DRA DATA REQUEST
DRA-SCG-146-DAO
SOCALGAS 2012 GRC – A.10-12-006
SOCALGAS RESPONSE
DATE RECEIVED: NOVEMBER 8, 2011
DATE RESPONDED: NOVEMBER 28, 2011

Exhibit Reference: SCG-219

Subject: Compensation

Please provide the following:

1. The 2010 and 2011 YTD number of FTEs and headcounts for SoCalGas.

SoCalGas Response:

Headcount:
12/31/10 = 7,067
10/31/11= 7,411

FTEs:
Below are the adjusted total 2010 FTEs consistent with the GRC presentation.

12/31/10 = 6,724.3
10/31/11 = Not Available

Please note that 2011 YTD FTE's consistent with our GRC presentation is not available. Only total company labor hours exists which include non-GRC items and has not been adjusted to be consistent with SoCalGas' GRC presentation. It should also be noted that as described in witness Robinson's rebuttal testimony, FTE and headcount are not comparable or interchangeable. If comparing 12/31/10 headcount to FTE, the result is higher headcount by 342.7. The higher headcount number is primarily due to part-time employees, and refundable employees (not in the GRC). Also, the value is offset to some extent by overtime being captured in FTEs but not headcounts, further complicating a comparison.

2. A citation to DRA testimony wherein DRA assumed that, "…the number of employees would remain at 2010 levels," as stated on page DSR-3, lines 15-16.

SoCalGas Response:

This assumption is implicit in the methodology DRA used to calculate its recommendation for TY 2012 ICP cost recovery. Per DRA's response to SoCalGas data request DR SEU DRAQ-019, question A.1, DRA's recommendation was calculated as follows:

$26,350,000: Rounded 2010 SoCalGas projected short-term incentive expenses; less
$1,358,000: Rounded 2012 SoCalGas projected executive compensation for short-term incentives x 30%: DRA's recommended ratepayer allocation = $7,498,000

In using 2010 short-term incentive expense as the basis for its TY 2012 recommended cost recovery, DRA is implicitly basing its TY 2012 forecast on the 2010 employee population.

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3. Referring to pages DSR-6 to DSR-7, please (1) provide a copy of any and all analyses performed by SoCalGas or Sempra which quantifies the benefits provided to ratepayers, as a direct result of financial performance measures, operational measures, and individual performance measure.

SoCalGas Response:

As evidenced by the results of the Total Compensation Study, which was jointly sponsored by DRA and SoCalGas, SoCalGas' total compensation package is reasonable and consistent with the external market. SoCalGas' request for recovery of <u>target</u> short-term incentive plan costs should be evaluated based on the fact that total compensation is at market rather than based on a quantitative assessment of the degree to which ratepayers benefit to a greater or lesser extent than shareholders.

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4. Referring to page DSR-7, lines 14-19, please identify all ratepayer funded bonuses, rewards, benefits and/or compensations, in any and all format, and in any and all proceedings currently or previously before the Commission, in addition to base pay provided to SoCalGas and Sempra executives in the General Rate Case application.

SoCalGas Response:

SoCalGas interprets this question to refer to items for which SoCalGas is receiving ratepayer funding pursuant to the terms of the Test Year 2008 settlement.

Under the 2008 settlement, ratepayers funded 50 percent of target ICP. The settlement did not provide funding for long-term incentives or supplemental pension plans. Non qualified deferred compensation costs were settled in sum with another retirement benefit program in the 2008 settlement and therefore cannot be specifically quantified in regards to ratepayer funding for this program.

5. Referring to page DSR-7, lines 3-8, wherein SoCalGas disputes DRA's recommendation of 50/50 sharing of funding between ratepayers and shareholders and wherein SoCalGas disagrees that ratepayers and shareholders benefit equally. SoCalGas states, "These measures clearly benefit ratepayers."
   a. Please explain in detail why SoCalGas disagrees that ratepayers and shareholders benefit equally. Include supporting documents and calculations used in SoCalGas' determination.
   b. Is it SoCalGas' position that shareholders receive less benefit or more benefit from the ICP's operational measures than ratepayers?
      i. If it is SoCalGas' position that shareholders receive less benefit than ratepayers, please quantify the amount of benefit, in percentage form if possible, SoCalGas believes shareholders receive as a direct result of employee operational measures. Please provide a detailed explanation of SoCalGas' rationale and provide a copy of all calculations and supporting documents to support SoCalGas' position.
   c. Please identify the percentage of shareholder funding that would be fair to ratepayers.
   d. Is it SoCalGas' position that the operational measures only benefit ratepayers and does not provide any benefit to shareholders? If yes, please explain in detail and provide a copy of all documents and calculations used in supporting SoCalGas' position.

