million and $44 million, averaging $40.2 million per year. The 2010 target ICP amount of $44 million is comparable to the 6-year average target from 2005-2010.

Based on DRA's review of SDG&E's testimony, workpapers, responses to DRA's data requests and the results of the Towers Study, DRA recommends using the SDG&E 2010 target ICP amount of $44 million as an initial starting point to develop the forecast for the TY 2012 ICP expense.[1116]

DRA recommends that SDG&E shareholders pay 100 percent of the $1.9 million in ICP expenses for the 14 executives and 70 percent of the remaining ICP expenses. Ratepayers should be responsible for the remaining 30 percent of the ICP expenses. DRA's recommendations for the SDG&E ICP are based on the same reasons discussed above in Section 17.2.1.1. for SCG. Based on this proposal, DRA's recommended ratepayers share for the ICP is $12.6 million for TY 2012. This number is derived by subtracting the SCG executive compensation amount of $1.9 million from the $44 million ICP starting point, as discussed above, and multiplying the $42.1 million by 30 percent.[1117]

SDG&E requests $10.1 million in expenses for its Long-Term Incentive Plan. This amount is an increase of $3.2 million above the 2009 amount of $6.9 million.[1118] DRA recommends no funding for SDG&E's long-term incentive for the same reasons discussed above in Section 17.2.1.1 for SCG.

[1116] Exh. 520, p. 20.

[1117] *Id.*, p. 21.

[1118] Exh. 372, p. DSR-9.

17.2.2.2. Benefits

17.3. Diversity

17.3.1. SoCalGas

17.3.2. SDG&E

17.4. Pensions

17.4.1. SDG&E and SoCalGas

SDG&E requests $72.387 million in pensions and PBOP expense[1119] for the TY, while the corresponding DRA estimate is $72.387 million. SCG requests $101.047 million in pensions and PBOP expense[1120] for the TY, while the corresponding DRA estimate is $101.047 million. The following summarizes DRA's recommendations:

- Use of the 2009 actual base year pension expense for each company as the TY pension expense.
- Use of the 2009 actual base year PBOP expense for each company as the TY PBOP expense.
- Continuation of the current balancing account treatment for pension expense.
- Change the balancing account treatment for PBOP expense from two-way to one-way.

Both companies employ an actuarial consultant, Towers Watson, to calculate their required annual contributions. The 2012 required contributions were calculated in accordance with federal law including the Employee Retirement Income Security Act of 1974 (ERISA), the Pension Protection Act of 2006 (PPA) and the Worker, Retiree and Employer Recovery Act of 2008 (WRERA). The modifications allowed under WRERA reduced SDG&E's 2009 minimum contribution by $8.0 million[1121] and SCG's 2009 minimum contribution by $18.5 million.[1122] Both companies have a retirement-funding policy to contribute the minimum amount required under federal law.[1123] DRA supports

[1119] Exh. 405 (SDG&E-26-WP) p. 1 and p. 15.

[1120] Exh. 107 (SCG-20-WP) p. 1 and p. 14.

[1121] Exh. 404 (SDG&E-26) p. DS-4.

[1122] Exh. 106 (SCG-20) p. DS-4.

[1123] Exh. 404 (SDG&E-26) p. DS-3 and Exh. SCG-20, p. DS-3.

the policy of utilities contributing the legally-required minimum to their pension plans, and the Commission has endorsed this policy in prior GRCs and accepted this policy when it has been implemented in settlements.[1124]

Both companies have a two-way pension balancing account (PBA) for pension costs, which serves to protect both ratepayers and shareholders because the legally-required contribution can fluctuate over time based on many factors; higher than expected earnings might lead to no pension contribution being required, and conversely, lower than expected earnings might require a higher minimum contribution than ratepayers had funded. The PBAs were originally designed to be trued-up in conjunction with the GRC cycle[1125] but in 2009 the Commission approved a petition to modify the mechanism for recovery of pension expenses, setting in place an annual true-up via an Advice Letter process.[1126] DRA recommends the continuation of the PBAs for both SDG&E and SCG.

17.5. PBOPs

17.5.1. SDG&E and SoCalGas

Both companies offer a variety of Post-retirement Benefits Other than Pensions (PBOP) to retirees, including medical, dental, and vision coverage and life insurance. Retiree contributions depend on the retiree's date of retirement, age, years of service, chosen plans, and whether they were a union or non-union employee upon retirement.[1127] The forecast expenses are the result of valuations prepared by Towers Watson, the same actuarial consulting firm that prepared the estimates of pension expenses, and are determined in accordance with Financial Accounting Standard (FAS) 715-60, which was formerly known as FAS 106.[1128]

Both companies have a two-way PBOP balancing account (PBOPBA) for PBOP costs, which serves to protect both ratepayers and shareholders because the legally-

[1124] D.06-05-016, p.173, D.04-05-055, p. 87, and D.04-12-015, Appendix H, p. 10.

[1125] Exh. 404 (SDG&E-26) p. DS-13 and Exh. SCG-20, p. DS-13.

[1126] D.09-09-011.

[1127] Exh. 404 (SDG&E-26) p. DS-14 and Exh. SCG-20, p. DS-14.

[1128] Exh. 404 (SDG&E-26) p. DS-15 and Exh. SCG-20, p. DS-15.

required contribution can fluctuate over time based on factors not subject to management control; higher than expected earnings might lead to no contribution being required, and conversely, lower than expected earnings might require a higher minimum contribution than ratepayers had funded. However, the cost of the risk to shareholders is already included in the opportunity to earn a rate of return, and DRA therefore proposes a change to one-way balancing account treatment. The Companies' claim that the Commission has "consistently approved the use of a two-way balancing account mechanism" is incorrect; PG&E has a one-way balancing account for PBOP expenses.[1129] The PBOPBAs have historically been trued-up in conjunction with the GRC cycle but in 2009 the Commission approved a petition to modify the mechanism for recovery of PBOP expenses, setting in place an annual true-up process.[1130] DRA recommends the continuation of the PBOPBAs for both SDG&E and SCG but with one-way treatment rather than the current two-way treatment.

18. RATEBASE

Rate Base is the depreciated asset value of the Utilities' net investments used to provide service to ratepayers. The major components of Rate Base are Fixed Capital, Working Capital, Other Deductions, and Deductions for Reserves. The Utilities are allowed to earn a return on the sum of these Rate Base components. All Rate Base components are developed on a weighted average basis. DRA's Rate Base estimate reflects adjustments made by several different witnesses in this proceeding. These adjustments are discussed in the various sections where they were originally analyzed and developed for Test Year (TY) 2012.

18.1. Common Issues

Items in the Sections of this Brief on Fixed Capital, Accumulated Depreciation Reserve and Accumulated Deferred Taxes contain discussion of adjustments that impacted ratebase.

[1129] D.11-05-018, attachment A, p. 1-12.

[1130] D.09-09-011.

18.2. Working Cash

DRA has no objection to Sempra's recommendation for working cash in this test year 2012 rate case. Working cash is to compensate for providing funds that are committed to the business for paying operating expenses in advance of receipt of the offsetting revenues from the Utilities' customers. SDG&E's working cash study resulted in test year 2012 working cash requirement of $120.3 million.[1131] SCG's working cash resulted in test year 2012 working cash requirement of $34.3 million.[1132] However, SDG&E and SCG have both elected to request zero dollars for 2012 Test Year. DRA takes no exception.

18.3. SoCalGas Issues

Except as impacted by adjustments to other sections of DRA's brief mentioned above, DRA does not oppose SoCalGas' treatment of ratebase.

18.4. SDG&E Issues

DRA recommends that $358,000 of fuel in storage should not be included in Working Capital for test year 2012. SDG&E included $358,000 of Fuel in Storage in its Ratebase calculation for TY 2012.[1133] This Fuel in Storage consists of gas line pack, and its value is calculated based on line pack volumes in therms and the weighted average cost of gas. DRA recommends that gas line pack be removed from ratebase. Consistent with the recovery of fuel related items; carrying costs should be at the short-term rate and be addressed in SDG&E's Biennial Cost Allocation Proceeding ("BCAP"). Both SoCalGas in this proceeding and PG&E in its TY 2011 GRC application[1134] did not include fuel in storage (gas line pack) in rate base calculations. This recommended removal is also consistent with DRA's recommendation adopted by the Commission in the Southern California Edison Company (SCE) TY 2006 GRC application[1135]. The

---

[1131] See Exh. SDG&E-35, page JSL-1.

[1132] See Exh. SCG-29, page JSL-1.

[1133] See Exh. SDG&E-32, page GGY-1.

[1134] A. 09-12-020

[1135] A. 04-12-014

Commission in its D.96-01-011 addressed the proper rate treatment of fuel inventory stating: "We believe it more efficient to include determinations of reasonableness of fuel inventory levels in the ECAC proceedings."[1136] DRA therefore removes Fuel in Storage in the amount of $358,000 from its calculation of SDG&E's 2012 Rate Base. DRA recommends $3.081 million for Working Capital for SDG&E's test year 2012

19. DEPRECIATION

Utilities recover the original fixed costs, less the estimated net salvage value, of capital assets using an equitable plan of charges that attempts to capture the expected loss in value of the assets over their useful lives. These charges are recorded as depreciation and recovered through operating expenses over the period of the useful lives of the capital assets[1137]. Sempra's depreciation expense for SDG&E and SoCalGas test-year 2012 rate case are projected to increase by $68 million and $79 million dollars respectively. DRA reviewed the depreciation expenses along with amortization expenses of Electric Production Plant, Electric Distribution Plant, Gas Plant and related Common Plant. On the basis of this review, DRA found as follows:

1) Sempra's net salvage ratios overstates the net salvage rates for certain accounts and should be adjusted;
2) Sempra does not provide any retirement data associated with its third party reimbursements (TPRs) and does not use an accounting system that makes such data available;
3) The difference of about $133 million between Sempra's Contributions in Aid of Construction (CIAC) money received and spent is a discrepancy that should be corrected as an offset in rate base.

