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.	A.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.	A.10-12-006 (Filed December 15, 2010)

Application: A.10-12-006
Exhibit No.: SCG-208

PREPARED REBUTTAL TESTIMONY OF
MICHAEL H. BALDWIN
ON BEHALF OF SOUTHERN CALIFORNIA GAS COMPANY

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

OCTOBER 2011

SCG Doc#259982

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PREPARED REBUTTAL TESTIMONY OF

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I. INTRODUCTION

The following rebuttal testimony regarding Customer Services – Office Operations addresses the intervener testimony dated September 2011 of:

- Division of Ratepayer Advocates ("DRA"), Exh. DRA-16, Witness Gomberg – September 1, 2011; and
- The Utility Reform Network ("TURN") Witness Nahigian.

This rebuttal testimony consolidated the issues raised by DRA and TURN for Customer Service Technology and Customer Services Operations–Other since similar issues were addressed by both parties. Other activities are addressed separately for DRA and TURN.

Specifically, my testimony rebuts the following points:

- DRA's recommended disallowance of $396,000 from the historical Five Year Average ("FYA") in the Office Credit & Collections area to support the Red Flags rule, a section of the Fair and Accurate Credit Transactions Act ("FACTA") which is based solely on a misguided timeline of events.
- DRA's recommended disallowance of 5.7 Full Time Equivalent employees ("FTEs"), and $742,000 from the FYA in the Customer Services Technology Support area. DRA's justification is not supported by any evidence.
- TURN recommends the Customer Service Technology Support expense forecast be reduced by $916,000 to reflect the 5-year average but without any adjustments, even though adjustments and need are documented in testimony.

- DRA's disallowance of $533,000 from the FYA on the Customer Service Operations–Other areas disallowing an Industrial Engineer and a Vice President of Customer Operations.
- TURN recommends the Customer Service - Other expense forecast be reduced by $388,000 to reflect 2010 recorded costs without any adjustments, even though the adjustments and need are documented in testimony.
- TURN recommends the postage expense forecast be reduced by $2.384 million, which is composed of two separate reductions associated with the forecasted rate at which customers will adopt paperless billing, and the accounting of prefunded postage costs.
- TURN recommends the Bill Delivery expense forecast be reduced by $1.343 million to reflect the number of customers going to the paperless billing option which is based on misguided methodology.
- TURN's recommended reduction of $574,000 to Shared Service cost center 2200-0355, based on using 2010 recorded data.
- TURN recommends a reduction of all $100,000 to Shared Service cost center 2200-2026 based on using 2010 recorded data.

II. CUSTOMER SERVICES – OFFICE OPERATIONS REBUTTAL TO DRA

A. Office Credit & Collections

In Exhibit SCG-8, page MHB-15, 4.4 FTEs were requested in support of FACTA. These FTEs are essential to the processes to detect, prevent, and mitigate identity theft (i.e., "Red Flags") to reach compliance with FACTA legislation. In doing so, our customers are protected.

In Exhibit DRA-48, page 4, DRA has recommended that Southern California Gas Company's ("SCG's") incremental request of $427,000 (labor and non-labor combined) be reduced by $396,000 from the FYA, disallowing the entire amount required to implement the Red Flags Rules of the FACTA Act of 2003 because of their misunderstanding of the timeline of events, stating *"If SCG needed additional resources to comply with FACTA it had ample time to request them. Now that SCG has achieved compliance the Commission should not reward SCG's delay by approving the requested expenses."*[1] (Emphasis added.)

<u>Rebuttal to DRA</u>

DRA's recommendation should be disregarded because it is based upon misunderstanding the timeline of the Act, and utility compliance requirements, as explained herein. Table 1 below gives a complete timeline of events.

<u>Table 1</u>

Timeline	Event
December 2003	FACTA signed into law
June 2008	Business Alert issued by the Federal Trade Commission ("FTC"); Red Flags Rule applies to a very broad list of businesses including "financial institutions" and "creditors" with "covered accounts". A "creditor" is defined to include "lenders such as banks, finance companies, automobile dealers, mortgage brokers, **utility companies** and telecommunications companies". Date for compliance November 2008.
November 2008	FTC delays compliance; new compliance date May 2009
April 2009	FTC delays compliance; new compliance date August 2009
August 2009	Initial training of SCG Credit & Collections and Branch Office employees begins
September 2009	SCG Credit & Collections implementation
October 2009	The FTC announced in October 2009 that at the request of certain members of Congress, it was delaying enforcement of the Rule **until June 1, 2010**

[1] Exhibit DRA-48, p. 4, lines 8 – 11.

November 2009	SCG Branch Offices begin accepting 2 forms of identification
June 2010	Full compliance required; the FTC is extending its forbearance for bringing any enforcement action for violation of the Red Flags Rule against a financial institution or creditor that is subject to administrative enforcement by the FTC, through **December 31, 2010**
December 31, 2010	FTC enforcement of compliance begins

In 2003, Congress passed the FACTA into law. The act was originally aimed at financial institutions requiring strict adherence to a set of guidelines designed to protect customer information and prevent identity theft. As originally written, utilities were not impacted by the law. In June, 2008, the Federal Trade Commission issued a Business Alert dramatically expanding the scope of the act in which it stated, *"Red Flags Rule applies to a very broad list of businesses including "financial institutions" and "creditors" with "covered accounts". A "creditor" is defined to include "lenders such as banks, finance companies, automobile dealers, mortgage brokers,* ***utility companies*** *and telecommunications companies".* (See FTC Business Alert in Attachment A, and Table 1 above for complete timeline of events.) Utilities fall under the Red Flags rule of the Act because they report consumer information regarding delinquencies or unpaid bills to credit reporting agencies. Since utilities provide this reporting to credit agencies, they are required to positively identify all customers requesting service.

