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1 **PREPARED DIRECT TESTIMONY**
2 **OF JOE VELASQUEZ**
3 **CUSTOMER SERVICES & INFORMATION**

4 **I. Scope of Testimony and Summary of Request**

5 The Customer Services & Information (CS&I) area includes shared management
6 and staff groups in communications, research, natural gas vehicles and business planning.
7 The shared services portion of the CS&I organization includes the following
8 departments:

- 9 • Corporate Officers (II.A): The Corporate Officer is a Southern California Gas
10 Company (SCG) shared service that oversees SCG and San Diego Gas and
11 Electric (SDG&E) operations.
- 12 • Residential and Small Business (II.B): The Residential and Small Business
13 staff is an SCG shared service that supports SDG&E small customers. This
14 group determines market strategy, develops customer outreach programs, and
15 participates in regulatory proceedings for both utilities. The group is also
16 responsible for customer outreach for many of the programs and services
17 delivered to small customers by Customer Services Operations (CSO)
18 described in the testimonies of Mr. Patrick Petersilia, Exh. SDGE/SCG-16,
19 Chapter 8 and Mr. Ed Fong, Exh. SDGE/SCG-16, Chapter 9.
- 20 • Customer Communications & Research (II.C): The Customer
21 Communications & Research group has shared services with both SCG and
22 SDG&E. The group manages and implements paid communications and
23 internet and intranet communications about the general services provided by
24 the utility, manages the communications channels, and conducts research to
25 evaluate customer needs. The group also manages the company identities and
26 trademarks.
- 27 • Business Planning Management (II.D): Business Planning is an SCG shared
28 service that handles budget planning, monitoring and reporting in both SCG
29 and SDG&E.

- 1 • Energy Markets (II.E): The Energy Markets group has shared services with
2 both SCG and SDG&E. The organization provides service and support for
3 large electric generating customers in both SCG and SDG&E.
- 4 • Federal Accounts (II.F): Federal Accounts has shared services with both SCG
5 and SDG&E. The group provides customer service for federal customers in
6 both SCG and SDG&E.
- 7 • Natural Gas Vehicle (NGV) Program (II.G): The NGV Program is an SCG
8 shared service that provides information and training to NGV customers in
9 both SCG and SDG&E.

10 **Summary of Request – Customer Services & Information**

11 The estimated incurred costs for TY 2008 SDG&E CS&I shared services is a net
12 increase of \$718,000 over the comparable 2005 incurred costs, as indicated in Table
13 USS-JSV-1 below. Allocations to SCG from SDG&E CS&I shared services in TY 2008
14 are estimated to increase by \$743,000 from 2005 allocations. Therefore, SDG&E
15 retained shared services expenses will decrease by \$25,000 from 2005 recorded levels.
16 Additionally, SCG billed in estimates are expected to be \$1.1 million in TY 2008, an
17 increase of \$519,000 from 2005 recorded levels.

18 In total, the booked shared service expense incurred by SDG&E CS&I shared
19 services is an increase of \$494,000 from 2005 to TY 2008.

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Table USS-JSV-1
Summary of SDG&E CS&I Shared Services Expenses
(Thousands of \$2005)

Customer Services Information	Base Year 2005	Forecast 2008	2005-2008 Incr(Decr)
SDGE Incurred Cost:			
Customer Services	0	0	0
Customer Services - Major Markets	297	309	12
Customer Services - Mass Markets	0	0	0
Customer Communications & Research	5,147	5,853	706
Sub-Total Incurred Cost	<u>5,444</u>	<u>6,162</u>	<u>718</u>
Allocations Out			
To SCG from SDGE	1,925	2,668	743
To Corporate Center/Other from SDGE	<u>0</u>	<u>0</u>	<u>0</u>
Sub-Total Allocations Out	<u>1,925</u>	<u>2,668</u>	<u>743</u>
Book Expense:			
SDGE Retain	3,519	3,494	(25)
Billed in from SCG	580	1,099	519
SDGE Book Expense	<u>4,099</u>	<u>4,593</u>	<u>494</u>

The specific nature of operations, discussion of base year expenses and the explanation of key changes for each department are found in Section VII.B. Additional details at the department level and at the cost center level can be found in the work papers that accompany this testimony.