Sempra calculated its depreciation reserve balances for test-year 2012 in the Result of Operations (RO) model using new parameters for net salvage rate and service lives. The depreciation reserve balance was also based on net plant additions. DRA does

[1136] 64 CPUC 2nd, p. 359.

[1137] 18 Code of Federal Regulations (CFR), Part 101:

not oppose Sempra's proposed assets service lives, but disagrees with the proposed changes to the net salvage rates[1138].

19.1. Common Issues

All of DRA's recommendations regarding depreciation are proposed for both of Sempra's regulated utilities although the net salvage values were applied to two accounts under SDG&E and one account under SoCalGas the basic principle underlying the recommendations and the reasons behind them are the same for both utilities.

19.1.1. The Commission Should Reject Sempra's Proposed Net Salvage Rates for SDG&E's Underground Electric Conduit and for Both of Sempra's Regulated Utilities' Gas Mains

DRA proposes to adjust the net salvage accrual value stated for SDG&E underground conduit (Account No. 366) and the accrual amounts stated for SDG&E and SoCalGas gas distribution mains (Accounts No. 376) to reflect the contributions made by customers in aid of construction and other third party reimbursements (TPR[1139]) associated with retirements.

Net salvage is the difference between the amount realized when a capital asset is retired (gross salvage) less the cost of removing the asset. When the cost of removing the asset is more than the gross salvage value of the asset, net salvage is a negative amount. Sempra claims that it based the estimated net salvage values used in its study on analysis of historical data over a 15-year period of service lives of utility assets. However, when DRA compared the accrual of net salvage values authorized in rates with the actual net salvage values spent by SDG&E and SoCalGas during a six-year period from 2005 through 2010, DRA found Sempra's net salvage values to be overstated.

[1138] DRA's non-opposition for any of Sempra's proposed depreciation parameters should not be construed as support for that parameter. DRA understands that UCAN and TURN have challenged a number of these parameters, and has not undertaken further review to determine the merit of those challenges.

[1139] The phrase "contribution in aid of construction" and "third party reimbursements" are generally understood to mean the same thing in rate case accounting, but DRA used "third party reimbursements" in its report because it more accurately illustrated the argument that the varied payments that fit within this category such as insurance payments advances paid by customers in aid of construction figure into the capital forecast of plant retirements and go to reduce rate base.

> SDG&E collected approximately $406 million in rates from customers for net salvage (cost of removal) and actually spent approximately $190 million for cost of removal during a six year period. This represents about 47% of the amount collected that was actually spent while the remaining 53% represents the increase in the accrued amounts of negative net salvage to pre-fund future costs of removal.
>
> SCG collected approximately $432 million in rates through the accrual of negative net salvage during the same five-year period, but actually spent approximately $85 million for costs of removal during that time. This represents about 20% of the amount collected in rates that was actually spent while the remaining 80% represents the increase to the negative net salvage accrual to pre-fund future cost of removal.

(Exh. 471, pp. 6-7)

DRA believes much of the discrepancy between the recorded net salvage values and the forecasted and authorized values lies in Sempra's irregular accounting of its TPRs[1140]. Preliminarily, it should be noted that FERC's definition of depreciation in 18 Code of Federal Regulations (CFR) Part 101 exempts any loss covered by insurance.

> Depreciation, as applied to depreciable electric plant, means the loss of service value not restored by current maintenance, incurred in connection with the consumption or prospective retirement of electric plant in the course of service from causes which are known to be in current operation and against which the utility is not protected by insurance.

(Exh. 471, p.4.)

DRA maintains that TPRs such as insurance and other contributions in aid of construction for replacement of salvaged assets must figure in the calculation of depreciation to reduce the net salvage value but Sempra has not accounted for its TPRs and/ CIACs in any manner that can be examined or evaluated in this rate case. Consequently, DRA recommends adjusting Sempra's proposed accrual of net salvage rates for its Underground Conduit from $40 million dollars to $0 and for SDG&E and

[1140] Exh. 471, p.9

SoCalGas's gas mains from $45 million dollars and $55 million dollars respectively to $0 for each utility.

Sempra's response to DRA's recommendation for the adjustment of its Underground Conduit and Gas Main salvage values was primarily to mock the manner in which DRA justified the adjustments in its report[1141]. Therefore, it is important to restate those justifications just as they were presented in the report:

> 1. Account 366 – Underground Conduit
>
> This account includes installed underground conduit and tunnels used for housing distribution cables and wires. During the period from 2000 to 2009 this account received approximately $181 million in TPRs, according to Sempra's supplemental response, DRA-Informal-SDG&E-013-MRK, send on July 1. The total amount of plant retired in the same period for this account (not restricted to TPRs) was approximately $57 million and the corresponding cost of removal was approximately $28 million. The two amounts total to less than one half of the amount received in TPRs, yet none of the money received for TPRs was assigned to gross salvage. Despite the lack of account specific data records by SDG&E regarding cost of removal and retirements for TPRs, the contrast between the size of the TPRs for this account versus the total amount of plant retired and associated cost of removal, enables DRA to be confident that the amount that should be assigned to salvage for this account should be larger than the total cost of removal thus yielding a positive net salvage ratio. DRA therefore proposes a net salvage rate of 0%, which it considers conservative.
>
> B. SDG&E GAS DISTRIBUTION
>
> 1. [Account] 376 – Gas Mains
>
> …During the period from 2000 to 2009 this account received approximately $17 million in TPRs, according to Sempra's supplemental response, DRA-Informal-SDG&E-013-MRK, sent

[1141] DRA contends that SCG has improperly accounted for CIAC, which it refers to as third party reimbursements ("TPRs"), and selects a large account (Gas Mains) and zeros out its FNS rate. A 0% FNS rate for this size account results in a significant reduction to depreciation expense, one which DRA represents is reasonable, if not conservative, reduction to correct for "bad recordkeeping" of TPRs

(Exh. 236, BW-3.)

It is rather obvious from the justifications that DRA has not chosen these accounts to zero them out.

> on July 1, 2011. The total amount of plant retired in the same period for this account (not restricted to TPRs) was approximately $4.5 million and the corresponding cost of removal was approximately $3.5 million. The two amounts total to less than one half of the amount received in TPRs, yet none of the money received for TPRs was assigned to gross salvage. Despite the lack of account specific data recocrds by SDG&E …
>
> C. SCG GAS DISTRIBUTION
>
> 1. [Account] 376 – Gas Mains
>
> The total amount of plant retired in 2000 to 2010 for this account (not restricted to TPRs) was approximately $45 million and the corresponding cost of removal was approximately $32 million. According to Sempra's supplemental response, DRA-SCG-Informal-09-MRK, sent on July 1, 2011, SCG does not have information regaridn how money for TPRs are distributed to plant accounts. Nor does SCG …have any information regarding cost of removal and retirements for TPRs. SCG should not be rewarded for is bad record keeping. …DRA therefore proposes a net salvage rate of 0% [for SCG gas mains], which it considers conservative.

(Exh. 471, pp. 9-12

This Commission's policy has consistently been that where a utility in a rate case fails to track costs or provide a justifiable record of such data to support its claims, it must be denied such claim[1142]. Thus, in stating that "SCG should not be rewarded for its bad record keeping" DRA is simply noting that Sempra has the burden of proof in this proceeding and where it fails to provide records to support its claim or feigns ignorance of such records, it must be denied the claim.

Sempra's responds in part to DRA's proposed adjustments to the net salvage values by arguing that the reduction of those values for underground conduit and gas mains to zero violates the principles of intergenerational equity.

> An appropriate FNS rate allows the utility to accrue an amount for future cost of removal in an equitable manner. The generation of customers for whom a particular asset was used to provide service should be the generation from whom the costs of

[1142] D.09-03-025, p.315

> removing that asset is collected. This is the principle of intergenerational equity, and the manner in which SCG's [and SDG&E's] depreciation study, under guidelines of Standard Practice U-4, collects future removal costs through a FNS rate, adheres to intergenerational equity.

(Exh. 236, BW-4:15-20)

This argument merely states or restates the principle of intergenerational equity without explaining how DRA's proposal violates that principle by zeroing out an amount that should have been cancelled out with TPRs. In fact, the argument makes the case for DRA's proposal. On cross-examination, Sempra's witness who provided the testimony on intergenerational equity admitted that if DRA's concerns are left unchecked, Sempra's proposal would also violate intergenerational equity.

> Q. [Referring to page 6 of Exhibit 240, line 5] My question to you though is, is that your understanding of the recommendation that DRA is making in this proceeding? Is it your understanding that DRA is recommending accrual – deferral of accruals until after asset retirement?
>
> A. My understanding is if you discount the rate to what it really should be, you're going to affect the future ratepayer.
>
> Q. Well, let me just rephrase it. What is your understanding of DRA's recommendation in its testimony that led you to this –
>
> A. This statement is making a statement just saying that if you don't capture enough, you can affect the future ratepayer.
>
> Q. And –
>
> A. That's what this statement is saying.
> Q. Isn't it true that if you capture too much, you affect the current ratepayer?
>
> A. It goes both ways, that's correct. And that's why we use the 15-year historical study.

> Q. … DRA's stating that SDG&E's capturing too much and therefore impacting the current ratepayer in an unfair manner? You do understand that's DRA's testimony, do you not?
>
> A. That's what they're saying, that's correct.

(RT, Vol. 23, pp. 2942:17 – 2943:20.)

Sempra simply cannot make the case that DRA has deferred the cost of removal of presents assets upon retirement, until it accounts for funds received from present generation that might be used to offset those removal costs. Neither rhetoric nor semantics can substitute for the missing substance in Sempra's net salvage parameters.

