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Application: A.17-10-008
Exhibit: SCG-226

SOCALGAS

REBUTTAL TESTIMONY OF CHRISTOPHER R. OLMSTED

(INFORMATION TECHNOLOGY)

JUNE 18, 2018

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



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**SOCALGAS REBUTTAL TESTIMONY OF CHRISTOPHER R. OLMSTED
(INFORMATION TECHNOLOGY)**

I. SUMMARY OF DIFFERENCES

TOTAL O&M - Constant 2016 (\$000)			
	Base Year 2016	Test Year 2019	Change
SoCalGas	24,588	32,927	8,339
ORA	24,588	25,791	1,203

TOTAL CAPITAL - Constant 2016 (\$000)					
	2017	2018	2019	Total	Variance
SoCalGas	122,653	148,498	176,169	447,320	N/A
ORA	120,118	132,204	142,629	394,951	(52,369)
					2019 Variance
CFC	No Recommendation	No Recommendation	162,269	162,269	(13,900)

II. INTRODUCTION

This rebuttal testimony regarding Southern California Gas Company’s (SoCalGas’) request for Information Technology (IT) costs addresses the following testimony from other parties:

- The Office of Ratepayer Advocates (ORA) as submitted by Mr. Mark Loy.¹
- The Consumer Federation of California Foundation (CFC), as submitted by Mr. Tony Roberts.²

As a preliminary matter, the fact that this rebuttal testimony may not respond to every issue raised by others does not mean or imply that SoCalGas agrees with the proposal or contention made by these or other parties. The forecasts contained in SoCalGas’ direct

¹ April 13, 2018, Prepared Direct Testimony of Mark Loy, Information Technology and Cybersecurity, Ex. ORA-20 (Ex. ORA-20 (Loy)).

² May 14, 2018, Prepared Direct Testimony of Tony Roberts, Information Technology, Ex. CFC-02 (Ex. CFC-02 (Roberts)).

1 testimony, performed at the project level, are based on sound estimates of its revenue
2 requirements at the time of testimony preparation.

3 **A. ORA**

4 The following is a summary of ORA's position(s):

- 5 • A forecast of \$14.491 million for non-shared O&M expenses, a reduction
6 of \$6.586 million from SoCalGas' forecast of \$21.077 million.³
- 7 • A forecast of \$11.300 million for shared O&M expenses, a reduction of
8 \$550,000 from SoCalGas' forecast of \$11.850 million.⁴
- 9 • A forecast of \$120.118 million for 2017 capital expenditures, a reduction
10 of \$2.535 million from SoCalGas' forecast of \$122.653 million.⁵
- 11 • A forecast of \$132.204 million for 2018 capital expenditures, a reduction
12 of \$16.294 million from SoCalGas' forecast of \$148.498 million.⁶
- 13 • A forecast of \$142.629 million for 2019 capital expenditures, a reduction
14 of \$33.540 million from SoCalGas' forecast of \$176.169 million.⁷

15 **B. CFC**

16 The following is a summary of CFC's position(s):

- 17 • A reduction of \$13.9 million for 2019 capital expenditures.⁸

18 **III. REBUTTAL TO PARTIES' O&M PROPOSALS**

19 **A. ORA proposes a different forecasting method, but does not dispute the**
20 **method employed by SoCalGas**

21 SoCalGas provided in-depth background on its forecasting methodology that was used
22 consistently throughout testimony. ORA's testimony did not dispute SoCalGas' approach, yet
23 ORA chose methods that differed from SoCalGas.' The following sections identify these

³ Ex. ORA-20 (Loy) at 3:21-22.

⁴ Ex. ORA-20 (Loy) at 3:24-25.

⁵ Ex. ORA-20 (Loy) at 4:6-8.

⁶ Ex. ORA-20 (Loy) at 4:9-10.

⁷ Ex. ORA-20 (Loy) at 4:11-12.

⁸ Ex. CFC-02 (Roberts) at 1.

1 differences and describe why the California Public Utilities Commission (CPUC or Commission)
2 should reject ORA's recommendations and instead adopt SoCalGas' position.

3 **1. ORA lacks any basis for rejecting SoCalGas' consistently used base**
4 **year plus adjustments forecast methodology**

5 As documented in SoCalGas' direct testimony, the use of base year 2016 adjusted
6 recorded O&M labor expenses plus adjustments for Test Year (TY) 2019 incremental resource
7 requirements, is appropriate and justified due to the nature of IT-related costs.⁹ The consistent
8 use of base year 2016 adjusted recorded O&M labor expenses plus adjustments is reasonable for
9 SoCalGas because of:

- 10 • The pace of change in the technology industry continues to accelerate when compared to
11 prior years.¹⁰
- 12 • The growth in computing power at the hardware level.¹¹
- 13 • The number and diversity of applications at the software level.¹²
- 14 • Emerging computing trends, such as cloud computing and the increasing
15 commercialization of IT capabilities.¹³
- 16 • "Black swan"¹⁴ events like the IT outages encountered in 2017.¹⁵

17 SoCalGas consistently applies this methodology across the entire forecast because these
18 themes do not change when considering the various IT cost categories. ORA chooses to base
19 their recommendation on a single year's results without challenging any of SoCalGas' arguments
20 against using historical information or trends to predict future needs.