II. Nature of Operations and Explanation of Expenses

Table USS-JSV-2 summarizes the incurred costs by department presented in the following sections. SDG&E estimates that incurred costs will increase by \$718,000 in TY 2008.

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Table USS-JSV-2
SDG&E Incurred Costs by Department
(Thousands of \$2005)

Section	Department	Base Year 2005	Forecast 2008	2005 – 2008 Incr(Decr)
A	Corporate Officers	-	-	-
B	Residential and Small Business	-	-	-
C	Customer Communications & Research	5,147	5,853	706
D	Business Planning Management	-	-	-
E	Energy Markets	72	84	12
F	Federal Accounts	225	225	0
G	Natural Gas Vehicles	-	-	-
	Total Incurred Costs	5,444	6,162	718

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A. Corporate Officers

Table USS-JSV-3
CS&I Corporate Officers Shared Services Expenses
(Thousands of \$2005)

Description	Base Year 2005	Forecast 2008	2005 – 2008 Incr(Decr)
Total incurred at 100%	-	-	-
Allocation to SCG	-	-	-
Billed in from SCG	179	213	34
Total Book Expense	179	213	34

1 **Nature of Operations**

2 The Customer Service, Major Markets vice-president is a SCG shared service that
3 oversees account management and other customer service activities for both SDG&E's
4 and SCG's largest customers. These include the following departments: Energy Markets
5 and Capacity Products, Federal Accounts, C&I Services, and Technology Development.

6 **B. Residential and Small Business**

7 **Table USS-JSV-4**

8 **CS&I Residential and Small Business Shared Services Expenses**

9 **(Thousands of \$2005)**

Description	Base Year 2005	Forecast 2008	2005 – 2008 Incr(Decr)
Total incurred at 100%	-	-	-
Allocation to SCG	-	-	-
Billed in from SCG	-	139	139
Total Book Expense	-	139	139

10 **Nature of Operations**

11 Recorded 2005 base year expenses are zero for this organization. This is a new
12 SCG shared services cost center created in March 2006 as a result of a departmental
13 reorganization. This activity had previously existed in a FERC 908 non-shared services
14 account. The Residential and Small Business staff determines market strategy and
15 tactics, develops customer segment specific information and outreach, participates in
16 regulatory proceedings and analyzes legislation that impacts residential and small
17 business customers served by both SCG and SDG&E. The group is also responsible for
18 communicating to customers about many of the specific metering, billing and credit
19 policies implemented by the CSO area, as discussed in the testimonies of Mr. Patrick
20 Petersilia, Exh. SDGE/SCG-16, Chapter 8 and Mr. Ed Fong, Exh. SDGE/SCG-16,
21 Chapter 9.

1 **Explanation of Key Changes**

2 The new shared services cost center for Residential and Small Business includes
3 three SCG FTEs who perform work in support of both utilities. A manager is responsible
4 for supervising employees at both utilities. A senior market advisor is responsible for
5 financial reporting and analysis, regulatory proceedings, legislation and strategic issues
6 for both utilities. An administrative associate supports the manager and staff at both
7 utilities. Each allocates 50% of their costs to SDG&E.

8 **C. Customer Communications & Research**

9 **Table USS-JSV-5**

10 **CS&I Customer Communications & Research Shared Services Expenses**

11 **(Thousands of \$2005)**

Description	Base Year 2005	Forecast 2008	2005 – 2008 Incr(Decr)
Total incurred at 100%	5,147	5,853	706
Allocation to SCG	1,815	2,551	736
Billed in from SCG	63	80	17
Total Book Expense	3,395	3,382	-13

12 **Nature of Operations**

13 The Customer Communications and Research group provides service to SDG&E
14 and SCG, with shared services cost centers at both utilities. The organization informs
15 customers of general services provided by the utility, manages communications channels,
16 and performs research to evaluate customer needs. In particular, it provides the following
17 services to the organization:

- 18 • Development, management and implementation of paid communications through
19 printed materials, advertising, electronic, direct mail and other channels
- 20 • Development, management and implementation of internet and intranet
21 communications including e-mail and e-newsletters
- 22 • Customer research using qualitative, quantitative and secondary methods