Sempra also appears to argue that "DRA's auditors in reviewing the utilities' plant in service stated that based upon the limited review procedures performed DRA did not discover any misstatements of the utilities' weighted average, recorded accumulated depreciation and amortization for 2009"[1143]. However, this argument further illustrates the absence of data to support Sempra's proposed net salvage values for the accounts adjusted by DRA. The limited procedures DRA auditors employed in conducting the audit of the Sempra utilities could not have accounted for the absence of all data necessary to support each section of the application. Rather, it was intended to ensure that the data Sempra did rely on was appropriate and consistent with the Commission's requirements. As the auditors noted, the only section they selected for an in-depth review was Corporate Center Shared Costs because they were informed that the Commission has not conducted and independent audit of the utilities since they were merged under Sempra.

19.1.2. The Commission Should Direct Sempra To Offset Ratebase With The Difference of Approximately $133 million, Between Contributions in Aid of Construction (CIAC) Money Received and Spent

DRA recommends that the Commission direct Sempra to deduct a total of $133 million dollars from rate base to account for TPRs received in the period from 2000 to

[1143] RT, Vol. 32, p. 4286:19-27.

2010, which Sempra has still not spent or assigned to accumulated depreciation[1144]. Further, DRA recommends that Sempra also be directed to prospectively change its ratemaking accounting for TPRs to transparently reflect their impact in reducing gross salvage values.

SDG&E received $590 million dollars for TPRs between 2000 and 2010, out of which $495 million dollars were assigned to various plant categories, leaving a difference of $125 million dollars[1145]. SoCalGas also admits a net difference of $10 million dollars between TPRs received and spent[1146]. Sempra claims that this sum of $133 million represents amounts that will be used to offset future construction and removal costs but until they are so used, but that they should have no effect on rate base.

> The accounting treatment of offsetting CIAC payments against actual project costs treats CIAC as an amount that does not increase or decrease the Applicants' rate base.

(Exh. 361, DM-2:22 – DM3:2.)

Sempra's characterization of CIAC payments as having no impact on rate base is at variance with how Sempra has treated CIAC payments in previous rate cases. In the 2004 rate case, Sempra had this to say regarding SoCalGas CIAC: "Payments from the customer are recorded as contributions in aid of construction and rate base is adjusted accordingly."[1147]

Further, regarding SDG&E, Sempra stated:

> All customer advances for construction (CAC), which are subject to refund, are put in a liability account and treated as a reduction to rate base. These advances are not shown as a decrease to the capital budget,… but are captured in the "working cash" provision of the COS. Only non-refundable customer payments (CIAC) are treated as a reduction to capital budget expenditures.

[1144] Exh. 471, p.12; Exh. 364, 368

[1145] Exh. 364

[1146] Exh. 368

[1147] http://www2.sdge.com/tariff/COS/sdge/pdf/OPENING_BRIEF.pdf (on page 38)

(Id., p.74……)

However, in this case Sempra is conveniently vague about the detailed manner in which these customer advances should be treated for rate base and depreciation purposes. Sempra would only say that the advances are required to be charged to the construction cost account, but do not state whether in doing so they effectively reduce the capital budget.

> In the example provided earlier, if during the course of a construction project, SCG removes its existing pipe, which has a gross salvage value of $100, SCG will record the $100 to a plant's depreciation reserve. Under DRA's proposal, they would also have the $10,000 CIAC payment posted to depreciation reserve instead of offsetting the construction cost in the account used, which Applicants represent as inappropriate because it would understate the cost of removal.

(Exh. 361, DM-8:16-21.)

In the above example, if as Sempra has stated the $10,000 is charged to construction costs, does it then reduce the capital cost of the project that would be reduced against the useful life of the project in a depreciation study? Appears from Sempra's 2004 rate case testimony that Sempra duly admits that such an amount should reduce the capital budget, hence the capital cost for depreciation purposes, but in this rate case Sempra leaves the question unanswered, even while claiming that the sum is applicable to the construction cost. It should be noted that the net effect of what DRA is proposing and what Sempra has stated in the example above is the same if the $10,000 amount is used to reduce the original fixed capital cost of the project. As depreciation is the original fixed capital cost less the net salvage value of the project, in DRA's example the $10,000 would go to increase the salvage component while in Sempra example it would go to reduce the capital cost component if it is so credited as Sempra has suggested.

The appropriate treatment of ratepayer funds contributed to utility construction costs and held in an account to which utilities have interest-free access as a source of

funds, is that the customer advances for construction are a proper offset to rate base[1148]. The Commission should order SEMPRA to explain what has happened to the un-refunded CAC payments in this rate case and to provide an account of the amount of un-refunded CAC payments which SEMPRA is still holding, and has neither converted CIAC nor subtracted from rate base (in essence being a permanent source of interest free funds).

It is and has been standard practice that the remaining CAC balance (not refunded after ten years) is converted to CIAC and subtracted from corresponding plant accounts. Sempra has followed this standard practice in past rate cases, but not in the present rate case. So what has Sempra done in this test-year 2012 rate case? The testimony of Sempra Witness Dais on cross-examination illustrates:

> Q And you mention that the total receipts for CIAC payments when you receive them are put in a CWIP account; is that correct?
>
> A That's correct.
>
> Q And is that recorded in any FERC authorized account number, the CWIP?
>
> A CWIP would be FERC 107.
>
> Q That figure, does it earn interest before it is used for any particular construction project in that account?
>
> A I'm not sure I understand the question. CWIP accounts do not earn –
>
> Q Let me rephrase it. In managing the -- we established earlier that the half a billion dollars in CIAC payments was actual money and I was trying to understand what you do with it, and you say you record it in the CWIP. In wherever you put it, does it earn interest while it is waiting to be applied to or paid for stuff, construction projects?

[1148] See Southern California Edison's Results of Operations for Test-Year 2012 General Rate Case, SCE-10, Vol. 2 (Plant, Taxes, Depreciation Expense and Reserve, and Rate Base), p.47, line 8-19.

A I am not familiar with what SDG&E does with our cash on hand.

(RT. Vol. 27, p. 3669:1-25)

When CIAC is put into a CWIP account and the cost of construction exceeds the CIAC contribution, it is presumed that the utility borrows funds to make up the difference between the CIAC and the cost of CWIP. The construction costs in excess of CIAC payments accrue interests at a rate determined by a FERC fomula for Allowance for Funds Used During Construction (AFUDC). Sempra follows this practice. Thus AFDUC is essentially interest on the funds that Sempra is presumed to have borrowed to make up for the excess of costs above what was contributed by third parties. Ratepayers pay this AFUDC in rates, so it is only fair that ratepayers should also be compensated for interest accrued when the reverse is true, i. e. when costs are less than the funds contributed by third parties. However, Sempra's testimony in this proceeding is that it would not do so[1149].

Sempra argues that the FERC Uniform System of Accounts requires CIAC to be booked concurrently with accumulated gross of plant, but Sempra does not do so and has no record showing that it has ever done so. Instead, Sempra takes the CIAC payments out of CWIP at the last possible time when the project is finally over. What this does is essentially allow Sempra to collect ratepayer funds as CIAC and then put the onus on ratepayers to ensure that the funds are properly booked to the right plant assets, while they are held as an interest free source of funds for periods of up to ten years. This amount as the record in this case shows can be as much as half-a-billion dollars over a short period of time. Meanwhile the ratepayers would be paying a return on a rate base that consists of non-investor supplied plant. DRA recommends the only rational and fair alternative: Use the CIAC payments as a reduction to plant when they come in. When the costs of building the plant come straggling in, they will automatically match the corresponding amounts of CIAC payments.

[1149] Exh. 361, DM-13, lines 1-2

Indeed, if the commission allows a delay in booking CIAC against plant in service, the Commission is relying on SEMPRA to adjust its rate base properly. If SEMPRA does not make the adjustment, then it would fall on staff to catch the error.

19.2. SoCalGas Issues

If the Commission adopts DRA's recommendation on Depreciation, the Commission would make the following changes to SoCalGas' depreciation proposals in this rate case:

1) Reject SoCalGas' proposed net salvage values gas mains (Account 376) in the amount of $55 million dollars for the reasons discussed above;
2) Direct SoCalGas to prospectively change its accounting system regarding third party reimbursements so that retirement data associated with TPRs is available and all TPRs less expenses are assigned to gross salvage.

19.3. SDG&E Issues

If the Commission adopts DRA's recommendation on Depreciation, the Commission would make the following changes to SDG&E's depreciation proposals in this rate case:

1) Reject SDG&E's proposed net salvage values for (Account 366) underground conduit and (Account 376) gas mains in the amounts of $40 million and $45 million dollars respectively for the reasons discussed above.
2) Direct SDG&E to offset rate base with the amount of $133 million dollars received in TPRs but not yet spent or assigned to accumulated depreciation reserve.
3) Direct SDG&E to prospectively change its accounting system regarding third party reimbursements so that retirement data associated with TPRs is available and all TPRs less expenses are assigned to gross salvage.

SDG&E would argue that even if these recommendations are adopted, the amount of $133 million exceeds the TPRs received but not spent or assigned to depreciation

reserve, and that DRA has misconstrued the true nature of TPRs, which according to Sempra are actually CIAC payments. However, on cross-examination, Sempra's witness admitted that "CIAC payments are a form of third party reimbursements"[1150] just as DRA had described them[1151] and respecting the amount of $133 million failed to identify and exclude the projects that have not ended for purposes of allocating part of this sum.

20. TAXES

The most significant difference between DRA's Report[1152] and Sempra's testimony on Taxes is in the treatment of the 2010 Tax Relief Act, which in relevant part extended the period that taxpayers may elect to claim bonus tax depreciation on certain categories of qualified capital additions[1153]. Sempra explains that one impact of bonus tax depreciation allowances is that it results in tax deductions that exceed taxable income in some years thereby producing a net operating loss (NOL), and thus Sempra proposes to carry back the NOLs for two years and then carry the balance forward to offset taxable income for several years after the test year[1154]. DRA maintains that the carry back and carry forward provisions in the IRC are excluded from test year ratemaking determinations in California[1155].