⁹ October 6, 2017, SoCalGas Direct Testimony of Christopher R. Olmsted (Information Technology), Ex. SCG-26 (Ex. SCG-26 (Olmsted)) at CRO-6:5-CRO-7:16.

¹⁰ Ex. SCG-26 (Olmsted) at CRO-6:8-9.

¹¹ Ex. SCG-26 (Olmsted) at CRO-6:9-10.

¹² Ex. SCG-26 (Olmsted) at CRO-6:10.

¹³ Ex. SCG-26 (Olmsted) at CRO-6:11-12.

¹⁴ An event or occurrence that deviates beyond what is normally expected of a situation and is extremely difficult to predict. Black swan events are typically random and unexpected.

¹⁵ Ex. SCG-26 (Olmsted) at CRO-7:1-16.

1 **2. ORA wrongly contends SoCalGas’ forecasts do not include sufficient**
2 **supporting material**

3 ORA contends that SoCalGas’ 2017 adjusted, recorded expenses should be used as the
4 basis for their forecasts. Their premise is that SoCalGas’ “supporting workpapers are too weak
5 in quantitative support to be reliable for ratesetting purposes.”¹⁶

6 SoCalGas provides appropriate detail and analysis in support of its request of incremental
7 TY 2019 expenses. ORA does not question any particular incremental expense. Contrary to
8 ORA’s assertion, SoCalGas’ direct testimony, O&M workpapers and discovery responses
9 provide narrative and analytical support for its incremental non-shared expense request.

10 SoCalGas’ workpapers provide details of SoCalGas’ O&M expense forecast as
11 summarized in direct testimony. Forecasted costs are categorized into IT functional groupings
12 (i.e., Applications, Infrastructure and IT Support). Workpapers include additional details, such
13 as cost center and activity descriptions, forecast methodology explanations, 2012 through 2016
14 recorded costs (labor and non-labor), year to year (2017 – 2019) line item incremental activities
15 for each cost center, and explanations for incremental changes for each of the forecast years.

16 The content of workpapers is consistent with the level of detail that has been provided in
17 past rate cases and deemed acceptable. In addition, SoCalGas provided all of the information in
18 workpapers to ORA in a more analysis-friendly Excel format. In some cases, quantitative
19 information such as number of resources, annual rates and historical O&M percentages were
20 included. In others, the forecasts are based on the judgement and experience of professionals in
21 the IT division. In fact, SoCalGas’ use of professional judgement and management experience is
22 an acceptable forecasting methodology in a GRC, according to the guidelines governing these
23 proceedings.¹⁷

24 ORA’s use of a single year’s results is unwarranted and less reliable than the approach
25 taken by SoCalGas.

26 **3. ORA does not challenge any of SoCalGas’ incremental proposals**

27 SoCalGas provided non-shared and shared O&M increases in direct testimony. These
28 were further detailed in O&M workpapers and addressed in response to ORA’s discovery

¹⁶ Ex. ORA-20 (Loy) at 16:3-4.

¹⁷ Appendix A, Rate Case Plan, as updated by D.07-07-004, at A-31 (stating that “Where judgement is involved in setting an estimate level, [the applicant must] explain why that particular level was adopted”).

1 requests. At no point during discovery or in their testimony did ORA refute any of the
 2 incremental proposals that make up the overall increase. Instead, ORA bases their case on the
 3 2017 adjusted, recorded amount as compared to SoCalGas' 2017 forecast. ORA does not
 4 support their position for lower spending levels with any specific recommendations as to which
 5 SoCalGas increases, if any, are inappropriate or unwarranted. For example, SoCalGas' proposed
 6 increases related to data center/infrastructure enhancements, transition of Advanced Meter
 7 functions to operations, incremental resources supporting new functions/features, cloud
 8 subscriptions, a legacy system replacement study and contract escalations were not challenged.
 9 Without this level of detail, ORA cannot reliably provide an accurate spending level for
 10 SoCalGas to provide the necessary level of support for its business operations and customers.

