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Proceeding: 2016 General Rate Case
Application: A.14-11-004
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SOCALGAS

REBUTTAL TESTIMONY OF RAMON GONZALES

**(REGULATORY AFFAIRS/ACCOUNTING AND
FINANCE/LEGAL/EXTERNAL AFFAIRS)**

June 2015

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



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1 **SOCALGAS REBUTTAL TESTIMONY OF RAMON GONZALES**
2 **(REGULATORY AFFAIRS/ACCOUNTING AND**
3 **FINANCE/LEGAL/EXTERNAL AFFAIRS)**

4 **I. SUMMARY OF DIFFERENCES**

5 **A. Office of Ratepayer Advocates (ORA)**

6 Table RG-1 below summarizes the Office of Ratepayer Advocates' (ORA) test year (TY)
7 2016 forecasts for Southern California Gas Company's (SoCalGas) Operations & Maintenance
8 (O&M).

9 **Table RG-1**

TOTAL O&M - Constant 2013 (\$000)			
	Base Year 2013	Test Year 2016	Change
SoCalGas (corrected) ¹	\$28,616	\$29,073	\$457
ORA excl. M&E Adj.	\$28,616	\$29,079	\$463
ORA M&E Adj.		\$(693)	\$(693)

10 **B. The Utility Reform Network (TURN)**

11 Table RG-2 below summarizes The Utility Reform Network's (TURN) base year (BY)
12 2013 reductions for SoCalGas' O&M.

13 **Table RG-2**

TURN O&M REDUCTIONS - Constant 2013 (\$000)	
	Base Year 2013
Total	\$112.978

14 **II. INTRODUCTION**

15 **A. ORA**

16 ORA issued its report on Administrative & General (A&G) associated with SoCalGas'
17 Regulatory Affairs/Accounting and Finance/Legal/External Affairs on April 24, 2015.² The
18 following is a summary of ORA's positions:

¹ As noted in SoCalGas' Revised Direct Testimony of Ramon Gonzales (SCG-24-R) submitted in March 2015, reflects correction based on adjustments to prior year recorded Claims Payments and Recovery expense discovered after filing of this GRC application. The Test Year 2016 forecast was reduced by \$166 thousand.

² Exhibit ORA-19, Administrative & General Expenses (Part 2 of 2), Witness G. Dunham. Referred to herein as "ORA" or "ORA testimony".

- ORA recommends \$1.359 million for External Affairs, which is \$160,000 less than SoCalGas' forecast of \$1.519 million.
- ORA recommends reducing TY expense for \$692,873 (in 2013 dollars), based on 2013 recorded costs, as a proxy for the amount of Meals and Entertainment expenses embedded in SoCalGas' TY forecast.

As explained further in my rebuttal testimony, ORA's recommendations are based on flawed assumptions and should not be adopted.

B. TURN

The Utility Reform Network (TURN) submitted testimony on May 15, 2015.³ The following is a summary of TURN's positions as it relates to SoCalGas Regulatory Affairs/Accounting and Finance/Legal/External Affairs:

- TURN recommends a disallowance of \$50,000 in dues to political organizations.
- TURN recommends a disallowance of \$55,545 in tickets to sporting and cultural events.
- TURN recommends a disallowance of \$7,433 in clothing and other gear.

As explained further in my rebuttal testimony, TURN's recommendations imply that these expenses serve no benefit to ratepayers and should be entirely borne by shareholders. These costs are ordinary and reasonable and provide benefits to utility customers and should be appropriately included as part of the 2016 forecast.

III. REBUTTAL TO ORA'S O&M PROPOSALS

A. Non-Shared Services O&M

Table RG-3 below summarizes the parties' respective TY 2016 forecasts for SoCalGas' Non-shared O&M.

Table RG-3

NON-SHARED O&M - Constant 2013 (\$000)			
	Base Year 2013	Test Year 2016	Change
SoCalGas (corrected) ⁴	\$23,093	\$22,631	-\$462
ORA	\$23,093	\$22,637	-\$456

³ Exhibit "Report on Various Results of Operations Issues in Southern California Gas Company's and San Diego Gas and Electric Company's 2016 Test Year General Rate Cases," Section V. Base Year Accounting Adjustments, Witness William B. Marcus. Referred to herein as "TURN" or "TURN testimony".

⁴ See footnote 1.