A customer falls under the guidelines of the law when they fail to pass positive identity verification ("POSID") during turn-on of gas services. An example of a failure would be if the customer does not have a Social Security Number ("SSN"), does not provide a correct SSN, or they refused to provide a SSN. In the past, SoCalGas charged a deposit and the turn-on was completed. Now, due to the Red Flags Rules, in order for the customer to proceed in the turn–on process, they must present two approved forms of identity so a POSID can first be made.

SoCalGas allows the customer to either fax the forms of identity to the Credit & Collections department, or present them to a clerk at a branch office. Prior to the addition of the FTEs requested (see workpapers to my direct prepared testimony, Exhibit SCG-08-WP, pp. 51-53), customers requesting turn-on and failing POSID were taking up to two weeks to complete due to the heavy backlog of such instances. These FTEs are absolutely required in order to provide satisfactory customer service, and have already been hired. Therefore, rejecting the proposal would not provide SCG with the resources necessary.

It should be noted that, aside from the misunderstood timing of FACTA implementation, DRA does not oppose the requested staff and associated expenses proposed by SoCalGas to fulfill its FACTA obligations. Furthermore, regardless of DRA misunderstanding the nature of FACTA implementation, it is not explained why DRA recommends a disallowance due to the timing of requesting funding for required services. DRA cites no Commission precedent for issuing penalties as suggested based on the timing of funding requests. Hypothetically, even assuming SoCalGas actually did implement the FACTA guidelines prior to the timing of this instant GRC, customers would have been receiving the benefit of services not specifically addressed in prior GRC revenue requirement requests. This should have no bearing on the Commission's review of the instant proposal, and the prudence of the requested funding for the services provided. In other words, the Commission should determine the appropriate funding based on the evidence shown regarding need and level of cost. In this instance, however, SoCalGas is asking for funding for newly implemented procedures to comply with law, and such costs are incremental relative to the department's service requirements contemplated in the previous GRC. SoCalGas has provided sufficient information supporting its request, while DRA has provided no tangible information disputing the validity of the forecast.

B. Customer Service Technology and Support

In Exhibit DRA-48, page 5, DRA has recommended that SCG's incremental request of $917,000 from the FYA (labor and non-labor combined) be reduced by $742,000. TURN recommends the Customer Service Technology Support expense forecast be reduced by $916,000 to reflect the 5-year average but without any adjustments, even though adjustments and need are documented in testimony.

<u>Rebuttal to DRA</u>

In Exhibit DRA-48, pages 4 and 5, DRA states, *"In particular, SCG's expense forecasts for enhancing self-service options, customer data collection, and regulatory compliance are overstated. Staffing increases should not be necessary to perform activities such as updating CPUC worksheets, maintaining customer data databases, and sharing data with large customers. Furthermore, SCG's projected staffing levels are unjustified. SCG is requesting 7 business analysts to support software and collect customer data."*[2]

DRA's justification to disallow 5.7 FTEs is based upon an inaccurate representation of activities to be performed by the proposed staff. The Customer Services Technology ("CST") group is a support group comprised of experts with an understanding of both the customer service technology needs and the Information Technology ("IT") side of Operations. This group manages and maintains projects approved by both the customer service operating areas and IT. When additional requirements, including but not limited to production support, integrated testing, data reporting, and training, are demanded of this group, the first thing that is done is to scan the existing workforce to determine if the proper business skills exist and if so, do those

[2] Exhibit DRA-48, starting at p. 4, line 22, to p. 5, line 3.

existing employees have the bandwidth available to provide the support necessary. Only if those questions are answered in the negative are additional resources requested to handle the workload.

As stated in Exhibit SCG-08, pp. 22-24, additional workload is being placed on CST to support the following projects:

Single View of the Customer ("SVOC")

A new SVOC database was added to the customer information system ("CIS") with a goal to provide the Customer Service Representatives ("CSRs") with a more complete view of recent customer contact history. This new technology integrates customer interaction data from various systems into one database so that Customer Contact Center ("CCC") representatives can provide more efficient service to customers during a call. The new system also allows for the collection of data that will be the cornerstone of initiatives to increase self service adoption and to understand and modify customer service behavior. Examples of data now available through SVOC include: survey participation, letters from the CCC, e-mail communication with the CCC, Interactive Voice Response ("IVR") transactions, outbound dialer notifications, service transaction by CCC representatives and customer transactions in My Account. This is incremental functionality that requires support to maintain the quality assurance testing, production maintenance and client support.

My Account Enhancements

The My Account and www.socalgas.com website applications added significant functionality that requires additional support. The on-line features include start service, stop service, transfer service, customer service orders and payment extensions. These features will be available to utility customers both inside and outside of the My Account application, regardless of whether a customer specifically has an online account. Self Service option growth is increasing business application change requests, data analysis and maintenance support for the on-line applications.

For example, the support staffs need to perform quality assurance testing on three approved browsers. In the past, the testing was limited to Microsoft Internet Explorer. However, the number of browsers that the application will need to work with is increasing, which will require replication of test cycles and more resources for quality assurance testing.

The Customer Communications department is also beginning to market on-line transaction capability to new utility customers at the time of turn-on and at various touch point opportunities with the customers. The anticipated growth for the self service options is projected to increase over the next several years. Technology continues to evolve, and to meet the needs of customers that may need additional help (e.g., vision and/or hearing impaired, elderly) with self service options, increased staff support is needed.

Security of customer information on-line is also an important function of the support staff and with the increasing legislation in the areas of customer privacy, identity theft and consumer protection, the volume and complexity of the workload will increase. For example, there are new recommended features for password protection that include secret questions and answers that need to be maintained for on-line customer service. In the past, customers simply needed a log on ID and password to access their on-line account. Also, in order to reduce customer identify theft, as described above, FACTA now requires customer authentication prior to a customer establishing service.