- 1 • Management of the design and printing of a wide range of bill inserts collateral
- 2 pieces including brochures, flyers, posters and newsletters
- 3 • Management of the use of company identities and compliance with various
- 4 copyright, trademark and creative usage rights requirements

5 SDG&E Customer Communications and Research recorded \$5,147,000 in 2005
6 for 22 positions in six functional areas. The major non-labor expenditures were
7 \$1,815,000 on communications related to energy reliability and services, \$1,424,000 on
8 customer research, and \$159,000 on web software and services. These activities
9 provided customers with information on energy services, functions on the website and
10 information in ethnic languages, and collects customer research information to guide
11 service offerings and report on customer satisfaction performance.

12 SDG&E has six shared service functional areas:

- 13 1) SCG Customer Communications
- 14 2) Web Services (internet and intranet)
- 15 3) Customer Focus and Utility Identity
- 16 4) Creative Services (management of printing and graphic design)
- 17 5) Customer Research
- 18 6) Department Management

19 1) The SCG Customer Communications staff manages the paid communications
20 strictly for customers of SCG through print, broadcast media, electronic, direct
21 mail and bill enclosures. The area funds four FTEs and performs the planning of
22 paid communications as part of overall promotional strategies; and management
23 and oversight of suppliers including freelance writers and advertising agencies.

24 The costs for vendors and media are charged to the requesting area within SCG.

25 2) The Web Services funds staff that supports both internet and intranet for
26 SDG&E and SCG. The costs for this function include employee expenses and
27 contracts for software and related contractor support to develop and maintain the
28 internet and intranet sites for both companies including blast e-mails and
29 newsletters.

30 3) Customer Focus and Utility Identity area oversees the use of company logos
31 and identities. Both companies' logos and names are trademarked and require

1 oversight to ensure proper and legal usage by both internal areas and outside
2 entities. This area manages the creative usage rights requirements and works with
3 the legal department to pursue companies or individuals who are using the
4 company identity without permission. This aids customers by ensuring
5 information provided with the company name or logo comes from the company
6 and reduces customer confusion as to the source of the information.

7 4) Creative Services manages the daily activity related to the design and printing
8 of collateral pieces and bill enclosures used by both companies. They also
9 manage the calendar of bill enclosures for both utilities. The costs for this group
10 are for labor and associated non-labor only. Costs for the designing and printing
11 of various pieces are charged to the requesting area of the company.

12 5) Customer Research conducts research for both companies. Costs for
13 approximately 12 on-going primary and secondary research projects, such as
14 customer satisfaction measurement, are included within this area. Other company
15 research projects are coordinated by this group but are charged to the requesting
16 area.

17 6) Overall management of the department functional area for both companies is
18 provided in this area. This area also contains costs for department-wide supplies
19 and two FTEs. In addition, there is an on-going communications campaign about
20 long term planning for future energy needs and services. This is a multi-phased
21 campaign to address customer questions and concerns about infrastructure, energy
22 supply, customer services, renewable energy, and service reliability. In recent
23 years, deregulation, the energy crisis, and rolling blackouts created great concern
24 and confusion in customer minds about their energy future. Customers wanted to
25 know what was being done to resolve the problem. These reactions were
26 expressed in focus groups with residential and small business customers.¹ The
27 widespread view was that no one was doing anything to address the situation and

¹ Consumer Research Associates, "SDG&E Summer Assistance Program Focus Group Study," Project SEMP01-08, June 2001.

1 no one was looking out for customer interests today or into the future. Customers
2 wanted answers.

3 In direct response to these concerns, an informational campaign was
4 developed to educate customers about what SDG&E was doing on the long-term
5 planning for their energy future. Information materials were disseminated through
6 various communication channels, providing details on company plans, solutions
7 and actions to ensure the services, infrastructure, energy supply and system
8 maintenance that customers expect will be available to them whether at work or at
9 home. For SCG, the web site was redesigned as well as the company newsletter,
10 The Gas Company News.

11 **Base Year Review**

12 No adjustments were made to the base year level of expenses. The incurred costs
13 are spent on customer communications through paid media, development of materials,
14 bill enclosures and printing.