1 **1. Incremental Employees in External Affairs & Media & Employee**
2 **Communications Division**

3 **a. ORA**

4 ORA takes issue with the TY O&M forecast for SoCalGas' Media & Employee
5 Communications department of the External Affairs & Employee Communications Division.
6 ORA has recommended that the Commission disallow funding for two new positions requested
7 by the Media and Employee Communications department at SoCalGas. ORA's recommendation
8 should be rejected.

9 The positions are needed for an Intranet Designer/Programmer and a Social
10 Media/Videographer Communications Specialist. In the changing business and media
11 environment, these positions are crucial to allowing SoCalGas to communicate effectively with
12 customers, employees, and other key stakeholders.

13 The addition of an Intranet Designer/Programmer is needed to allow the department to
14 provide more consistent updates to the employee intranet site and digiboards. These
15 communication tools help keep employees informed about company news and information that
16 they can share with customers and other stakeholders. Messages include important information
17 about emergency response, safety, and customer programs. The designer/programmer position is
18 needed to create graphics and images to support the messages and ensure timely information
19 updates.

20 Hiring a Social Media/Videographer Communications Specialist is requested to allow
21 SoCalGas to share important information with our employees and customers in a format that is
22 easy to access and understand. Video development and social media channels are highly
23 effective tools for SoCalGas to share information with customers. A recent study conducted by
24 the Pew Research Center⁵ found that 39 percent of adults get their news from online or a mobile
25 device and 31 percent of adults own a tablet computer. These numbers continue to increase every
26 year as more people seek information online. This is an area where SoCalGas' Media and
27 Employee Communications department is seeking to add resources and expertise to meet this
28 trend toward information delivery to customers via mobile devices. This position would also
29 develop video content that can be shared with both internal and external audiences. It would

⁵ The Pew Research Center's Project for Excellence in Journalism: The State of the News Media 2013:
<http://stateofthemedias.org/2013/overview-5/key-findings/>.

1 allow SoCalGas to communicate directly with these audiences on various online and social
2 media platforms, and share information that would be beneficial to customers and employees.

3 ORA has recommended that these positions be disallowed because SoCalGas did not
4 conduct a study or workload analysis prior to the request⁶. While a formal study has not been
5 completed relative to these two specific positions, SoCalGas conducted an internal management
6 assessment. This thorough management assessment, which included a workforce analysis,
7 identified the need for additional resources in this area. The assessment considered various
8 factors including existing team skill sets, changes in business environment, and other relevant
9 factors. This type of management assessment was completed as part of the planning process that
10 includes establishment of priorities, department goals, and related resource allocations. For these
11 reasons, SoCalGas requests that the Commission approve SoCalGas' request for two new Media
12 and Employee Communications positions.

13 **B. Shared Services O&M**

14 Table RG-4 below summarizes the parties' respective TY 2016 forecasts for SoCalGas'
15 Shared O&M.

16 **Table RG-4**

SHARED O&M - Constant 2013 (\$000)			
	Base Year 2013	Test Year 2016	Change
SoCalGas	\$5,523	\$6,442	\$919
ORA	\$5,523	\$6,442	\$919

17 ORA agreed with SoCalGas' forecast for this cost category. The Commission should
18 adopt SoCalGas' forecast as reasonable.

19 **IV. REBUTTAL TO ORA'S MEALS AND ENTERTAINMENT PROPOSALS**

20 In addition to what was summarized above in section II.A. and II.B., ORA takes issue
21 with the amount of Meals and Entertainment expenses embedded in SoCalGas' TY forecast.
22 ORA recommends reducing TY expense by \$692,873 (in 2013 dollars), based on 2013 recorded
23 costs, as a proxy for the amount of Meals and Entertainment expenses embedded in SoCalGas'
24 TY forecast. ORA's recommendation should be rejected.

⁶ Exhibit ORA-19, at 20, lines 18-23.

1 In data request ORA-SCG-032-GSD⁷, SoCalGas provided ORA with five years of data
2 related to Meals and Entertainment (M&E) costs incurred. Seemingly based on the data
3 provided, ORA claims that SoCalGas has not demonstrated that M&E expenses serve a useful
4 business purpose and further states that “[if] SoCalGas wants to provide these types of benefits
5 to its employees, it can do so at its shareholders’ expense”⁸.