20.1. Common Issues

All but one of the tax issues that DRA addresses in this test year 2012 GRC are common to both SDG&E and SCG, although the figures differ for each company or more information and data may be available for one company and not the other. In addition to the barring Sempra from carrying back and carrying forward its NOLs, DRA's other recommendations for adjustments to Sempra's taxes test year 2012 forecasts are:

[1150] RT, Vol. 27, DIAS 3670:26-27.

[1151] Exh. 471, p.12.

[1152] Exh. 480.

[1153] Section 401 of the Tax Relief Act amending IRC §168(k).

[1154] Exh. 305 Excerpts from Sempra's 10-K (Annual Report)

[1155] D.84-05-036, 15 CPUC 2d. Slip opinion.

(i) Reject Sempra's TY 2012 adjustment to wage base growth;

(ii) Remove entertainment costs from Sempra's revenue requirement and replace Sempra's 100% allowance for business travel meal with 50%;

The only other issues in DRA's Report on Taxes that is not common to both SDG&E and SCG is the recommendation that Sempra use more recent 2010 data to reduce SDG&E's rate for its electric department and on the forecasts on Franchise Fees.

20.1.1. Sempra's Offsets Of Future Taxable Income Using NOLs From Bonus Tax Depreciation

The Commission prohibits the use of carry backs and carry forwards in general rate cases[1156]. Thus, DRA recommends that the Commission reject Sempra's proposal to carry back and carry forward allowances from its bonus tax depreciation extensions to offset income for several years after the test year. In D.84-05-036, the Commission determined that neither carry backs nor carry forwards should be considered in test year ratemaking calculations.

> Neither carry backs nor carry forwards have been considered in calculating the appropriate test year income tax expense. …[1157]
>
> We agree that the practice of excluding carry backs and carry forwards from test year calculations of income taxes is well founded and should continue.[1158]

Notwithstanding the Commission's longstanding exclusion of carry backs and carry forwards in calculating test year ratemaking expenses, Sempra proposes to carry back and carry forward NOLs arising from its application of the bonus tax depreciation extension from 2008, 2009 and 2010 to test year 2012 income[1159]. SCG had NOLs in 2010, 2011 and 2012 and would carry back the 2010 NOL to offset 2009 income, while

---

[1156] *Id.*

[1157] *Id.*, 15 CPUC 2d. at 55.

[1158] *Id.*

[1159] Exh. 298, Rose, RGR, 9:20 - 21

carrying forward 2011 NOl of $58.1 million to offset 2012 income and 2012 NOL of $10.2 million as deferred tax asset at the end of 2012[1160]. SDG&E forecasts NOLs differ from SCGs. SDG&E forecasts NOLs for 2010 and 2011 but not 2012 and proposes to carry back the 2010 NOL to offset income in 2009 but carry forward the 2011 NOL of $11.9 million to offset test year 2012 income.

Sempra argues that there is no Commission policy against carry backs and carry forwards as proposed in this rate case because D.84-05-036 had nothing to do with deferred tax reserves, which form the basis of Sempra's treatment of NOLs in this rate case. Specifically, Sempra states:

> DRA's reliance on the Commission's decision in OII 24[1161] to argue the impact of applicant's NOLs to deferred taxes is misplaced because the specific decision and findings of fact pertaining to NOLs in OII 24 solely addresses the calculation of income tax expense, which is a cost of service component of the revenue requirement, not the deferred tax reserve, which is a component of rate base.[1162]

Sempra's distinction between cost of service components and rate base components is wrong. Further, Sempra cites no authority to support its conclusion that such a distinction exists. The language of D.84-05-036 alone refutes the argument.

> If the level of taxes is reduced to reflect abnormal conditions such as carry backs and carry forwards, then the level of taxes will be deficient in relation to the test year, resulting in a shortfall in the rate of return. If in a year prior to the test year the utility incurred a net operating loss for tax purposes, its expenses exceeded income in that earlier year. Either a prior test-year took into account a net operating loss in computing rates, or the utility incurred an unexpected loss.[1163]

[1160] Exh. 302, Rose, RGR 10:15-20

[1161] OII 24 refers to the Rulemaking which was decided in D.84-03-036, hence the same.

[1162] Exh. 302, Rose, RGR 11:3 - 8

[1163] D.84-05-036, 15 CPUC 2d at 55,

Nothing in the foregoing explanation from D.84-05-036 suggests that the Commission based its decision to exclude carry backs and carry forwards from ratemaking consideration based on whether they apply to a cost of service component or to a rate base component. It appears the policy was based on the fact that carry backs and carry forwards reflect abnormal conditions that cannot be fully resolved in one test-year rate determination. What appears in one test year might have been the result of what was done in the prior test year. Further, if the Commission wished to limit the exclusion of carry backs and carry forwards to cost of service components, excepting rate base components, the Commission would have said so.

Sempra also argues that its application of carry backs and carry forwards in this proceeding is supported by Internal Revenue Service's (IRS) regulations that apply to NOLs that were created using accelerated depreciation instead of ratemaking depreciation[1164]. However, this argument is irrelevant. Tax accounting for IRS filing purposes and ratemaking regulatory purposes can and often do differ. D.84-05-036 considered many ways in which test year rate case applications may differ from utilities tax filings with the IRS[1165]

20.1.2. Payroll Taxes

Sempra uses a five-year average from 2005 through 2009 to estimate its payroll taxes, but adjusted the forecasted tax base composite payroll tax to reflect the growth in the statutory wage base for old age, survivors and disability insurance. DRA recommends that the Commission reject these adjustments because they are no supported either authority or empirical data in this proceeding.

DRA found that "total payroll, unlike the OASDI, taxable wage base, moves in generally the same direction and magnitude as the total tax obligation partly because it reflects the aggregate effect of the wage base including workforce demographic. Furthermore, because Sempra's adjustment is applied to forecasted payroll which

[1164] Exh. 302, Rose, RGR 12:19 – 13:9

[1165] D.84-05-036, 15 CPUC 2d at 55.

includes the OASDI wage base, Sempra's adjustment double-counts the effect of increases in OASDI table base on payroll and, in turn, on payroll taxes in the Result of Operations Model.

20.1.3. DRA Recommends that the Commission Remove Entertainment Costs from Sempra's Revenue Requirement and Replace Sempra's 100% Allowance for Business Travel Meals with the 50% Allowance

Sempra's test year 2012 tax expense forecasts contravene Commission's policy barring recovery for entertainment and social expenses[1166]. In D.09-03-025, the Commission stated:

> The Commission has consistently rejected rate recovery of entertainment, political and social expenses of utilities because such expenses are an unfair burden on ratepayers.

(D.09-03-025, p.315)

Following this policy, DRA eliminated Sempra's recorded business travel and entertainment expenses that did not make the necessary distinctions between entertainment and legitimate business purposes from Sempra's revenue requirement. DRA also eliminated any amount recorded for "spouse" from revenue requirement. After removing these amounts from the revenue requirements, DRA removed the deductions related to these expenses and made necessary adjustments to the capitalized portion of business travel using DRA's allocation factor for the 2010 Tax Relief Act.

> First, DRA eliminates these amounts from the revenue requirement by including in the credit or "add-back" adjustments to Schedule M deduction, (a) SAP Account No. 6130010.

DRA's adjustments are supported by prior Commission decisions including D.09-03-025 in which the Commission rejected Southern California Edison's (SCE) claims for meals and travel expenses in rates because SCE did not have a tracking system that distinguished expenses that were primarily for entertainment purposes from expenses

[1166] D.09-03-025, p.315

that were justifiably for business functions[1167], and D.82-12-054 where the Commission rejected entertainment related expenses for such activities as Disneyland Tickets and retiree dinners. In addition to stating that these expenses are an unfair burden on ratepayers, the Commission has also stated that they give the appearance of a "free-lunch" at ratepayer's expense[1168].

20.2. SoCalGas Issues

All the issues DRA found with Sempra's forecasts for SCG were also common to SDG&E and have been addressed in the section above on common issues.

20.3. SDG&E Issues

In addition to the issues that SDG&E has in common with SCG, DRA found that Sempra's use of 2010 data affected two of Sempra's recorded forecasts for SDG&E.

20.3.1. Franchise Fees

DRA recommends that Sempra use a five-year average data including the most recent 2010 data to determine the appropriate Franchise Fee forecasts for SDG&E. Although DRA and Sempra both used five-year averages, DRA's use of "the more recent data results in a $796,000 (nominal dollars) or 1.7% reduction to SDG&E and no significant difference to SCG's forecasts." Thus, DRA recommends that the Commission adopt its recommendation with the most recent data.

20.3.2. Electric Department

Both Sempra and DRA used five-year averages to forecast electric department rates, but DRA's five-year average included the most recent data from 2010 while Sempra's data did not. DRA recommends that the Commission use its recommendation with the most recent data.

[1167] *Id.*

[1168] D.09-01-016; 35 CPUC 2d. 80, 135.

21. MISCELLANEOUS REVENUES

21.1. Common Issues

21.2 SoCalGas Issues

21.3 SDG&E Issues

22. SALES AND CUSTOMERS

This Section presents DRA and Sempra's forecast of customers in the residential, commercial, and industrial classes of service for both gas and electric. Each party used Econometric models to establish a statistical relationship between historic customers and economic/demographic conditions in SDG&E's service area. These models are then used to project the level of electric and gas customers in 2010, 2011 and TY 2012.

22.1. Common Issues

DRA did a forecast of gas customers and compared it with SCG's forecast and separately did a study of electric customers that was compared with SDG&E forecast. DRA's gas forecast for SDG&E customers was taken from the Commission's most recent Biennial Cost Allocation (BCAP) decision D.09-11-006. Thus there were no issues common to the two regulated utilities.