15 **Explanation of Key Changes**

16 The following text describes key changes requested by the Customer
17 Communications and Research department.

18 1) SCG Customer Communications: With the growth of internet, e-
19 communications and the increased complexity to develop effective
20 communications for the medium, an additional FTE is needed to help manage the
21 various projects required to support company operations. Over the past two years
22 there have been additional demands placed on resources to manage increased
23 functionality, applications, content updating/posting as well as to understand and
24 comply with federally mandated e-mail legislation.

25 2) Web Site: 1 FTE added to the web area to support the growing need for internet
26 and intranet communications to both customers and employees. As the use of the
27 web becomes wider spread, this additional FTE is needed to perform daily project
28 management, implementation of web page updates, and e-mail campaigns.

29 3) Utility Identity/Customer Focus: In this area there is one FTE transferred from
30 a non-shared area within SCG. The transfer of this FTE allows for better service
31 to both utilities by shifting to a shared service. Other labor costs adjustments

1 include a \$26,000 increase to correct costs for one FTE that has been on disability
2 for a portion of 2005 and 2006. There is one FTE to be added in 2008 to assist
3 with logo and identity issues and photography rights in both printed and electronic
4 materials. For non-labor, there is an additional \$50,000 for a digital asset
5 management system to track and manage the rights of various photos and
6 illustrations the company owns or has the right to use. With the legal aspects of
7 photos rights, the management of these rights has become increasingly important
8 to avoid the misuse of photos or illustrations.

9 4) Creative Services: 1 FTE will be added to Creative Services to manage
10 collateral design and printing projects. The use of printed materials has remained
11 at consistent levels, despite the growth of electronic communication channels, in
12 part due to the increased numbers of required notices. This position will improve
13 the coordination of notices in SDG&E and SCG bill packages from what existing
14 staff is able to provide. For example, as a result of increased notices, the 1-ounce
15 postage weight limit has been exceeded one to two times a year, at a cost of
16 approximately \$300,000 per month each time. With the growth of electronic
17 billing, this position will also need to coordinate information sent via printed bills
18 and electronic bills. Finally, this function will assist with the management of
19 materials to be translated into Vietnamese and Chinese.

20 5) Customer Research: \$444,000 increase for additional and expanded research.
21 Projects include alternative payment locations, food service industry, and
22 qualitative research. Additional cost increases are also required for the customer
23 satisfaction study (PBR) for data analysis, reporting and interviewing based on
24 increases to the negotiated contract with the supplier. SDG&E will also
25 implement a new customer satisfaction benchmarking study to measure electronic
26 online transactions.

27 6) Department Management: A decrease of \$142,000 results from the inclusion of
28 media cost increases of \$158,000 and a decrease due to the re-assignment of
29 \$300,000 from communications efforts to off-set additional customer research and
30 web site related costs. The \$300,000 reduction will result in less exposure for the
31 messages supported by this effort, specifically information about SDG&E's

1 current activities and plans for the future related to providing reliable energy,
2 services, renewable energy and new infrastructure projects.

3 Increased media costs of \$158,000 are also included. This increase will
4 provide for a consistent level of exposure of SDG&E's messages. The increase is
5 based on an average of 5% above the rate of inflation, an assumption based on
6 input from local media companies. This projected increase is based on a recent
7 June 2006 study conducted by an outside consultant on the local media market at
8 the request of SDG&E. The increases allow SDG&E to maintain a level of
9 exposure and do not allow for additional exposure.

10 **Description of Allocations**

11 The following describes the allocations for the various functional areas in
12 Customer Communications and Research group.

13 1) SCG Customer Communications: The expenses for this shared services cost
14 center are allocated 100% to SCG because all costs are related to SoCalGas as
15 described above.

16 2) Web Site: The expenses for this shared services cost center are allocated
17 equally between the two utilities. This methodology is based on providing an
18 equal level of support and related costs to each utility.

19 3) Creative Services: The expenses for this shared services cost center are
20 allocated equally between the two utilities. This methodology is based on
21 providing an equal level of support and related costs to each utility.