When DRA states that projected staffing levels are unjustified, they offer no evidence to corroborate that claim and, in fact, do not properly reflect the responsibilities of this group. CST's duties encompass much more activities than production support and collecting data, and include but are not limited to:

- Data Owners/Business Controls;
- Sarbannes Oxley Controls;
- Custodian of Customer Information;
- Security Administration;
- Support for Audit Reviews;
- Emergency Operations Support / Disaster Recovery;
- End User Communications for Release Notes and Outage Impacts;
- Prioritization of End User Change Requests;
- Integrated Testing;
- Specialized Training Support.

Since the role of CS Technology Support is broader than just production fixes and support, application reliability is a small driver of the number of support resources needed. DRA simply fails to understand and provide funding for the complete range of complex technologies this group supports.

In Exhibit DRA-48 page 4, DRA asserts, "*DRA recommends the Commission allow an increase of $175,000 (2.3 FTEs) over the five-year average expense level. This increase would allow SCG to assign staff to critical support functions while providing a disincentive for SCG to spend needlessly on support for unnecessary projects.*"[3] Again, DRA provides no basis to show how they came up with the recommendation to allow 2.3 FTEs. No analysis or evidence is provided to support the assertion this "allows…SCG to provide support to key areas while keeping non-essential expenses out of rates."[4] There is no true evaluation of the materials provided by SCG that support staffing needs at the recommended levels. The Commission

[3] Exhibit DRA-48, p. 4, lines 19 – 22.
[4] Exhibit DRA-48, p. 5, lines 6 – 7.

should decide the level of funding based on the weight of evidence, and in this instance SCG provides sufficient information regarding its proposal, while DRA provides no support, or even explanation how it formulated their specific proposal.

In Exhibit DRA-48, on page 5, DRA also states "*As DRA has stated elsewhere in its testimony, good software should not require significant maintenance and new technologies (such as new databases) should provide tangible customer benefits that exceed their costs.*"[5]

DRA does not make any attempt to define or establish how much maintenance is significant. Again, no evidence is provided in support of this claim. The truth of the matter is that customers are being more selective about how they wish to receive their information and conduct their business. DRA fails to see that customer habits are changing as evidenced by the 1.4 million customers enrolled in My Account and of those, over 1.3 million have migrated to paperless billing as described in Ms. Wright's testimony (Exhibit SCG-09). This migration allows for a comparable reduction in postage costs, which are a direct benefit to the ratepayer.

One of these new technologies that the CST group will be supporting is Short Message Service ("SMS") text messaging. Many industry publications, including a Chartwell report entitled "PAPERLESS BILLING & PAYMENT ADOPTION RATES, 2011" (see Attachment B) discuss the explosion of text messaging and how utilities are utilizing this technology to alert customers of bill readiness. Of the aforementioned 1.4 million customers enrolled in My Account, SCG has nearly 264,000 who are enrolled but have elected to continue to receive the paper bill. If SCG was to implement this technology, text messages could be sent to customers alerting them that their bill is ready. Customers have told us that the number one reason they have elected to keep the paper turned on is that they use the paper bill as a reminder to them to

[5] Exhibit DRA-48, p. 5, lines 3 – 5.

go online and pay. They also stated that if they could receive a text message, they would be much more likely to forego receiving a paper bill. At today's $0.35 utility postage rate multiplied by 12 months, ratepayers save $4.20 per customer that elects to forego paper bills. If we were to convert just 66,000 (25%) of these particular MyAccount customers to paperless due to the availability of SMS text messaging, ratepayers would realize a savings of over $1.1 million (66,000 X $4.20 X 4) over the four year GRC cycle.

In summary, DRA's statements are not supported by any evidence, and have been shown to be inaccurate. On page 5, DRA asserts "*good software should not require significant maintenance and new technologies (such as new databases) should provide tangible customer benefits that exceed their costs.*" Again, this general statement is merely opinion, and not substantiated by any real analysis. The seven employees requested were hired in late 2010 and early 2011 to support the projects listed above. Due to the lack of any reasonable evidence, DRA's proposed reduction should be rejected.

Rebuttal to TURN

In Section III, part C of TURN's testimony entitled Customer Service Back Office Operations—SCG-8, they recommend a reduction of SCG's request by $917,000. TURN accepts use of the FYA to forecast expenses, but objects to the incremental funding requests above that level.

SCG acknowledges that expenses using the FYA were relatively flat for the CST group. However, we also recognized that projects in the pipeline beginning in the 2011-2012 timeframe would require additional resources as explained in both the my direct testimony and in the rebuttal above. As stated earlier, this group is an operational group that must respond to approved projects. These projects were approved because they are in response to changing customer communication patterns, generate operational efficiencies or reflect Commission or governmental requirements. TURN's recommendation is based solely on a mechanical cost forecasting methodology, and fails to consider the actual reasons for the funding requests. For this reason, TURN's recommendation should be rejected.

C. Customer Services Other

DRA has recommended that SCG's incremental request of $578,000 (labor and non-labor combined) be reduced by $533,000. DRA does not specifically state in testimony its proposed level of reduction, but SCG represents from a review of workpapers that reductions for the requested industrial engineer and vice-president position, and the allowance of $45,000 for interns results in a net recommended reduction of the $533,000 amount. TURN recommends the Customer Service - Other expense forecast be reduced by $388,000 to reflect 2010 recorded costs without any adjustments, even though the adjustments and need are documented in testimony.

Rebuttal to DRA

In Exhibit DRA-48, DRA recommends disallowing SCG's request for the addition of an industrial engineer because SCG did not sufficiently explain why additional staff was needed than the existing senior industrial engineer (hired in 2009).[6]

The requested industrial engineer is required to provide support to the senior industrial engineer in the areas of logistics, communications and data analysis. An engineered study is currently underway to develop data over 51 service districts by order type for the Customer Services Field work group. Personnel field ride with employees and observe the time employees require for completing the various order types, ensuring employees perform the work following the appropriate policies and procedures, and also conform with policies related

[6] Exhibit DRA-48, p. 5, lines 15 – 17.

to customer safety, employee safety, and customer satisfaction. This position also supports logistics, including communications with key stakeholders including Field Services personnel, and also provides data analysis of the time study results as well. The absolute size and scope of this effort requires this additional position.