22.2. SoCalGas Issues

The following summarizes DRA's recommendations:

- For the residential single-family class DRA forecasts customers of 3,563,668 for 2010, 3,566,145 for 2011 and 3,596,448 for TY 2012. SCG forecasts customers of 3,563,668 for 2010, 3,594,118 for 2011, and 3,631,310 for TY 2012. DRA's forecasts differ from SCG's by less than one percent.
- For the residential multi-family class of service DRA forecasts, respectively, customers of 1,705,188, 1,717,932, and 1,736,843 for 2010, 2011, and TY 2012. SCG forecasts residential multi-family customers of 1,705,188 in 2010, 1,720,026 in 2011 and 1,738,410 in TY 2012.
- For the residential master-meter residential class DRA adopts SCG's forecast. SCG forecasts customers of 41,343 in 2010, 40,979 in 2011 and 40,619 in TY 2012.

- For the commercial class of service DRA accepts SCG's forecast of commercial customers of 190,511 in 2010, 191,022 in 2011, and 191,024 in TY 2012.
- For the industrial class of service DRA adopts SCG's forecast of industrial customers of 19,714 in 2010, 19,672 in 2011, and 19,693 in TY 2012.
- DRA's forecast of total customers differs from SCG's by less than one percent. DRA forecasts, respectively, total customers of 5,520,424, 5,536,450 and 5,584,627 for 2010, 2011 and TY 2012. SCG's forecast is nearly identical. SCG forecasts total customers of 5,520,424 in 2010, 5,565,817 in 2011, and 5,621,055 in TY 2012.[1169]

DRA and SCG developed econometric models to forecast the number of active meters in 2010, 2011 and TY 2012. The econometric equations model residential customers as a function of historic building permits and commercial and industrial customers as a function of employment activity in SCG's service area. DRA arrived at forecasts which are very close to SCG's.[1170]

22.3. SDG&E Issues

The following summarizes DRA's recommendations on the forecast of SDG&E's electric and gas customers:

- For residential class of service DRA recommends residential electric customers of 1,227,781 in 2010, 1,235,107 in 2011 and 1,245,526 in TY 2012. This forecast differs by less than one percent from SDG&E's forecast. SDG&E recommends residential electric customers of 1,227,609 in 2010, 1,234,330 in 2011 and 1,244,624 in TY 2012.
- DRA's forecasts of small electric customers are also virtually identical to SDG&E's. In 2010, 2011, and TY 2012, DRA forecasts small commercial customers of 121,464, 122,988, and 124,015, respectively. SDG&E forecasts small electric commercial customers of 121,464 in 2010, 122,916 in 2011,

[1169] Exh. 495, pp. 1-2.

[1170] *Id.*, p. 10.

and 124,819 in TY 2012. DRA forecasts a similar number of electric customers.

- For the medium and large commercial/industrial class of service, DRA forecasts slightly lower customers than does SDG&E. Specifically, for 2010, DRA forecasts customers of 23,922, while for 2011 and 2012, DRA forecasts, respectively, customers for this class of service of 23,390 and 22,895. SDG&E forecasts electric customers of 23,922 in 2010, 24,572 in 2011 and 25,433 in 2012. For 2010, 2011, and TY 2012.
- SDG&E forecasts electric agricultural customers of 3,348 for 2010, 2011, and TY 2012. DRA agrees with SDG&E's forecast of agricultural electric customers.
- DRA forecasts slightly higher electric lighting customers. In 2010, DRA forecasts electric lighting customers of 6,149 in 2010, 6,063 in 2011 and 6,045 in TY 2012. SDG&E forecasts electric lighting customers of 6,126 in 2010, 6,019 in 2011 and 5,920 in 2012.
- Little change is forecasted in the total number of electric customers over the forecast period. In 2010, SDG&E forecasts total electric customers of 1,382,469. In 2011 and 2012, SDG&E forecasts total electric customers of 1,391,185 and 1,404,144, respectively. DRA's forecast for total electric customers differs from SDG&E's forecast by less than one percent. In 2010 DRA forecasts total electric customers of 1,382,664, while for 2011, and TY 2012, DRA forecasts, respectively, total electric customers of 1,390,894, and 1,401,829.
- DRA adopts SDG&E's electric sales forecast for 2010, 2011, and test year 2012.
- DRA adopts SDG&E's gas department sales forecast. The gas department sales forecast is taken from the adopted sales forecast taken from the Commission's most recent Biennial Cost Allocation (BCAP) decision D.09-11-006.

23. REGULATORY ACCOUNTS

23.1. Common Issues

23.2 SoCalGas Issues

23.3 SDG&E Issues

24. ESCALATION

DRA and Sempra agree on the escalation methodology and results for electric and gas non-labor, electric shared services, and capital escalation. However, DRA is proposing a lower escalation rate than SDG&E. Both DRA and SDG&E relied on the first quarter 2010 Global Insight Power Planner. DRA recommends that the escalation rates for electric and gas non-labor, shared services and capital be updated in accordance with the California Public Utilities Commission (CPUC) General Rate Case (GRC) plan.

The following table summarizes DRA's and SDG&E's forecasts of electric and gas labor escalation, electric O&M non-labor, gas O&M non-labor, and shared service for 2010, 2011 and Test Year 2012.

Table 6-1
Comparison of DRA's SDG&E's and SCG's Electric and Gas Labor and Non-Labor Escalation Rates

Description	DRA Recommended			SDG&E Proposed[1171]		
	2010	2011	2012	2010	2011	2012
Labor	1.77%	2.09%	2.61%	2.60%	3.02%	2.37%
Non-Labor						
Electric	1.94%	2.31%	2.69%	1.94%	2.31%	2.69%
Gas	1.80%	2.45%	2.62%	1.80%	2.45%	2.62%
Shared Services	1.86%	2.25%	2.64%	2.27%	2.71%	2.52%
Description	**DRA Recommended**			**SoCalGas Proposed[1172]**		
	2010	**2011**	**2012**	**2010**	**2011**	**2012**
Labor	1.77%	2.09%	2.61%	2.60%	3.02%	2.37%
Non-Labor	1.84%	2.48%	2.64%	1.84%	2.48%	2.64%
Shared Services	1.76%	2.28%	2.65%	2.16%	3.38%	2.34%

DRA, SDG&E and SCG also forecast capital escalation rates for Stream Production Plant, Other Production Plant, Electric Distribution Plant, Total Electric Plant, Total Gas Plant, Combined Cycle Plant, and Common Plant.[1173]

[1171] Exh. SDG&E-38 workpapers, p. SRW-WP-1.

[1172] Exh. SCG-31 workpapers, p. SRW-WP-1.

[1173] The total electric plant, combined cycle, and common plant capital related indexes are constructed from other plant related indexes.

The following table summarizes DRA's and SDG&E's forecasts of annual capital escalation rates for 2010, 2011, and Test Year 2012.

Table 6-3: Comparison of DRA's, SDG&E's and SCG's Electric and Gas Capital Related Escalation Rates

Description	DRA Recommended			SDG&E Proposed[1174]		
	2010	2011	2012	2010	2011	2012
Steam Production Plant	4.50%	3.00%	1.60%	4.50%	3.00%	1.60%
Other Production Plant	5.20%	3.00%	2.70%	5.20%	3.00%	2.70%
Electric Distribution Plant	4.00%	3.50%	4.60%	4.00%	3.50%	4.60%
Total Electric Plant	4.15%	3.41%	4.17%	4.15%	3.41%	4.17%
Total Gas Plant[1175]	3.70%	3.90%	1.40%	3.70%	3.90%	1.40%
Combined Cycle	4.74%	3.00%	1.97%	4.74%	3.00%	1.97%
Common Plant	3.84%	3.52%	3.90%	3.84%	3.52%	3.90%

24.1. Common Issues

SDG&E's and SCG's forecasted electric and gas labor escalation index is based on a weighted average of three labor related indexes drawn from the Global Insight Power Planner. SDG&E explains that:

> "SDG&E's labor escalation index is a weighted average of three Global Insight wage and salary cost indexes: CEU4422000008, Utility Service Workers, (weighted 50.446%); ECIPWMBFNS, Managers and Administrators, (weighted 19.088%); and ECIPWPARNS, "Professional and Technical Workers, (weighted 30.466%)."[1176]

The weights are derived from recorded wage and salary expenses from the combined Sempra utilities, SDG&E and the Southern California Gas Company. For 2010 and 2011, SDG&E's labor escalation rate includes the 3.50% wage increase agreed to

[1174] Exh. SDG&E-38 workpapers, p. SRW-WP-1.

[1175] SDG&E and SCG both utilize the index JUG_PCF to escalate gas capital plant.

[1176] Exh. SDG&E-38, p. SRW-2.

between the Sempra utilities and its unions. Table 6-5 below reports Sempra's labor escalation weights and the associated Global Insight proxy wage indexes.

DRA is proposing to replace the negotiated wage increase of 3.50% for 2010 and 2011 with the first quarter 2011 Global Insight Power Planner forecast for CEU4422000008. DRA notes that SDG&E's negotiated wage increase of 3.50% is considerably higher than Global Insight's current (First quarter 2011) forecast for CEU4422000008. Currently, Global Insight is projecting increases of 1.9% in 2010 and 1.8% in 2011. Similarly, Global Insight is projecting moderate wage increases for other categories of electric utility workers. For the category Electric Power, Generation, Transmission and Distribution Workers, (CEU4422110008), Global Insight is projecting wage increases of 1.7% and 2.7%, respectively, for 2010 and 2011. Furthermore, in 2008 when SDG&E negotiated the 3.5% wage increase for 2010 and 2011 Global Insight was forecasting wage increases of 2.4% in 2010 and 2011 for Utility Service Workers, (CEU4422000008).[1177]

For the remaining components in SDG&E's labor escalation index, Managers and Administrators (ECIPWMBFNS), and Professional and Technical Workers (ECIPWMBFNS), DRA relied upon forecasts taken from the first quarter 2011 Global Insight Power Planner. Global Insight forecasts the employment cost index (ECI) for managers and administrators (ECIWMBFNS) to increase by 2.0%, 2.5%, and 2.8%, respectively in 2010, 2011, and 2012. The ECI for professional and technical workers (ECIWPARNS) is expected to increase by 1.4% in 2010, 2.3% in 2011, and 2.5% in 2012.