22 4) Utility Identity/Customer Focus: The expenses for this shared services cost
23 center are allocated equally between the two utilities. This methodology is based
24 on providing an equal level of support and related costs to each utility.

25 5) Customer Research: The expenses for this shared services cost center are
26 allocated 58% to SCG. The methodology is based on the costs associated with the
27 specific research projects and how those costs vary by each utility. The cost
28 differences result from dealing with slightly larger sample sizes in conducting
29 research in SCG's larger service territory versus SDG&E's territory.

30 6) Department Management: The expenses for this shared services cost center
31 were allocated equally between the two utilities based on providing management

1 and communications to both service territories. However, SDG&E directly
 2 retained \$1.8 million in 2005 based on change in direction for the communication
 3 effort. Initially communications were planned for both SDG&E and SCG, but
 4 then shifted to focus on SDG&E. The SCG Web site, as well as The Gas
 5 Company News billing newsletter enclosure, were redesigned. For 2006 through
 6 2008 the majority of costs will continue to be retained at SDG&E and the
 7 allocation to SCG will range from between 8% to 10% and include labor and non-
 8 labor costs. This allocation includes funding for communicating select messages
 9 about natural gas supply and price issues and on-going maintenance of an e-mail
 10 preference center.

11 **D. Business Planning Management**

12 **Table USS-JSV-6**

13 **CS&I Business Planning Management Shared Services Expenses**

14 **(Thousands of \$2005)**

Description	Base Year 2005	Forecast 2008	2005 – 2008 Incr(Decr)
Total incurred at 100%	-	-	-
Allocation to SCG	-	-	-
Billed in from SCG	101	116	15
Total Book Expense	101	116	15

15 **Nature of Operations**

16 The Business Planning Management staff is an SCG shared service that supports
 17 business planning and annual budget development in the Customer Services area with
 18 direct accountability to the Customer Service vice-presidents and senior vice president.
 19 As a support organization, each of the employees charging this cost center has
 20 responsibility for both SCG and SDG&E plans and budgets.

21 **Base Year Review**

22 Recorded 2005 base year expenses were reviewed. A total of five employees
 23 charged this cost center during 2005. The five FTEs include a manager and

1 administrative assistant, one project manager, and two senior business analysts. Actual
 2 FTEs charged during 2005 were slightly less than authorized due to staff turnover
 3 creating vacancies for part of the year. At year-end 2005, staffing was at authorized
 4 levels.

5 The employees charge both labor and non-labor expenses to this cost center.
 6 Specific non-labor expenses relate to training, office supplies, office equipment, and
 7 reimbursable employee expenses.

8 **Explanation of Key Changes**

9 The increase in expense reflects full-year funding for positions experiencing
 10 turnover in the base year 2005.

11 **E. Energy Markets**

12 **Table USS-JSV-7**

13 **CS&I Energy Markets Shared Services Expenses**

14 **(Thousands of \$2005)**

Description	Base Year 2005	Forecast 2008	2005 – 2008 Incr(Decr)
Total incurred at 100%	72	84	12
Allocation to SCG	3	4	1
Billed in from SCG	45	52	7
Total Book Expense	114	132	18

15 **Nature of Operations**

16 The Energy Markets group provides service to SDG&E and SCG customers with
 17 shared services costs at both utilities. The Energy Markets' customer segment includes
 18 the 125 largest customers and 30 natural gas producers. Typical customers are petroleum
 19 refineries, large cogeneration facilities (20 MW and greater), Utility Electric Generators
 20 (UEG), Electric Wholesale Generators (EWG), wholesale, international and Enhanced
 21 Oil Recovery (EOR).

22 The Account Management function provides a single point of contact for
 23 managing communications between the Company and the Energy Markets customers.

1 There are 8 account managers (AMs) assigned to manage implementation of SCG' utility
2 service and 1 account manager for SDG&E's 9 EWG and Large Cogeneration customers.

3 **Base Year Review**

4 Recorded 2005 base year expenses were for a partial year FTE and associated
5 non-labor expenses.

6 **Description of Allocations**

7 The SCG Energy Markets group allocates approximately 15% of its input costs to
8 SDG&E for the estimated amount of resources spent on management and staff support.