SoCalGas Response (a-d):

SoCalGas should receive cost recovery for short-term incentives because they are part of a competitive, market-based compensation package. The Total Compensation Study, which was jointly sponsored by DRA and SoCalGas, found that total compensation is "at market". Because short-term incentive compensation is part of a reasonable compensation package, it should be treated no differently than base pay for cost recovery purposes.

SoCalGas strongly believes that ratepayers benefit from the ICP's financial, operational and individual performance measures. SoCalGas has not attempted to quantify the extent to which ratepayers benefit compared to the extent to which shareholders benefit.

As stated above, ratepayers should fund 100% of target short-term incentives because they are a reasonable part of the cost of service. If SoCalGas exceeds target performance, any ICP compensation above target is paid by shareholders.

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6. Referring to page DSR-7, SoCalGas states, " Financial measures were weighted at 30 percent of total ICP in the 2011 non-executive ICP plans…Operational measures were weighted at 20 percent of total ICP in the 2011 non-executive ICP plans…Individual performance measures were weighted at 50 percent of total ICP in the 2011 non-executive ICP plans."
   a. Please confirm that SoCalGas is including new information regarding the financial measures, the operational measures, and the individual performance measures in the Rebuttal testimony, not provided in the testimony as presented in Exhibit SCG-19.
   b. Please identify the reasons for the changes in allocation percentages as reflected in the financial measures, the operational measures, and the individual performance measures for the 2011 non-executive ICP plans as compared to the 2009 ICP plans.
   c. In Exhibit SCG-19, pages DSR-6 to DSR-8, SoCalGas does not distinguish between a "non-executive ICP plan" and an "executive ICP plan," as identified in the Rebuttal testimony, Exhibit SCG-219, pages DSR-6 to DSR-7.
      i. Is there an executive ICP plan separate from the ICP plan identified and discussed in Exhibit SCG-19? If yes, please provide a copy of this plan and explain in detail why no distinction was made in the testimony as presented in Exhibit SCG-19.
      ii. Identify the weighting factors and measures used to evaluate the ICP rewards provided to executives. If the weighting factors and measures are different compared to those used for non-executives, please explain why these are different.

SoCalGas Response:

a. SoCalGas' ICP performance measures and targets are set on an annual basis. Performance measures and weightings change from year to year. At the time Exhibit SCG-19 was filed in December 2010, the 2011 ICP had not yet been developed.
b. Performance measures and weightings are developed each year based on the company's goals and objectives. In 2011, the weighting of the individual measure remained unchanged at 50 percent. The weighting of the operational goals increased to 20 percent (from 15 percent in 2009) and the weighting of the financial goals decreased to 30 percent (from 35 percent in 2009).
c.
   i. Yes, SoCalGas has had a separate executive ICP plan for many years. SCG-19 does not discuss specific ICP plans and the associated weightings for performance measures. These were discussed in the DRA Master Data Request, which was provided to the DRA in August, 2010.

Response to Question 6 (Continued)

ii. Please see Master Data Request, Chapter 20. Copies of executive and non-executive ICP plan documents were provided under question 3 and summaries of 2005-2009 performance measures and results were provided under question 4.

Compared to the non-executive ICP, the executive ICP has a higher weighting tied to financial and operational measures because executive employees generally have greater influence over the achievement of these results.

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7. Referring to the statement on page DSR-10, wherein SoCalGas states, "SCG was required to recognize expense for these awards during this entire period, including the years prior to the 2006 implementation of FAS123R…" Please provide the following information:

    a. Identify "this entire period."
    b. Identification of the entity or organization that "required" SoCalGas to recognize expense for the long term incentives in the form of performance-based restricted stock and performance-based restricted stock units.
    c. A copy of all documents requiring the expense of the long term incentives in the form of performance-based restricted stock and performance-based restricted stock units for the time frame identified as "this entire period".
    d. A detailed explanation of the accounting treatment and cost recovery of expenses for the long term incentives in the form of performance-based restricted stock and performance-based restricted stock units prior to, and after FAS123R, was implemented.

SoCalGas Response:

a. The "entire period" refers to 2005-2009 historical years.
b. The accounting for performance-based restricted stock awards and units prior to 2006 was recorded in accordance with Accounting Principles Board (APB) Number 25. Starting in 2006, these awards were recorded as equity awards in accordance with Accounting Standards Codification (ASC) 718, formerly known as FAS 123R. Both accounting pronouncements were issued by the Financial Accounting Standards Board (FASB).
c. Copies of the accounting pronouncements noted above are attached below.

    APB 25.pdf   ASC 718.pdf

d. The accounting for performance-based restricted stock awards prior to 2006 under APB 25 were recorded based on intrinsic value of the award over the life of the award. The accounting for these awards beginning 2006 under ASC 718/FAS 123R was based on the grant-date fair value of the awards over the requisite service period of the award. The LTIP costs received in the prior General Rate Case were zero as part of the 2008 GRC settlement.