Thus, while there is no significant dispute between the methodology and the results of the parties escalation proposals, DRA recommends changes to SDG&E's labor escalation methodology. DRA recommends that the union negotiated wage increase of 3.5% for 2010 and 2011 be replaced with the most recent Global Insight Power Planner forecast for All Utility Workers.

[1177] SDG&E response to DRA-SDG&E-094-TMR, Q.1.

24.1.1. Test Year 2012

24.1.2. Post-Test Year

24.2. SoCalGas Issues

24.3. SDG&E Issues

25. AUDIT & ACCOUNTING ISSUES (INCLUDES COST CENTER-FERC MAPPING AND SEGMENT/ASSIGN RATES)

Public Utilities Code Section 314.5 requires the Commission to conduct an audit and inspection of the books and records of every electric utility serving more than 1000 customers, at least once every three years. Generally, DRA conducts such an audit in conjunction with a general rate case[1178]. DRA's specific authority to conduct such an audit is expressly stated in Public Utilities Code Section 309.5.

DRA conducted an audit of the Sempra utilities that included an overview of general ledger integrity, analysis of various selected expense categories, review of prior rate case reports for relevant issues, review of independent auditor's reports, annual reports and other internal reports, review of minutes of the Board of Directors' meetings, as well as selective testing of accounting system integrity. Further, DRA was informed that the Commission had not conducted a mandatory audit of Sempra utilities affiliate transactions since the Affiliate Transaction Rules were enacted and consequently selected Sempra's Corporate Center Costs, Shared Services 2009 data for more in-depth review[1179]. In conducting this audit, DRA sought to ensure that Sempra's test year 2012 Application is based on reasonable and appropriate data that is consistent with Commission's rules and regulations.

Commission policy requires that regulated gas and electric utilities follow and report the results of their operation according to the FERC Uniform System of Accounts

---

[1178] See Cal. Pub. Utility Code §314, authorizing DRA to conduct such an audit.

[1179] Exh. 489, pp. 50-1 to 50-2

(USOA). The Sempra utilities maintain their books in a format that is not the USOA format but convertible to the USOA[1180].

25.1. Common Issues

DRA makes three primary recommendations based on its audit and inspection of Sempra's books. First, DRA recommends reducing the 2009 recorded Corporate Center Shared Services charged to Sempra utilities by $2.8 million, which reduces the revenue requirement by $3.3 million in Test Year 2012. Second, DRA recommends adjustments to Sempra Utilities proposed rates for Allowance for Funds Used During Construction (AFUDC). DRA maintains that, should the Commission adopt DRA's recommended adjustments to AFUDC rates, ratepayers will save approximately $50.6 million and $44.3 million for SCG and SDG&E respectively over the period from 2010 through 2012.

25.1.1. Corporate Center Shared Services

DRA's audit found the following discrepancies with the multi-factor calculation that Sempra uses to allocate the costs incurred for its business units' shared services:

1) It included revenue from DWR sales that were not included in SDG&E's filings with the SEC;
2) It used the gross value of the San Onefre Nuclear Generating Station (SONG);
3) It used Gross Plant Assets in the calculations rather than Net Plant Assets (after depreciation), which resulted in the regulated utility business units bearing costs that should have been allocated to Sempra's unregulated global unit;
4) It allocated a portion of international taxes to SDG&E and SoCalGas when neither of those California utilities have foreign operations.

Sempra's Corporate Center incurs costs for centralized operations of the Sempra entities (SDG&E, SoCalGas and Sempra Global) for certain services. These services are referred to as Corporate Shared Services (CSS) and consist primarily of Rent and Facilities Maintenance, Real Estate Services, Information Technology ("IT"), Document

[1180] Exh. 489, pp.50-2.

and Supply Management Services, and some Accounting (e.g., Accounts Payable) Services. Some of these services may be fully located at one entity though they serve other Sempra entities as well, but the costs incurred on behalf of the other entities are charged to Corporate Center as shared services for re-allocation to the entity on whose behalf they were incurred. According to Sempra, this arrangement allows it to benefit from the structure that already exists at SDG&E and SoCalGas in a more effective manner, rather than duplicate those services at the other entities.

In order to ensure that the costs incurred on behalf of each Sempra entity is charged at an amount that reasonably matches the level of services provided for that entity, Sempra employs one of three methods to allocate the costs to each of its entities, depending on which method most applies to the nature of the cost. These methods of allocation are: 1) Direct Assignment; 2) Casual/beneficial; 3) Multi-Factor.

The factors that comprise the multi-factor allocation method are a) Revenue, b) Gross-Plant Assets & Investment, c) Operating Expenses, and d) Full-Time Employees or Equivalents ("FTEs")[1181] DRA's audit found discrepancies in Sempra's Application of the Multi-Factor allocation to the DWR contracts in SDG&E's portfolio, the use of Gross Plant Assets for SONGS, which is jointly owned by SDG&E and SCE, and international taxes for both SDG&E and SoCalGas. The discrepancies DRA found with the DWR sales and the use of Gross Plant Assets are discussed separately under SDG&E's specfic issues in this section.

25.1.2. International Taxes

Sempra also used the multi-factor method to allocate international taxes to the regulated utilities when those taxes should have been charged directly to the Sempra Global business unit because the regulated utilities' activities are not subject to foreign taxes. Therefore, DRA recommends that the Commission remove the costs of international taxes allocated to the SDG&E and SoCalGas from this rate case filing.

[1181] Exh. 489, p.50-7 to 50-8.

25.1.3. Allowance for Funds Used During Construction (AFUDC)

DRA's audit review of Utility Plant consisted of examinations of Plaint in Service, Accumulated Depreciation and Amortization, Customer Advances for Construction, and Allowance for Funds Used During Construction (AFUDC). The only discrepancy DRA found in this review was in the manner the Sempra utilities calculated AFUDC costs without a short-term debt component. DRA recommends that the Commission require Sempra to assume that all its regulated utilities' short-term debt is used to finance all construction work in progress before applying long-term debt in the calculation of AFUDC.

FERC Uniform System of Accounts provides a formula that requires AFUDC to be determined by first assuming that all short-term debt is applied to the funds used to finance Construction Work In Progress (CWIP), after which long-term debt and equity is used to finance the balance of CWIP in excess of short-term debt[1182].

However, Sempra claims that it only uses long-term debt to finance its construction work in progress and thus proposes to use its Rate of Return as a "proxy" for the FERC formula for calculating AFUDC. Sempra Witness Gary Yee states:

> A. What we are recommending is that we would use SoCalGas's and SDG&E's authorized rate of return as a proxy for AFUDC.

(RT, Vol. 22, Yee, p.2806:24-26.)

> A. In the case of both utilities we do not fund our construction projects with short-term debt.

(RT, Vol. 22, Yee, p.2808:15-17.)

Notwithstanding his claim that Sempra's regulated utilities only use ROR to calculate AFUDC, Sempra witness Yee nevertheless claims that "[b]oth utilities calculate their AFUDC in accordance with the FERC-mandated formula."[1183] This argument is

---

[1182] Title 18, CFR Subchapter C, Part 101, Section 3.A.17, Order 218, 25 FR 5014, June 7, 1960.

[1183] RT, Vol. 22, Yee, p.2811:2-4.

only intended to confuse the issue because SDG&E and SoCalGas would not propose to use a "proxy" for the FERC-mandated formula if they actually calculated their AFUDC in accordance with that formula. Mr. Yee in fact admits that there is a short-term debt component in the FERC-mandated formula, but claims that he does not know how that calculation figures into the formula.

> Q. And what elements go into that calculation?
>
> A. I believe there is long-term debt. There is long-term debt. There is preferred stock. There is common equity and short-term debt.
>
> Q. And there's short-term debt?
>
> A. Yes.
>
> Q. And how does short-term debt figure into that calculation?
>
> A. I don't recall specifically. I believe it's a portion. It's a component of the AFUDC rate.

(RT, Vol. 22, Yee, 2811:5-16.)

Sempra cannot possibly be allowed to argue for the exclusion of short-term debt in the calculation of the FERC-mandated AFUDC rates, then plead ignorance of how the short-term debt component figures into the formula. Mr. Yee prepared his rebuttal testimony attacking DRA's application of the FERC-mandated formula on October 2011.

> My testimony addresses the shortcomings of how DRA proposes to apply its proposed AFUDC rates. DRA recommends applying its proposed AFUDC rate to the Construction Work-In-Progress ("CWIP") balances for the 2010 and 2011 forecast years, which will then have a cumulative effect on TY2012 rate base.

(Exh. 222, p. GGY-5:9-14.)

Certainly, by the time Mr. Yee appeared for his examination at the hearing on December 19, 2011, he had ample time to determine exactly how the short-term debt component figures in to the calculation of the FERC-mandated formula, a key part of his

testimony. Because Sempra has the burden of proof in this proceeding, it is a mockery of this Commission's processes that Mr. Yee preferred not to recall how the short-term component figures into the FERC-mandated formula.

Sempra witness, Gary Hayes, to whom Mr. Yee deflected questions on how the short-term debt component is used in the FERC-mandated formula proved disingenuous in his testimony as well. Mr. Hayes claimed that Sempra's regulated utilities have consistently followed the FERC-mandated formula.

> Applicants represent to the Commission they have consistently followed FERC guidance set by statute on AFUDC, and have never been ordered to apply the short-term rate to its calculation in the radical manner prescribed in DRA's testimony. DRA hones in on short-term debt (presumably because short-term debt rates are currently low) and proceeds to misinterpret the FERC directive regarding its use in the computation of the AFUDC rate, stating: "The FERC formula for calculating AFUDC rates shows that average Construction Work In Progress (CWIP) is to be [first][1184] financed 100% by average short-term debt forecasted

(Exh. 349, p. GHH-3:2-4.)

Mr. Hayes claim that Sempra has "never been ordered to apply the short-term rate to its calculation" of AFUDC rates deliberately turns the FERC-mandated rule on its head. The rule requires that regulated utilities only seek authorization from the Commission when they use a formula other than the FERC formula.