Also in Exhibit DRA-48, "*DRA recommends disallowing the full request for the Vice-President position. Previously, SCG and SDG&E shared a customer service operation Vice President. SCG did not justify why it needs its own Vice-President and did not describe the specific customer benefits this position would provide.*"[7]

As stated in the prepared direct testimony of SCG witness Anne Smith describing the reorganization, "In addition to changes at the corporate center level, SCG and SDG&E also affected changes that established a separate senior management team at each utility. SCG believes that the divergent issues facing each utility warrant such a focus."[8]

In order to pursue this approach, the position of Vice President of Customer Operations was created. This position is primarily responsible for the following functions:

- SCG's Customer Contact Center. This call center operation averages over 8,000,000 calls per year handled by approximately 600 customer service representatives at two locations.
- SCG's Meter Reading organization which reads over 67 million meters per year.
- Major Markets and Mass Markets Billing which handles approximately 1.2 million billing exceptions.
- Credit and Collections which handles approximately 87,000 customer authentications and is responsible for collection of delinquent bill accounts.

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[7] Exhibit DRA-48, p. 5, lines 20 – 23.
[8] Exhibit SCG-01, p. AS-7, lines 7 – 10.

- Remittance Processing and Bill Delivery which processes over 54 million manual and electronic bill payments, including over 7 million payments through 47 branch offices, and renders over 75 million paper and electronic bills, notices and customer correspondence.

This position is responsible for approximately 2,200 FTEs. The sheer size and complexity of the organization requires enhanced executive focus. This position oversees the entire SCG revenue cycle and most customer transactional touch points, and managing operational costs while still providing customers with service channels that meet their needs.

This position is also responsible for extracting maximum value from various technology implementations, including the Advanced Metering Infrastructure ("AMI") project and Op/Ex program. This position's goal for the SoCalGas AMI project is to ensure a cost-effective, smooth and seamless implementation for our customers while managing a changing workforce, both during and after implementation. Op/Ex addresses our customers who are increasingly more diverse in their service demands and expectations. Evaluating, implementing and promoting new, cost–effective technologies will allow us to meet and stay ahead of changing customer preferences in communications channels for transactions of all types.

This position is responsible for ensuring technology is in place that allows customers to move to electronic means of receiving and paying their bills, which will lower costs of postage and processing which will be beneficial to all customers.

The reasons stated above and many others clearly demonstrate that this position is beneficial to ratepayers, that utility-specific focus is warranted, and that DRA's recommended funding reduction for this position be rejected.

Rebuttal to TURN

In Section III, part D of TURN's testimony, they recommend a reduction of SCG's request by $388,000, proposing to use 2010 recorded costs for test year 2012 funding. The justification provided is associated with the difference between actual spending in 2010 and the level forecasted for that year in the course of preparing the 2012 funding proposal. While SCG acknowledges that spending for this account was lower than the GRC forecast for 2010, it would be inappropriate to use more recent information as a proxy for test year funding in isolated instances for several reasons. First, selective updating ignores the fact that while certain costs may be lower than expected, other costs may be higher than expected and there is no provision to reflect those instances. Second, the Rate Case Plan is very prescriptive regarding the types of information that may be updated in a general rate case and the proposal by TURN contravenes this intent. Third, the revenue requirement associated with this department must reflect the level of activity that SCG expects to occur over the 2012-2015 period. The proposal by TURN would base the revenue requirement for an amount that is not consistent with funding needs as described in my direct and rebuttal testimonies. TURN does not acknowledge nor dispute the underlying reasons for our request and is proposing use of 2010 costs to reduce funding for the vice president position. Accordingly, TURN's methodology and recommended funding reduction should be rejected.

III. CUSTOMER SERVICES – OFFICE OPERATIONS REBUTTAL TO TURN

A. Postage

TURN recommends the postage expense forecast be reduced by $2.384 million, which is composed of two separate reductions associated with the forecasted rate at which customers will adopt paperless billing ($1.086 million), and the accounting of prefunded postage costs ($1.298 million).

Rebuttal to TURN

In Section III, part A (a.), TURN states that SCG's postage forecast is inconsistent with its customers adopting the paperless billing option based on the comparison between direct testimony Table SCG-MHB-2 (see Exhibit SCG-8, p. 7) and workpapers (see Exhibit SCG-8-WP, pp. 89-90). TURN's analysis is flawed in many areas.

SoCalGas acknowledges that this request for postage funding is a complex topic and was perhaps made even more confusing to TURN by Table SCG-MHB-2 (SCG-8, p. 7). Table 2 was included to illustrate SoCalGas' success at converting its customers to paperless billing. At the bottom of this table, SCG expects that 24.96% of 5.2 million accounts will be converted to paperless billing by year end of TY 2012. These accounts represent our **residential** customers **only,** as they are the primary target of our paperless billing campaign. Large C&I businesses do not participate in our paperless billing campaign.

TURN erroneously assumed that Table SCG-MHB-2 indicated 24.96% of our **total** customer base will adopt paperless billing. TURN also adjusts this percentage down to 24.46% by adding a mid-year convention to calculate 2012 paperless adoption rates by using an average of 2011 and 2012 paperless adoption rates to adjust 2012 costs. TURN then takes this percentage and multiplies the rate by **total** number of all customer bills forecasted to come up with their expected number of paperless bills. This methodology leads TURN to generate a greatly inflated number of expected paperless bills (17,468,554). In reality, we forecast 14,338,002 paperless bills for the TY 2012. Thus, TURNS methodology results an overstatement of over 3 million billed accounts.