6 ORA clearly misunderstands the nature of the cost information provided in response to
7 the data request and provides no specific reason as to why M&E costs should be disallowed.
8 ORA implies that these costs are simply for the benefit of employees, and ignores the fact that
9 these expenses are directly related to employees performing their jobs in the normal course of
10 business. These job-related expenses include travel, meals, and other expenses associated with
11 establishing, maintaining and enhancing business relationships that provide value back to utility
12 customers. Denying recovery of these costs limits SoCalGas’ ability to engage in these activities
13 which would have a negative impact on business, training and employee relationships.

14 Similar to other organizations, including governmental and non-profits, SoCalGas at
15 times requires employees to travel to locations outside the area of their normal office, sometimes
16 for extended periods. It is reasonable for SoCalGas to request recovery of valid business related
17 expenses incurred in the ongoing operation of its business. For example, employees working in
18 Regulatory Affairs are at times required, by the nature of their job responsibilities and often at
19 the Commission’s request, to travel to the San Francisco or San Diego office. In many cases,
20 this generates a reimbursable meal expense as the result of extended work hours or the
21 requirement for an overnight stay. This same requirement also applies to many of SoCalGas’
22 operational and administrative employees that are required to travel as part of their job
23 responsibilities for offsite meetings, training, and other business-related activities.

24 In fact, travel and meal related expenses are anticipated for all utility companies as this
25 type of cost is specifically referenced in the Federal Energy Regulatory Commission (FERC)
26 Uniform System of Accounts (USOA) under various FERC accounts including 908 “Customer
27 Assistance Expense”, 912 “Demonstrating and Selling Expense” and, 921 “Administrative and
28 General Expense”. Specifically, the FERC account 908 reference states in part, “include costs
29 incurred for providing instructions or assistance to customers, the objective of which is to

⁷ ORA-SCG-032-GSD, revised Q. 1.

⁸ Exhibit ORA-19, at 22, lines 19-21.

1 encourage safe, efficient and economical use of the associate utility company's service."
2 SoCalGas employees often incur meal expenses when traveling for business purposes such as
3 informing customers on the various services provided by the company and safe use of natural
4 gas. The FERC account description for account 912 goes on to state that "This account shall
5 include ...expenses incurred in promotional, demonstrating, and selling activities...the object of
6 which is to promote or retain the use of utility services by present and prospective customers."
7 From a review of the USOA it is readily apparent that the FERC recognizes M&E expenses as a
8 valid business expense subject to appropriate accounting treatment and presumably recovery in a
9 variety of instances including the activities cited above.

10 In the case of event tickets, SoCalGas maintains season tickets to a number of venues
11 which are used primarily for supporting, developing, and improving business relationships with
12 customers and key stakeholders. The tickets are an appropriate business expense that allows
13 SoCalGas to effectively conduct its business and further its operational goals and objectives. The
14 company assigns the highest priority for event tickets to business development with key
15 customers and community leaders. As a second priority, tickets may be used internally, such as
16 for employee teambuilding and employee recognition.

17 From a governance perspective, SoCalGas maintains specific accounting policies and
18 guidelines, referred to as "Employee Business Expense Policy," which governs the process for
19 the charging and reimbursement of M&E expenses incurred by employees. SoCalGas' current
20 policy specifies that supervisors have the responsibility for ensuring that the business expense is
21 appropriate, reasonable and in compliance with the written policy. The policy requires that
22 specific documentation must be provided along with the employee expense form. This includes
23 the date, location, business purpose, expense amount, and names of employees and guests that
24 attend the event. SoCalGas' Accounts Payable department processes approved employee
25 expense reimbursements under the Employee Business Expense Policy and the Audit Services
26 department performs periodic reviews of selected expense reports to determine that management
27 is effectively maintaining the reimbursement process in compliance with the policy.

28 As part of ORA's review, ORA did not request to see SoCalGas' business expense policy
29 or process, nor did ORA request to review any individual M&E expense item to determine the
30 appropriateness or reasonableness of the expense. Instead, ORA simply requested disallowance
31 of all the recorded 2013 M&E expense amounts. In a response to a Sempra Energy Utilities'

1 (SEU) data request, ORA acknowledged and confirmed that ORA employees, themselves, are
2 allowed reimbursement for appropriately incurred travel-related expenses, including lodging,
3 meals, incidentals, transportation and other business expenses governed by the State of
4 California's business expense policy⁹. ORA's requested reduction for M&E expense has no
5 merit or support and should be rejected.