9 The SDG&E Energy Markets group allocates 5% of its input costs for time spent in the
10 SCG service territory.

11 **Explanation of Key Changes**

12 The increase in expense reflects full-year funding for a position that experienced
13 turnover in the base year 2005.

14 **F. Federal Accounts**

15 **Table USS-JSV-8**

16 **CS&I Federal Accounts Shared Services Expenses**

17 **(Thousands of \$2005)**

Description	Base Year 2005	Forecast 2008	2005 – 2008 Incr(Decr)
Total incurred at 100%	225	225	0
Allocation to SCG	107	113	6
Billed in from SCG	192	202	10
Total Book Expense	310	314	4

18 **Nature of Operations**

19 SDG&E and SCG have shared services accounts for the cost of management and
20 supervision, an account executive and administration for Federal Accounts customer
21 service.

22 Federal Accounts works with the largest Federal and State customers in the SCG
23 and SDG&E service territories. These customers include the U.S. Navy, U.S. Marine

1 Corps, U.S. Air Force, General Services Administration (GSA), California National
2 Guard, State of California Department of General Services (DGS), California State
3 University system, etc. Primary activities of the account executive are account
4 management for the customers including energy information updates, billing analysis,
5 long term gas contract negotiations, and periodic tariff review/ update to ensure that the
6 most cost effective tariff is being offered.

7 Providing account management services to the Federal/State customer requires an
8 extensive knowledge of Federal Acquisition Regulations (FAR) along with State of
9 California procurement practices. Ongoing federal training is essential to ensure that
10 current government and state statutes are appropriately applied.

11 **Base Year Review**

12 No adjustments were made to the base year level of expenses.

13 **Description of Allocation**

14 Costs are allocated approximately 50% to SCG and 50% to SDG&E in alignment
15 with work activities which are divided equally between the two utilities.

16 **Explanation of Key Changes**

17 The Federal Accounts group has a minor incremental cost adjustment in TY2008
18 because of full year labor impact for a SCG employee on disability leave in 2005.

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1 **G. Natural Gas Vehicles**

2 **Table USS-JSV-9**

3 **CS&I Natural Gas Vehicles Shared Services Expenses**

4 **(Thousands of \$2005)**

Description	Base Year 2005	Forecast 2008	2005 – 2008 Incr(Decr)
Total incurred at 100%	-	-	-
Allocation to SCG	-	-	-
Billed in from SCG	-	297	297
Total Book Expense	-	297	297

5 **Nature of Operations**

6 The Natural Gas Vehicle (NGV) Program will be funded through a new SCG
7 shared services cost center that will be created in 2008. The existing SCG and SDG&E
8 NGV Programs have been historically examined and approved under separate CPUC
9 proceedings and are currently funded through one-way balancing accounts. CPUC
10 decision D.05-05-010 directed SCG and SDG&E to request future funding in the next
11 General Rate Case. The currently authorized funding levels will be used as the basis for
12 establishing an O&M funding base.

13 **Explanation of Key Changes**

14 SCG provides an NGV account executive (AE) to serve SDG&E's approximately
15 49 NGV customers and 34 G-NGV meters. The AE provides individualized account
16 management services to assist customers in identifying, developing and implementing
17 NGV transportation solutions and process improvements. Customers range from transit
18 agencies with multiple facilities supporting thousands of vehicles to smaller NGV
19 customers. The individualized approach provided by the AE is necessary given the
20 complexities of satisfying individual customer requirements.

21 The NGV Program also provides training programs, seminars and technical
22 support for customers. Additional details on the program can be found in the testimony
23 of Mr. Phil Baker, Exh. SDGE/SCG-16, Ch. 6 and Exh. SCG-8. The costs billed to

1 SDG&E are based on the relative number of meters served by each utility and include
2 shared management, administrative support and non-labor expenses.

3
4 **III. Conclusion – Customer Service & Information**

5 The net SDG&E shared services request for Customer Services & Information
6 shown in this testimony are necessary and reasonable for TY2008 and reflect the net
7 impact of SDG&E incurred costs less allocations to SCG plus billed-in amounts to
8 SDG&E from SCG.

9 This concludes my prepared direct testimony.

10