Another misconception that creates a major flaw in TURN's postage expense calculation methodology is they equate total customer bills with total accounts. The data provided in data request TURN-SCG-DR-31, question 11 (see attachment C) illustrates the relationship between bills to accounts is not one-to-one, but in fact, a many-to-one relationship. For example, each account can have an opening or closing bill, a corrected bill, a duplicate bill or additional bills for other reasons.

In response to TURN-SCG-DR-31, question 5, SCG also provided TURN with an Excel file (see Attachment D) that fully documents the methodology used in determining the number of bills expected per meter (account), based on a historical ratio of the number of bills generated over the previous five years to active meters. This file is the basis for the information contained in workpapers to my prepared testimony, Exhibit SCG-8-WP, pp. 89-90. This file clearly illustrates the SoCalGas postage funding request is based solely on the postage required for the number of bills expected per active meter less the postage that will be saved based on the **number** (not percentage) of paperless bills. By multiplying 24.46% of residential customers by the total number of all bills expected generates a number that is not at all representative of the number of paperless accounts expected. This misconception is the basis for TURN's recommendation that postage funding should be reduced by $1.086 million and should be rejected.

Also, in Section III, part A (b.), TURN states that "In calculating its final request for 2012 postage cost recovery, SoCalGas begins with its base postage cost of $19.798 million and then increases that figure by $1.298 million to account for prefunding some postage costs. This is an accounting mistake that should be summarily rejected by the Commission."[9]

SCG has researched this issue and after review agrees with TURN's analysis, and appreciates pointing out this inadvertent oversight. The postage prefunding account is housed in

[9] Testimony of Jeffrey A. Nahigian for TURN in SoCalGas' 2012 General Rate Case, p. 8.

FERC Account 154 which is a prepaid materials and supplies account and should not have been part of this funding request. However, it is important to note that while SCG made an error, we do not agree with this witness's similar assertion for SDG&E. SDG&E's prepaid postage is expensed and should be included as part of the funding request.

For the reasons stated above, TURN's recommendation to reduce the SCG postage funding request by $1.086 million discussed in Section III, Part A (a) should be rejected. However, TURN's recommendation to reduce SCG's postage funding request by $1.298 million, as discussed in Section III, Part A (b) should be accepted.

B. Bill Delivery

TURN recommends the Bill Delivery expense forecast be reduced by $1.343 million to reflect the number of customers going to the paperless billing option.

<u>Rebuttal to TURN</u>

Costs for the Bill Delivery function include labor, machine maintenance costs for inserting machines and IBM printers, maintenance for postage software which allows for maximum postage discounts, contracted costs paid to a third party vendor to transmit paperless bills to home banking customers, office supplies, paper for bills, late notices, letters and customer correspondence, among others.

TURN's suggestion that it is appropriate to apply a percentage number (24.46%) as an across the board reduction to a function which includes labor and non-labor, including a large number of fixed costs, is inappropriate. As explained in the previous section, the 24.96% (or 24.46% using TURN's percentage as a mid-year convention) is an illustrative percentage of expected residential customer participation in the paperless billing program. This percentage was not used by SoCalGas in any request for funding. As an example, machine maintenance costs are not reduced because there is less throughput going through the machines. These and a number of other costs are fixed by contract.

SCG implemented paperless billing in 2006. In developing its forecast, SCG took into account the reduction in paper costs due to the increased forecast in paperless billing adoption, and is reflected in our funding request. Because TURN's recommended methodology of an across the board 24.46% funding cut is inappropriate and uses no reasonable methodology to support its recommended reduction of $1.343 million, this recommendation should be rejected.

C. Shared Services 2200-0355

TURN's recommended reduction of $574,000 to Shared Service cost center 2200-0355, based on using 2010 recorded data.

Rebuttal to TURN

In Section III, part E, TURN questions SCG's methodology for forecasting expenses related to Remittance Processing and Bill Delivery and recommends a reduction of $574,000 for SCG. However, TURN selectively uses 2010 data to recommend updating the expenses for this department. As noted earlier in testimony, selective updating ignores the fact that while certain costs may be lower than expected, other costs may be higher than expected and there is no provision to reflect those instances. Also, the Rate Case Plan is very prescriptive regarding the types of information that may be updated in a general rate case and the proposal by TURN contravenes this intent. For these reasons, TURN's recommendation should be rejected.

D. Shared Services 2200-2026

TURN recommends a reduction of all $100,000k in forecasted incurred costs ($66k for SCG after billings out) in to Shared Service cost center 2200-2026 because they claim that this cost center no longer exists in 2010 based on the using 2010 recorded data that was provided to them.

Rebuttal to TURN

TURN is correct that in 2010, there were no charges booked to this account. At the time we filed our NOI, this position was planned and remains planned through 2012. In November, 2009, the incumbent employee took another position. Due to the unique requirements of the position, we were unable to fill the position until July, 2011. The primary job responsibility of the Bill Presentment and Payment Channel Manager is to reduce costs. This is accomplished in a number of ways. First, the manager works with Customer Communications to develop marketing campaigns that ensure proper focus is maintained on informing customers of lower cost billing and payment options with the intent of providing customers with the information necessary to migrate from more expensive to less expensive options. An example would be to ensure constant promotion of paperless billing options either within the utilities' My Account websites or through home banking websites. Second, this position works with outside vendors to stay abreast of current and breaking technologies to ensure that we offer the most cost-effective electronic billing and payment options available in the marketplace. Third, with the increasing customer reliance on mobile technology, this positions helps ensure that we have cost-effective options in place when customer adoption seems likely. When the incumbent was in this position, the customer adoption rates for paperless billing at both SoCalGas and SDG&E were among the highest in the nation for utilities. Since the position became vacant, our adoption rates, while still increasing, having been increasing at a slower rate. Since the position was filled, and a renewed focus placed on paperless billing, adoption rates have begun to increase. It is for these reasons that SCG requests maintaining funding for this position, and TURN's request for a funding reduction be rejected.