6 **V. REBUTTAL TO TURN'S BASE YEAR ACCOUNTING ADJUSTMENTS**
7 **PROPOSALS**

8 TURN submitted testimony on May 15, 2015. Table RG-5 below summarizes TURN's
9 proposed reductions based on the disallowances of certain non-labor expenses recorded in 2013.

10 **Table RG-5**

TURN O&M REDUCTIONS - Constant 2013 (\$000)	
	Base Year 2013
Membership Dues	\$50.000
Tickets to Sporting and Cultural Events	\$55.545
Clothing and Other Gear	\$7.433
Total	\$112.978

11 TURN implies these expenses serve no benefit to the ratepayers and should be entirely
12 borne by shareholders. As explained below, these expenses provide benefits to utility customers
13 and should be included as part of the 2016 TY forecast.

14 **A. Membership Dues**

15 TURN proposes a \$50,000 reduction in membership dues, based on 2013 expenses, to the
16 following organizations: \$15,000 to California Manufacturers and Technology Association;
17 \$5,000 for Federal and State Chambers of Commerce; and \$30,000 to The Business Roundtable.
18 Membership in these three organizations advance a number of ratepayer interests, including
19 providing information on the benefits of natural gas and provides a forum for discussion of
20 advancements in technology and related service offerings. Additionally, these memberships
21 provide a venue for advocating for the development and maintenance of businesses in the service
22 territory. Further, costs identified by these organizations for lobbying and political contributions
23 are paid separately by shareholders, not ratepayers. Memberships in these organizations
24 represent important opportunities for SoCalGas to inform and collaborate with customers and
25 key stakeholders on natural gas issues.

⁹ ORA response to SEU-ORA-DR-09, dated May 22, 2015.

1 The California Manufacturers and Technology Association is an organization of
2 SoCalGas' largest core and non-core customers, addressing education and sharing of information
3 on energy uses, end use technologies, and key air quality and permitting issues related to the use
4 of natural gas by different end use applications. SoCalGas' participation is an opportunity to
5 collaborate on solutions to business climate issues and energy policy concerns.

6 The Federal and State Chambers of Commerce such as California Asian Pacific Chamber
7 of Commerce are organizations of business and commercial customers within SoCalGas' service
8 territory that address the use of natural gas. These are important opportunities to share
9 information with customers on natural gas technologies and applicable uses of natural gas. In
10 addition, these organizations provide mentorship, networking, and growth opportunities for
11 minority-owned businesses, which allows SoCalGas to increase participation of diverse business
12 suppliers in the company's procurement chain.

13 The Business Roundtable is a statewide organization of large users of natural gas and
14 statewide industry utilizing natural gas. This is an important information sharing forum for:
15 current and future uses of natural gas, current and future gas supply and price issues, and current
16 and future infrastructure maintenance and development needs. TURN's recommendation should
17 be rejected.

18 **B. Tickets to Sporting and Cultural Events**

19 TURN proposes a reduction of \$55,545 for tickets to sporting and cultural events based
20 on 2013 expenses. As explained in the rebuttal to ORA's meals and entertainment disallowance
21 in Section III above, event tickets are used for developing and maintaining business relationships
22 with customers and key stakeholders. These expenses help the company to more effectively
23 conduct its business. Event tickets likewise serve a valid business purpose to the extent they are
24 used to recognize and reward employee achievements and efforts. TURN's recommendation
25 should be rejected.

26 **C. Clothing and Other Gear**

27 TURN proposes removing \$7,433 in base year expenses associated with clothing and
28 other gear containing the utilities' name and logo because it argues that these expenses are
29 "promotional and image-building" and should not be paid for by ratepayers. What TURN fails
30 to mention is that the provision of these items in conjunction with SoCalGas' customer events
31 helps to create awareness of services and provides customers better understanding of various

1 Commission-approved customer programs, reinforcing SoCalGas' role as energy provider and
2 advisor. In addition, the growing diversity of SoCalGas' customer base in the areas of age,
3 ethnicity, culture and language can make it challenging to reach customers. The use of logo
4 items, including clothing, provides SoCalGas an important means to maintain and/or enhance the
5 communication channels with customers and ensure they have access to SoCalGas' available
6 programs and service offerings. TURN's request to disallow these costs should be rejected.

7 **VI. CONCLUSION**

8 This concludes my prepared rebuttal testimony.