11 **B. Non-Shared Services O&M**

NON-SHARED O&M - Constant 2016 (\$000)			
	Base Year 2016	Test Year 2019	Change
SoCalGas	13,962	21,077	7,115
ORA	13,962	14,491	529

12 **1. Disputed Cost - ORA**

13 ORA recommends a non-shared O&M forecast of \$14.491 million, which is \$6.586
 14 million lower than [SoCalGas'] forecast of \$21.077 million.¹⁸ The basis for the reduction is
 15 [SoCalGas'] "2017 forecast exceeding the 2017 adjusted, recorded."¹⁹ ORA "reduced SCG's
 16 2018 and 2019 forecast dollars by 68.75%, the 2017 adjusted, recorded expense divided by
 17 SCG's 2017 forecast" to develop their recommendation.²⁰

18 **C. Shared Services O&M**

SHARED O&M - Constant 2016 (\$000)			
	Base Year 2016	Test Year 2019	Change
SoCalGas	10,626	11,850	1,224
ORA	10,626	11,300	674

¹⁸ Ex. ORA-20 (Loy) (SoCalGas assumes the mention of "SDG&E's Shared O&M" was meant to read "SoCalGas' Non-Shared O&M.") at 14:3-4.

¹⁹ Ex. ORA-20 (Loy) (SoCalGas assumes the mention of "SDG&E's" here was meant to read "SoCalGas"). at page 14, lines 5 and 6.

²⁰ Ex. ORA-20 (Loy) at 16:9-10.

1 **1. Disputed Cost - ORA**

2 ORA recommends a shared services O&M forecast of \$11.300 million, which is
3 \$550,000 lower than [SoCalGas'] forecast of \$11.850 million. The basis for the reduction is
4 [SoCalGas'] "2017 forecast exceeding the 2017 adjusted."²¹ ORA "derived its forecast by
5 multiplying SCG's 2018 and 2019 forecast dollars by 95.36%, its 2017 adjusted, recorded
6 expense divided by its 2017 forecast" to develop their recommendation.²²

7 **D. SoCalGas O&M Recommendation**

8 ORA states "the inaccuracy of SCG's 2017 forecast" supports their position.²³ The
9 fallacy in ORA's argument is that SoCalGas' forecasts for 2017, 2018 and 2019 are based on IT
10 leadership's view of the necessary levels of funding to adequately support the business
11 operations and customers of SoCalGas. The difference between forecasts and adjusted, recorded
12 in 2017 will only be exacerbated in TY 2019 if a single percentage based on one year's results is
13 applied per ORA recommendations. SoCalGas again emphasizes that the merits of the
14 individual components of the proposed increases were not challenged, just the overall amount.
15 In summary, SoCalGas provides appropriate detail and analysis in support of its request of
16 incremental TY 2019 non-shared expenses of \$7.115 million and shared expenses of \$1.224
17 million.

18 **IV. REBUTTAL TO PARTIES' CAPITAL PROPOSALS**

TOTAL CAPITAL - Constant 2016 (\$000)					
	2017	2018	2019	Total	Variance
SoCalGas	122,653	148,498	176,169	447,320	N/A
ORA	120,118	132,204	142,629	394,951	(52,369)
CFC	No recommendation	No recommendation	162,269	433,420	(13,900)

19

²¹ Ex. ORA-20 (Loy) at page 16, lines 14 and 15 (SoCalGas assumes the mention of "SDG&E's" was meant to read "SoCalGas'.").

²² Ex. ORA-20 (Loy) at 18:7-8.

²³ Ex. ORA-20 (Loy) at 16:4-5.

1 **A. ORA and CFC did not challenge the merits or implementation timing of any**
2 **IT capital projects proposed by SoCalGas**

3 Neither ORA nor CFC provided any support for their recommendation based on the
4 individual merits or details of any particular IT capital project proposed by SoCalGas.

5 SoCalGas’ 2017-2019 IT capital request is well-supported by project-by-project
6 information.²⁴ SoCalGas has provided just under 900 pages of detailed capital workpapers,
7 representing 127 projects. SoCalGas’ capital workpapers specifically identify the types of
8 investments needed for the forecast period.²⁵ SoCalGas also forecasted in-service dates for each
9 project listed in the SoCalGas IT 2017-2019 capital forecasts. SoCalGas’ direct testimony
10 includes narratives in support of the SoCalGas IT-sponsored capital projects.²⁶

11 **B. Disputed Costs – ORA**

12 ORA recommends reduced capital expenditures for SoCalGas in all three years
13 forecasted. They state “for 2017, ORA used recorded adjusted capital expenditure costs
14 provided by SCG. For 2018 and 2019, ORA applied an ordinary least squares trend.”²⁷
15 Although ORA used 2017 results as the basis for their forecasts similar to their O&M forecasting
16 methodology, they opted to utilize a different forecasting model and include Cybersecurity
17 results from 2017 to bolster their argument.