IV. SUMMARY AND CONCLUSION

In summary, SCG has taken a reasoned approach to forecasting TY 2012 Customer Services Office Operations expense requirements. Additional Office Operations resources are required to support the Red Flags rule, necessitated by the passage of FACTA in the Credit and Collections group; to support technological advancements in the Customer Service Technology group; and to support the addition of an industrial engineer and the position of Vice President of Customer Operations.

SCG has also provided great detail in rebutting TURN's assertion that postage requirements were not correctly forecast due to paperless billing adoption, and agreed with TURN that the use of $1.298 million housed in a prefunding account was inadvertently and improperly included in the postage calculation.

SCG also opposes TURN's use of 2010 actual expenditures in its recommendation for a reduction in shared cost center 2200-0355 for the reasons articulated above, and made the case for funding the position of Bill Presentment and Payment Channel Manager in shared service cost center 2200-2047. SCG's requests in these areas should be adopted.

This concludes my prepared rebuttal testimony.

ATTACHMENT A

Federal Trade Commission Business Alert

FTC Business Alert

Federal Trade Commission ▪ Bureau of Consumer Protection ▪ Division of Consumer & Business Education

New 'Red Flag' Requirements for Financial Institutions and Creditors Will Help Fight Identity Theft

Identity thieves use people's personally identifying information to open new accounts and misuse existing accounts, creating havoc for consumers and businesses. Financial institutions and creditors soon will be required to implement a program to detect, prevent, and mitigate instances of identity theft.

The Federal Trade Commission (FTC), the federal bank regulatory agencies, and the National Credit Union Administration (NCUA) have issued regulations (the Red Flags Rules) requiring financial institutions and creditors to develop and implement written identity theft prevention programs, as part of the Fair and Accurate Credit Transactions (FACT) Act of 2003. The programs must be in place by November 1, 2008, and must provide for the identification, detection, and response to patterns, practices, or specific activities — known as "red flags" — that could indicate identity theft.

Who must comply with the Red Flags Rules?

The Red Flags Rules apply to "financial institutions" and "creditors" with "covered accounts."

Under the Rules, a **financial institution** is defined as a state or national bank, a state or federal savings and loan association, a mutual savings bank, a state or federal credit union, or any other entity that holds a "transaction account" belonging to a consumer. Most of these institutions are regulated by the Federal bank regulatory agencies and the NCUA. Financial institutions under the FTC's jurisdiction include state-chartered credit unions and certain other entities that hold consumer transaction accounts.

A **transaction account** is a deposit or other account from which the owner makes payments or transfers. Transaction accounts include checking accounts, negotiable order of withdrawal accounts, savings deposits subject to automatic transfers, and share draft accounts.

A **creditor** is any entity that regularly extends, renews, or continues credit; any entity that regularly arranges for the extension, renewal, or continuation of credit; or any assignee of an original creditor who is involved in the decision to extend, renew, or continue credit. Accepting credit cards as a form of payment does not in and of itself make an entity a creditor. Creditors include finance companies, automobile dealers, mortgage brokers, utility companies, and telecommunications companies. Where non-profit and government entities defer payment for goods or services, they, too, are to be considered creditors. Most creditors, except for those regulated by the Federal bank regulatory agencies and the NCUA, come under the jurisdiction of the FTC.

A **covered account** is an account used mostly for personal, family, or household purposes, and that involves multiple payments or transactions. **Covered accounts** include credit card accounts, mortgage loans, automobile loans, margin accounts, cell phone accounts, utility accounts, checking accounts, and savings accounts. A covered account is also an account for which there is a foreseeable risk of identity theft – for example, small business or sole proprietorship accounts.

Complying with the Red Flags Rules

Under the Red Flags Rules, financial institutions and creditors must develop a written program that identifies and detects the relevant warning signs — or "red flags" — of identity theft. These may include, for example, unusual account activity, fraud alerts on a consumer report, or attempted use of suspicious account application documents. The program must also describe appropriate responses that would prevent and mitigate the crime and detail a plan to update the program. The program must be managed by the Board of Directors or senior employees of the financial institution or creditor, include appropriate staff training, and provide for oversight of any service providers.

How flexible are the Red Flags Rules?

The Red Flags Rules provide all financial institutions and creditors the opportunity to design and implement a program that is appropriate to their size and complexity, as well as the nature of their operations. Guidelines issued by the FTC, the federal banking agencies, and the NCUA (**ftc.gov/opa/2007/10/redflag.shtm**) should be helpful in assisting covered entities in designing their programs. A supplement to the Guidelines identifies 26 possible red flags. These red flags are not a checklist, but rather, are examples that financial institutions and creditors may want to use as a starting point. They fall into five categories:

- alerts, notifications, or warnings from a consumer reporting agency;
- suspicious documents;
- suspicious personally identifying information, such as a suspicious address;
- unusual use of — or suspicious activity relating to — a covered account; and
- notices from customers, victims of identity theft, law enforcement authorities, or other businesses about possible identity theft in connection with covered accounts.

More detailed compliance guidance on the Red Flags Rules will be forthcoming. For questions about compliance with the Rules, you may contact **RedFlags@ftc.gov**.

The FTC, the nation's consumer protection agency, works to prevent fraudulent, deceptive, and unfair business practices in the marketplace and to provide information to help consumers spot, stop, and avoid them. To file a complaint or to get free information on consumer issues, visit ftc.gov or call toll-free, 1-877-FTC-HELP (1-877-382-4357); TTY: 1-866-653-4261. The FTC enters Internet, telemarketing, identity theft, and other fraud-related complaints into Consumer Sentinel, a secure online database available to hundreds of civil and criminal law enforcement agencies in the U.S. and abroad.