> (17) *Allowance for funds used during construction* (Major and Nonmajor Utilities) includes the net cost for the period of construction of borrowed funds used for construction purposes and a reasonable rate on other funds when so used, not to exceed, without prior approval of the Commission, allowances computed in accordance with the formula prescribed in paragraph (a) of this subparagraph. …

[1184] Sempra's initial quote of DRA's position on AFUDC had initially eliminated the word "first" thus suggesting that DRA interprets the FERC AFUDC rule as only requiring the use of short-term debt, but during the hearing Sempra corrected its testimony to include the word "first". (RT, Vol. 27, Hayes, p. 3569)

(Exh. 349, Attachment 1, [third page numbered Page 19 of 198])

Neither SDG&E nor SoCalGas has obtained authority from either FERC or this Commission for using a "proxy", which clearly exceeds "allowance computed in accordance with the formula prescribed…" in the FERC formula.

Interestingly, while Sempra's witnesses argue that the use of short-term debt in the calculation of AFUDC is a radical departure from the FERC-mandated formula, Sempra's internal records confirm that SDG&E has been representing to FERC that its regulated utilities AFUDC rates are calculated exactly in the manner proposed by DRA.

> Under our current method, which has been applied consistently for many years, separate costs are determined for short and long-term debt and preferred and common stock. All short-term debt is assumed used to finance construction work in progress (CWIP) and a proportionate share of each element of permanent financing is assumed used to finance the excess of CWIP to short-term debt.

(Exh. 349, Attachment 2 [second page], Letter of October 4, 1982, from R. E. Parsley to Loren H. Drennan, Jr. Chief Accountant, FERC.)

DRA only proposes that this Commission hold Sempra to its word as represented to FERC in the letter of October 4, 1982 on the manner of its calculation of the AFUDC rates. Sempra has not presented any evidence to support why it should be allowed to change this mode of calculating AFUDC and certainly cannot argue that it does not have short-term debt with which to use in financing CWIP. The Commission has authorized Sempra to procure up to $598 million dollars in short-term debt and it is incumbent on Sempra's management to use those funds to reduce ratepayer exposure to higher costs whenever necessary[1185].

> "Q. So if I were to go back to look at how much of your construction was financed by short-term debt and how much was

[1185] D.06-05-029 included the following: "We conclude that it is in the public interest to grant SDG&E's uncontested request for authority to issue up to $550 million of excess short-term debt, in addition to the $80,446,000 in short-term debt that SDG&E may issue without Commission authorization, pursuant to §823 (c). The health, safety, welfare, and prosperity of California depend on SDG&E having sufficient generation and transmission capacity to meet the needs of its customers."

> financed by long-term debt, that would be difficult to break down, would it not?
>
> A. It would be. Money is fungible so it's hard to say whether capital coming in the door was spent on specific items or not, unless records of some sort were kept for that purpose."
>
> (RT, Vol. 27, p. 3594: 13-22)

The FERC-mandated formula is stated as follows:

> (a) The formula and elements for the computation of the allowance for funds used during construction shall be:
>
> A i=s (S/W)+ d(D/D+P+C)(1-SW)
>
> A e=[1-S/W][p(P/D+P+C)+c(C/D+P+C)]

(Exh. 349, Attachment 1 [third page])

On cross-examination, Sempra witness Gary Hayes conceded that the application requires that short-term debt be assumed used in financing CWIP before long-term debt and equity.

> MR. OBIORA: Q. In the instance that a company has outstanding [short]-term debt and also has long-term debt and in calculating the company's AFUDC costs would you agree that there is a particular sequence in which the debt would be applied? First, short-term debt would be applied and anything remaining would then have long-term debt be applied to it?
>
> A. Yes, the formula is structured that way.

(RT, Vol. 27, Hayes p.3573:11-21.)

Utilities recover AFUDC in rates through depreciation expense over the useful life of the relevant asset. DRA recommends that the Commmission adopt the 3-month commercial paper rates forecast by Global Insight as the short term rates for the purposes of calculating utilities AFUDC. Ratepayers will save approximately $50.6 million and $44.3 million in rates for SoCalGas and SDG&E over the period 2010 through 2012 if the Commission adopts DRA's recommendation on the appropriate calculation of AFUDC rates.

25.2. SoCalGas Issues

All of DRA's recommendations on the audit of the Sempra utilities were common to both SoCalGas and SDG&E.

25.3. SDG&E Issues

DRA's recommendation for the removal of DWR sales and Gross Value of SONGS from the multi-factor calculations are adjustments to only SDG&E's recorded data and assets.

25.3.1. DWR Sales

DRA recommends that the Commission reject Sempra's inclusion of DWR sales in its revenue stream for test year 2012 rate case because the DWR sales are not an adequate reflection of revenue for the company. SDG&E was assigned the DWR contracts during the electricity crisis when the DWR became the bulk purchaser of electricity for California investor owned utilities (IOUs). The Commission allocated each DWR contract to one of the three main IOUs in the State to be administered for the benefit of the DWR, with the revenues going to pay off the state's debt to the DWR, while the IOUs were paid their administrative costs.

On cross-examination, Sempra appeared totally uninformed about the true nature and origins of the DWR sales, but still argued that it is part of its operating revenue.

> A. What we disagree with is the DRA's interpretation of what is an appropriate measure of total assets or operating revenue.
>
> Q. You state that DRA would exclude from SDG&E's operating revenues customer billings on behalf of Department of Water Resources contracts. Do you see that?
>
> A. Yes.
>
> Q. Are you familiar with how the Commission allocated the administration of DWR contracts among the three utilities?
>
> A. No, I'm not.

> Q. So you are not aware that SDG&E could be administering the DWR contracts that provide electricity to Southern California Edison territory rather than its own territory, you don't know that?
>
> A. I don't believe I do. I am familiar with the billings that we make on behalf of DWR for energy delivered by SDG&E.
>
> Q. Okay. I understand that. Let me tell you where I'm going. I am trying to determine whether the billings you are talking about refer to the contract that SDG&E administered or just a line item in every SDG&E ratepayer's bill that says DWR?
>
> A. My understanding is it's the latter. It's a line item in the ratepayer's bill.
>
> …
>
> Q. …Do you know whether that line item is the same for all ratepayers whether they're in SCE's service area or PG&E's service area?
>
> A. I don't know with regard to PG&E and SoCal Edison.

[RT, Vol. 24, Folkman, pp. 3037 – 3039.]

In addition to arguing that DRA was wrong in excluding the DWR collections from its operating revenue, Sempra also argued that the DWR collection were or could be considered "revenue related" collection efforts. This argument also proved disingenuous on cross-examination.

> Q. …Here I'm specifically trying to understand what you mean by actual revenue-related collections.
>
> A. I'm sorry. What row did you say?
>
> Q. That phrase is on line 9, the first word on line 9, actual revenue-related collections. Do you see that?
>
> A. Yes.

Q. Are there other items besides the DWR line items that are actual revenue related collection efforts that you include in your operating revenue?

A. I'm not certain I can answer your question as asked. Obviously, our billings to customers including everything we bill. So it is designed to capture, you know, a whole host of operating cost components.
The DWR item is a specific one tha has a separate mechanism. In fact, one could perhaps consider it to be requiring more effort to support.
Are you asking about billing categories that are included on the bill?

Q. Well, I'm trying – I'm focusing on the particular word you used here to justify including the DWR line item in your operating revenues.

A. Okay.

Q. It appears if that [sic] were trying to make a distinction between actual revenues and revenue related items. Do you see where I'm going?

A. Well, I think so. Let me try to answer it this way. We – this is the sole adjustment we make to operating revenues for purposes of the multi-factor, this DWR element.

Q. That's the only other actual revenue – I understand that. So now I get that. The DWR element is the only thing you take outside of your audited financial statements to include in your operating revenue for purposes of the multi-factor calculation.

A. Right.

(RT, Vol. 24, Folkman, pp.3042 – 3044.)

Sempra's difficulty in admitting that the DWR customer payments are not actual operating revenues shows their lack of confidence in even describing DWR collections as a "revenue related" activity. To what revenue are the DWR collections "related"?

Certainly not Sempra's[1186] and, surprisingly, by Sempra's own admission, not DWR's either.

> Q. to your knowledge, does the DWR report that line item as operating revenue as well?
>
> A. I am not aware, sir. I would have to speculate at best.
>
> (RT, Vol. 24, Folkman 3044:19 – 23.)

Therefore, there is no evidence in this proceeding to support the claim that the DWR collections are either "operating revenue" or "revenue related" collections. Sempra only used this label to further tilt the scale of its multi-factor calculation in favor of its global business unit and at the expense of the regulated utilities.

SDG&E's filing with the SEC does not include these DWR sales probably because to include them would have been subject to substantial penalties for intentionally misleading filings at the SEC. Sempra apparently uses its United States Generally Accepted Accounting Principles Audited Financial Statements for its SEC filings and its multi-factor calculation for the rate cases. However, the DWR collection is not part of the USGAAP audited financial statements Sempra submitted to the SEC[1187].

The DWR line item and the gross value of SONGS are the only items in the multi-factor calculations that are not included in Sempra's audited financial statements. Thus they are not verified and they appear to have been included only to weigh the multi-factor calculations in favor of Sempra's Global business unit at the expense of ratepayers. Therefore, the Commission should reject the inclusion of these revenues in this rate case.

[1186] RT, Vol. 24, Folkman, pp. 3039 - 3040

[1187] Q. Now, looking at page 3 of your rebuttal testimony line 20 you state that: Sempra energy calculates the multi-factor component using its audited financial statements, prepared under the U.S. Generally Accepted Accounting Principles and certain additional information. Do you see that?

A. Yes.

Q. Now, … if that line [DWR] item is not reflected in the customer – in the income statements, it follows, does it not that it will not be in the audited financial statements that you are preparing using the GAAP criteria?

A. That's correct.

[RT, Vol. 24, Folkman, pp. 3039 – 3040.]