18 **1. ORA chooses a forecasting methodology to maximize reductions**

19 SoCalGas’ and SDG&E’s direct testimony consistently uses zero-based forecasts for IT
20 capital. ORA employs different approaches for SoCalGas and SDG&E IT capital. The
21 foundations for developing estimates in IT do not change based on company. The arguments
22 SoCalGas applied in direct testimony in support of zero-based forecasts for capital hold true
23 across all of IT. The fact that ORA chose to use different methodologies between their IT capital
24 forecasts seems to indicate their desire to use an approach that results in the largest amount of
25 reductions.

²⁴ Ex. SCG-26 (Olmsted) at CRO-17:19-CRO-39:28.

²⁵ October 2017, Capital Workpapers to Prepared Direct Testimony of Christopher R. Olmsted On Behalf of Southern California gas Company, Ex. SCG-26-CWP.

²⁶ Ex. SCG-26 (Olmsted) at CRO-21:1-CRO-39:28.

²⁷ Ex. ORA-20 (Loy) at 18:12-13.

1 **2. ORA inappropriately combines IT and Cybersecurity spend to justify**
2 **their capital forecast**

3 Throughout their testimony, ORA chooses to keep their arguments separate between IT
4 and Cybersecurity O&M forecasts for both SoCalGas and SDG&E. This is also true for their
5 SDG&E capital recommendations. This differs when it comes to SoCalGas capital where ORA
6 combines IT and Cybersecurity forecasts to support their argument that SoCalGas’ “GRC 2017
7 forecast for IT and Cybersecurity combined is 10.6% higher than 2017 adjusted, recorded.”²⁸

8 When the Cybersecurity capital portfolio is removed from the argument, SoCalGas’ 2017
9 adjusted, recorded IT capital was \$120.118 million compared to a GRC forecast of \$122.653
10 million, a much lower difference of 2.07% than the 10.6% proposed by ORA. Why ORA
11 includes Cybersecurity forecasts on this occasion only in their testimony is unclear. ORA’s
12 approach should be rejected.

13 **C. Disputed Cost - CFC**

14 CFC recommends that SoCalGas capital forecast for IT-related projects be reduced by
15 \$13.9 million “due to the absence of guidance on the actual returns Sempra realizes on IT capital
16 spending.”²⁹ The reductions are “based on limiting the 2019 IT Division capital spending to a
17 15% annual growth rate,”³⁰ which CFC contends is an “observed IT capital investment growth
18 generally reported by other large corporations.”³¹ However, due to events documented in my
19 direct testimony related to data center outages, significant investments are planned in 2018 and
20 2019 to stabilize and modernize our data center operations to prevent similar events from
21 occurring again.³² A majority of these improvements are included in the Business Continuity
22 Enhancement project, which is forecasted to spend \$23.795 million in 2018 and \$33.609 million
23 in 2019.³³ Removing this IT capital project, and other projects in the IT portfolio, would put
24 IT’s ability to provide safe, reliable service to our employees and customers at risk.

²⁸ Ex. ORA-20 (Loy) at 20:9-10 (citations omitted).

²⁹ Ex. CFC-02 (Roberts) at 1.

³⁰ Ex. CFC-02 (Roberts) at 2.

³¹ Ex. CFC-02 (Roberts) at 2.

³² Ex. SCG-26 (Olmsted) at CRO-7:1-16.

³³ Ex. SCG-26 (Olmsted) at CRO-35:18-19.

1 **D. SoCalGas Capital Recommendation**

2 In summary, SoCalGas agrees with ORA’s recommendation for capital expenses of
3 \$120.118 million in 2017, but contests ORA and CFC’s capital proposals for the remaining
4 years. SoCalGas’ capital proposals of \$148.498 million in 2018 and \$176.169 million in 2019
5 are reasonable and well-supported by the record.

6 **V. CONCLUSION**

7 In conclusion, SoCalGas has demonstrated the following:

- 8 • SoCalGas’ TY 2019 shared O&M forecast is reasonable.
- 9 • SoCalGas’ TY 2019 non-shared O&M forecast is reasonable.
- 10 • SoCalGas accepts ORA’s 2017 capital expenditure recommendation.
- 11 • SoCalGas’ 2018 and 2019 capital expenditure forecasts are reasonable.

12 This concludes my prepared rebuttal testimony.

APPENDIX A - GLOSSARY OF TERMS

CFC	Consumer Federation of California Foundation
CPUC/Commission	California Public Utilities Commission
IT	Information Technology
O&M	Operations and Maintenance
ORA	Office of Ratepayer Advocates
SoCalGas/SCG	Southern California Gas Company
TY	Test Year
UCAN	The Utility Action Consumer's Network