Your Opportunity to Comment

The National Small Business Ombudsman and 10 Regional Fairness Boards collect comments from small businesses about federal compliance and enforcement activities. Each year, the Ombudsman evaluates the conduct of these activities and rates each agency's responsiveness to small businesses. Small businesses can comment to the Ombudsman without fear of reprisal. To comment, call toll-free 1-888-REGFAIR (1-888-734-3247) or go to www.sba.gov/ombudsman.

Federal Trade Commission	ftc.gov
1-877-FTC-HELP	For The Consumer

June 2008

ATTACHMENT B

PAPERLESS BILLING & PAYMENT
ADOPTION RATES, 2011

CUSTOMER CARE SERIES:

PAPERLESS BILLING & PAYMENT ADOPTION RATES, 2011

utilities such as those highlighted above could see as many as 40% or even in some cases half the customer base adopting paperless billing and payment by the end of 2012.

As soon as utilities make progress with moving customers to the web, new challenges will emerge. Customer contact technologies have evolved with great speed in recent years and look to continue unfolding in the coming years with ongoing technology improvements. The current wave is evolution of the mobile communications channel. The enhancement of mobile devices by Apple, Google, Blackberry and Microsoft and other innovators will continue to push the limits of customer contact.

The facts also warrant a serious look at the opportunities around mobile communications –the vast majority of the population has mobile telephones, many have smart phones, and the number of text messages sent each day is astronomical. Many of these data points are publicly available and often bandied about.

Utilities have taken notice, and are beginning to pilot and roll out certain mobile applications and communication strategies. Text messaging customers, or short message service (SMS), is one area that many utilities have looked to. In the billing and payment survey, Chartwell asked utilities about their SMS strategy around billing and payments.

Table 2 shows that utilities are just beginning to dabble in SMS. Most of the activity is around SMS notification of bill readiness, which essentially notifies the customer his/her energy bill is ready for viewing and would then bring the customer to a website or some other delivery channel for that presentment. No utilities in the survey were actually doing a full SMS billing and payment transaction. Chartwell knows of at least one electric utility that has undertaken this: Northwestern Energy. There are likely a few others, but it is not likely one would need more than two hands to count them. And though the greatest immediate growth opportunity is in SMS notification, Chartwell did find eight utilities planning to implement SMS bill pay in the coming two years (See Table 2).

Table 2: Deployment stages of billing and payment

	Offering	Planning (will be implemented within 24 months)	Considering (being discussed but no immediate plans)	Not considering
SMS (text messaging) that the bill is ready:	[5] 4.72%	[17] 16.04%	[41] 38.68%	[38] 35.85%
Bill presentment summary to mobile device:	[1] 0.94%	[9] 8.49%	[44] 41.51%	[47] 44.34%
Customers paying via SMS (text messaging):	[0] 0%	[8] 7.55%	[36] 33.96%	[57] 53.77%

[*Number of respondents*]

ATTACHMENT C

TURN-SCG-DR-31, question 11

11. For recorded years 2006-2010 and forecast years 2011-2012 please provide
 a. The annual number of active meters,
 b. The annual number of customers (if different from active meters),
 c. The number of gross bills sent out,
 d. The annual ratio of gross bills to active meters, and
 e. A narrative explaining whether or not SoCalGas expects a change in the ratio of gross bills to active meters in the forecast years and if it does expect a change, the reason for that change.

SoCalGas Response 11:

a.Data from Exhibit SCG-30, TABLE SCG-SRW-1

	Recorded	Recorded	Recorded	Recorded	Recorded	Forecast	Forecast
	2006	2007	2008	2009	2010	2011	2012
Active Meters	5,391,974	5,445,791	5,466,979	5,480,314	5,516,871	5,565,817	5,621,055

b. Active meters and customers are the same.

c.

	Recorded	Recorded	Recorded	Recorded	Recorded	Forecast	Forecast
	2006	2007	2008	2009	2010	2011	2012
Total Bills	65,850,240	66,525,016	66,909,358	67,315,774	67,743,548	69,766,877	71,416,821

d.

	Recorded	Recorded	Recorded	Recorded	Recorded	Forecast	Forecast
	2006	2007	2008	2009	2010	2011	2012
Total Bills Per Active Meter	12.21	12.22	12.24	12.28	12.28	12.53	12.71

e. The calculation which shows the change in the ratio of gross bills to active meters is detailed in TURN_SCG_31_Table1.xlsx as embedded in the response to Question 5a.

The ratio of gross bills to active meters is expected to change because the growth in gross bills is expected to be more than the growth in active meters. The relationship between the two measures are many to one. The growth in gross bills depends on the number of times a meter becomes active. That is when a customer moves out, and another customer moves in:

Case #1 => there will be 2 bills, one closing bill and an opening bill.

SoCalGas Response 11 Continue:

Case#2 => if one customer requests both a paper bill and an electronic bill, there bill be 3 total bills.
Case#3 => if both customers request both paper bills and electronic bills, there will be 4 total bills.
Case#4 => if one customer changes his or her e-mail address then, there will be 5 total bills.
Case#5 => if both customer changes their e-mail addresses then, there will be 6 total bills.
Case#6 => if one customer request a duplicate of his or her paper bill, there will be 7 total bills.
Case#7 => if both customers request duplicates of their bills, there will be 8 total bills.

In conclusion, the growth in gross bills is a multiplicative relation to meter growth.