25.3.2. Gross Value for SONGS

SONGS is jointly owned by SDG&E and Southern California Edison (SCE). Like DWR sales, SONGS was not included in Sempra's SEC filings but was included in the Multi-Factor calculation. DRA finds this inclusion to be contradictory and recommends that the Commission remove the gross value of SONGS from the multi-factor calculation.

25.3.3. Gross Plant Assets vs. Net Plant Assets

Sempra uses gross plant assets in the computation of the mult-factor allocation method. The difference between the gross and net plant assets in this instance is that the net plant assets have been depreciated. DRA's audit found that Sempra's use of the gross plant assets unfairly favored the unregulated Sempra Global unit by making the regulated utility unit bear costs that would otherwise have been allocated to Sempra Global.

> Significant portions of utilities plants are depreciated as compared to those of the unregulated affiliates. DRA auditors believe that the use of Net Plant Assets would better reflect the true value of all the plant assets, both regulated and unregulated, and would be more appropriate.

(Exhibit 489, p. 50-9)

Therefore, DRA recommends that the Commission replace Gross Plants with Net Plants, i.e. net of accumulated depreciation where ever they are used in the multi-factor allocation methodology. Sempra objected by claiming that the gross plant is a better indicator for the operation of both regulated and unregulated. However, this is flawed argument. The multi-factor cost allocation employs four factors: a) Revenue, b) Gross-Plant Assets & Investment, c) Operating Expenses, and d) Full-Time Employees or Equivalents ("FTEs"). The combination of these four factors addresses the operations compatible for allocation purposes. The use of gross plants in the allocation unfairly biases against the utilities which have more well depreciated plants compared to unregulated business of Sempra global units.

26. SUMMARY OF EARNINGS/REGULSTS OF OPERATIOSN MODEL

26.1. Common Issues

26.2. SoCal Issues

26.3. SDG&E Issues

27. POST TEST YEAR REVENUE REQUIREMENT ISSUES

SCG and SDG&E seek Commission authorization for a Post Test Year (PTY) ratemaking mechanism to adjust its authorized revenue requirements in the post Test Years by applying separate formulas to the medical, operating and maintenance (O&M) related and capital-related revenues. The Utilities propose a four-year GRC term.[1188] They also propose an earnings sharing mechanism, a productivity incentive mechanism and a productivity investment sharing mechanism. Essentially the Utilities are proposing to minimize their risks while maximizing their potential gains during the PTYs. DRA does not oppose a PTY ratemaking mechanism which will provide the Utilities with some reasonable level of revenue increases in 2013-2015. However, DRA opposes the increases and methodologies that SCG and SDG&E propose for those three attrition years.

SDG&E's proposes PTY revenue increases of $56 million in 2013, $71 million in 2014 and $89 million in 2015.[1189] SCG's proposes PTY revenue increases of $54 million in 2013, $61 million in 2014 and $50 million in 2015.[1190] DRA proposes PTY revenue increases of $29 million in 2013, $31 million in 2014 and $31 million in 2015 for SDG&E; and $32 million in 2013, $34 million in 2014 and $34 million in 2015 for SCG.[1191]

DRA's recommendations are described below:

- SCG and SDG&E are not automatically entitled to PTY revenue increases.[1192]

[1188] See Exhs. 398, 400.

[1189] Exh. 398, p. HSE-1A, Appendix A.

[1190] Exh. 400, p. HSE-1A, Appendix A.

[1191] Exh. 529, p. 1.

[1192] Exh. 529, p. 3.

- DRA's Primary PTY Recommendation: DRA recommends a PTY ratemaking mechanism that is based on the Consumer Price Index-Urban (CPI-U), which yields revenue increases of 1.9% in 2013, 2.0% in 2014 and 2.0% in 2015.[1193]
- DRA's Alternative PTY Recommendations
- DRA does not oppose the Utilities' assumption that customer growth and productivity will offset each other during the PTY period.[1194]
- DRA recommends that the proposed O&M adjustment be escalated by the Urban Consumer Price Index (CPI-U).[1195]
- If net OpEx savings exceed $5 million in a given year, that the net OpEx savings above $5 million should be credited to ratepayers and not used as an offset to meet the Utilities' productivity gains.[1196]
- DRA recommends using the CPI-U for capital-related cost adjustments.[1197]
- DRA opposes a separate Smart Grid revenue requirement increase.[1198]
- DRA recommends the use of the IHS Global Insight Cost Planner Health Care Benefits, Group Health Insurance index as a medical cost escalation factor.[1199]
- DRA does not oppose continuation of the current Z-factor adjustment process.[1200]
- With the exception of the proposed New Environmental Regulation Balancing Account (NERBA), DRA does not oppose the Utilities' proposed base margin exclusions.[1201]

[1193] Exh. 529, p. 6.

[1194] *Id.*, p. 10.

[1195] *Id.*

[1196] *Id.*, p. 12.

[1197] *Id.*, p. 11.

[1198] *Id.*, p. 12.

[1199] *Id.*, pp. 12-13.

[1200] *Id.*, p. 13.

[1201] *Id.*

- DRA supports and proposes a four-year GRC term (3 post test years) for SCG and SDG&E.[1202]
- Regarding the Utilities' earnings sharing mechanism proposal, DRA recommends that there be no earnings adjustment below the authorized Rate of Return (ROR). Furthermore, the sharing bands should be reduced so that there are 4 sharing bands, with greater revenue sharing going to ratepayers.[1203]
- DRA opposes the Utilities' proposed 2015/2016 productivity sharing mechanism.[1204]
- DRA opposes the Utilities' proposals for a voluntary "off ramp" that would suspend the PTY ratemaking mechanism if it turned against the Utilities.[1205]

28. NON TARIFFED PRODUCTS AND SERVICES

DRA has no comment on this issue at this time.

29. BIOGAS PILOT PROGRAM

In numerous places in their application, SCG requests ratepayer funding for a biogas pilot program, in which they will install Utility-owned equipment in locations that are the source of methane gas emissions, such as dairy farms and landfills. SCG will capture and process biogas, with ratepayers paying for the capital costs of the equipment and the rental fees for the land, so that SCG can gain experience about the production of such biogas. SCG will not provide such biogas to ratepayers or inject it into their gas system, but instead will use any biogas to partially supply their own fleet of gas-powered vehicles.

The cost of such gas – mostly stemming from the expense of production – is estimated to be more than $10/Mcf, roughly five times over the current, historically low costs of about $2. The United States is currently awash in gas due to the explosive

---

[1202] *Id.*

[1203] *Id.*, pp. 14-16.

[1204] *Id.*, pp. 16-17.

[1205] *Id.*, p. 17.

growth of horizontal hydraulic fracturing (fracking) of gas from shale formations, and gas prices are estimated to remain low for years.

The "benefits" of this production seem not to be tied to any lowering of emissions, but rather because in the context of their other proposals, California authorities have deemed biogas to be beneficial. SCG explicitly compares its biogas efforts to the introduction of renewable electric generation, and claims the over-market costs of biogas are similar to that of renewables, so their program should be adopted.

What SCG conspicuously avoids discussing is that unlike electric utilities, which remain involved in electric generation, gas utilities do not produce gas. They do procure gas, but not from their own production. Gas purchasing and distribution is not at all like electric generation and dispatch. Gas supplies are blended and are not "dispatched" in order of price or to meet environmental requirements. Gas producers are responsible for making sure gas is up to the specifications of a transporting pipeline, most notably the costs of purifying raw gas, as well as all the costs of gas gathering equipment.

SCG claims that it is the proper entity to perform such biogas services because the few customers interested in such services seek SCG out.[1206] While SCG's parent company Sempra has unregulated affiliates participating in the competitive arenas of the electricity and gas markets who have the capabilities to perform these services, SCG points out that due to the affiliate rules, SCG cannot even direct such customers to Sempra's affiliates.[1207] In the face of such persistent interest, SCG valiantly volunteers to provide the services, at ratepayer expense.

But frustration over not being able to take advantage of the goodwill generated by a government-granted monopoly does not make it reasonable for a gas transportation utility to get into the fledgling industry of biogas production. Indeed, before this GRC, the Commission had rebuffed efforts by SCG to offer biogas services as a Non-tariffed product and service via an Advice Letter, suggesting that such services be provided by an

---

[1206] TR 899:7-20, TR 3321:13-3322:25.

[1207] TR 3321:13-3322:25.

unregulated affiliate. Rather than heed the Commission's clear directive, SCG ups the ante and rather than taking on the risk of cost recovery themselves, asks to pawn off this risk entirely to ratepayers. SCG would be competing against biogas service providers without ratepayer funding.

The State of California certainly has some interest in promoting biogas, and has the power to encourage it in many ways. But ratepayers are not proxies for taxpayers, and a privately-owned, gas transmission utility is not the proper entity to carry out such services. The state has numerous ways it can encourage biogas other than ordering ratepayers to subsidize a utility pilot program that does not even pretend to offer any specific ratepayer benefits. SCG never explains why it is reasonable for ratepayers to pay costs so much above market for natural gas for SCG's own fleet vehicles.

Moreover, this Commission lacks jurisdiction over gas producers or businesses providing gathering and processing services. While it must be tempting for this Commission to ignore its jurisdictional limits and expand the traditional scope of activities performed by gas transportation utilities, the Commission must maintain its prior position that these services should be provided by unregulated entities, whether or not they are utility affiliates. Under no circumstances should this Commission approve SCG's requests for any funding for biogas services in this GRC.

30. CONCLUSION

For the aforementioned reasons, DRA respectfully requests that the Commission approve DRA's recommendations in this GRC.

Respectfully submitted,

JONATHAN BROMSON
NOEL OBIORA
NICHOLAS SHER

/s/ JONATHAN A. BROMSON

Jonathan A. Bromson
Staff Counsel

Attorneys for the Division of Ratepayer Advocates
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, CA 94102
Phone: (415) 703-2362
Fax: (415) 703-4432
jonathan.bromson@cpuc.ca.gov

April 12, 2012