ATTACHMENT D

TURN-SCG-DR-31, question 5

TURN DATA REQUEST
TURN-SCG-DR-31
SOCALGAS 2012 GRC – A.10-12-006
SOCALGAS RESPONSE
DATE RECEIVED: SEPTEMBER 6, 2011
DATE RESPONDED: SEPTEMBER 16, 2011

5. Please provide the underlying calculations that support Supplemental Workpapers for Workpaper 2OO004.001 showing explicitly how
    a. The numbers associated with “volumes” of bills (under the heading “Total”) was calculated and show and document how the customer and meter forecast underlying the volume forecast was developed. If it is based on information contained in SCG-30, please cite back to that testimony and workpapers. If it was not based on the customer and/or meter forecast contained in SCG-30, please provide citation to the proper exhibit where this information is contained,
    b. SoCalGas calculated the number of “Suppressed Bills”. Provide all of the supporting documentation for that calculation as well as a definition showing what types of bills qualify for “suppressed bills” status,
    c. The volumes associated with ChkFree’s e-Bills were calculated and provide documentation supporting the calculation of those volumes, and
    d. Provide calculations and documentation showing how SoCalGas developed the “average rate” of $0.138 per transaction for ChkFree’s e-Bills.
    e. Please confirm or deny that the “volume” numbers (under the heading of total) imply monthly bills and that underlying meters can be calculated by dividing by 12 (months). If this is true, please explain why SoCalGas forecasts meter (or customer) growth of 95,288 (2010), 108,970 (2011) and 137,495 (2012) and show how this comports with other SCG exhibits on customer and meter growth. If it is not true, please explain how those numbers are calculated.

SoCalGas Response 05:

a. Total bills were calculated based on the number of active meters, which is contained in Exhibit SCG-30, TABLE SCG-SRW-1, and Exhibit SCG-30-WP, page SRW-WP-7. Please see embedded file TURN_SCG_31_Table1.xlsx, below.

TURN_SCG_31_Tabl
e1.xlsx

The total bill forecast includes these steps:

i. Divided the Total Items by the Active Meter to get Total Items Per Meter for 2005 through 2009.

ii. Forecasted Total Items Per Meter based on the number of forecasted Active Meters for 2010 through 2012.

iii. Forecasted Total Items by multiplying the Total Items Per Meter and the forecasted meters.

iv. Total Items included Total Bills and Total Customer Correspondence Letters (Total Letters). The composition of Total Items in 2009 included 93.3% of Total Bills and 6.7% of Total Letters.

v. The compositional percentage changed from year to year. The compositional changes estimated for 2010 through 2012 were the running averages of previous 5 years. The composition included 93.5% Total Bills and 6.5% Total Letters for 2010 - 93.7% Total Bills and 6.7% for 2011 – and, 94.1% Total Bills and 5.9% for 2012.

vi. The Total Bills and Total Letters were calculated for 2010 through 2012 by multiplying the compositional percentage to the Total Items.

vii. The Total Bills comprised of Paper Form Bills, Suppressed Bills through My Account, and e-Bills sent-out by consolidator, and CheckFree.

viii. The Suppressed Bills and e-Bills were estimated based on the available information of the present environment.

b. The number of My Account paperless accounts is not a calculation but is a direct query from the Customer Information System (CIS) at every month-end. An average of the previous month-end count and the current month-end count is considered the "Suppressed Bills" for the current month.

c. The volumes associated with the number of CheckFree e-bills is not a calculation but is derived from a direct CIS query of e-Bills sent out daily to CheckFree, our e-bill consolidator. This query is performed at every month-end. The total of those daily counts is reported as CheckFree e-Bills for the applicable month.

d. The difference between the postage savings per Suppressed Bill and the proprietary/confidential fees (pursuant to the Service Agreement between SDG&E/SoCalGas and CheckFree, proprietary/confidential information of CheckFree may not be disclosed third parties) charged to SDG&E/SoCalGas for each of the e-Bills sent-out by CheckFree is the savings of $0.138 per CheckFree e-Bill.

e. The active meters are based on the information contained in SCG-30, which are **not** calculated by dividing the totals bills by 12 (months). Please see embedded file TURN_SCG_31_Table1.xlsx in the response to Question 5a for the calculation of how meter growth from SCG -30 was used to forecast bill growth. An explanation of the calculation is provided in the written response to Question 5a.

CUSTOMER REMITTANCE PROCESSING

SCG - Data Distribution Items

	Actual 2005	Actual 2006	Actual 2007	Actual 2008	Actual 2009	Forecast 2010	Forecast 2011	Forecast 2012
Gas Meters	**5,328,430**	**5,391,974**	**5,445,791**	**5,466,979**	**5,480,314**	**5,520,424**	**5,565,817**	**5,621,055**
Meter Growth Rate	1.2%	1.2%	1.0%	0.4%	0.2%	0.7%	0.8%	1.0%
Items Per Meter	**13.18**	**13.27**	**13.19**	**13.37**	**13.17**	**13.27**	**13.37**	**13.51**
Items Per Meter Change	0.2%	0.7%	-0.6%	1.3%	-1.5%	0.7%	0.8%	1.0%
Total Data Distribution Items	**70,237,467**	**71,557,793**	**71,846,566**	**73,076,064**	**72,168,516**	**73,228,770**	**74,438,014**	**75,922,855**
Correspondence Letters	5,410,534	5,707,553	5,321,550	6,166,706	4,852,742	4,769,539	4,671,137	4,506,033
Total Bills	64,826,933	65,850,240	66,525,016	66,909,358	67,315,774	68,459,231	69,766,877	71,416,821

Composition	Actual 2005	Actual 2006	Actual 2007	Actual 2008	Actual 2009	Forecast 2010	Forecast 2011	Forecast 2012
Total Data Distribution Items	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**
Correspondence Letters	7.7%	8.0%	7.4%	8.4%	6.7%	6.5%	6.3%	5.9%
Total Bills	92.3%	92.0%	92.6%	91.6%	93.3%	93.5%	93.7%	94.1%

Compositional Change Rate	Actual 2005	Actual 2006	Actual 2007	Actual 2008	Actual 2009	Forecast 2010	Forecast 2011	Forecast 2012
Correspondence Letters	-0.1%	0.3%	-0.6%	1.0%	-1.7%	-0.2%	-0.2%	-0.3%
Total Bills	0.1%	-0.3%	0.6%	-1.0%	1.7%	0.21%	0.24%	0.34%