Application of Southern California Gas Company for authority to update its gas revenue requirement and base rates effective on January 1, 2012. (U904G)

Application 10-12-___
Exhibit No.: (SCG-22)

PREPARED DIRECT TESTIMONY OF
KENNETH J. DEREMER
ON BEHALF OF SOUTHERN CALIFORNIA GAS COMPANY

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

DECEMBER 2010

SCG Doc#249216

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PREPARED DIRECT TESTIMONY OF
KENNETH J. DEREMER
ON BEHALF OF SOUTHERN CALIFORNIA GAS COMPANY
(CONTROLLER, REGULATORY AFFAIRS, AND FINANCE)

I. INTRODUCTION

A. Purpose

The purpose of my testimony is to present the 2012 forecasted Administrative & General ("A&G") costs for the Controller, Regulatory Affairs, and Finance Divisions. The A&G costs for these three Divisions primarily consist of labor costs driven by Full-Time Equivalent/Employees ("FTEs").[1] My testimony will show that the 2012 forecasted A&G resources are needed to perform the required accounting, financial planning, regulatory advocacy, case management, project analysis, and treasury functions. These functions are necessary in order to provide services to our customers, meet regulatory requirements, and support internal clients. The Controller, Regulatory Affairs, and Finance Divisions are shared services functions that are allocated primarily between Southern California Gas Company ("SCG") and San Diego Gas & Electric Company ("SDG&E") (collectively, the "Utilities").[2] The sharing of functions in these particular areas creates efficiencies by standardizing policies and practices and by reducing overlap in activities between both Utilities.

The Controller Division provides Utility Accounting, Accounting Operations, Financial System and Business Controls, and Planning & Analysis services primarily to the Utilities (see footnote (2). Third party claims expenses are managed within the Planning & Analysis department.

The Regulatory Affairs Division provides policy, case management, regulatory analysis, and advocacy before various legislative and regulatory bodies including the California Public Utilities Commission ("CPUC"), Federal Energy Regulatory Commission ("FERC"), California Independent System Operator ("CAISO"), and the California Energy Commission ("CEC").

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[1] A FTE of one is equal to a single employee that has or will work every business hour of a calendar year (i.e., 2080 hours). A number of less than one indicates that an employee worked a partial year or a position had a vacancy during the year.
[2] The Controller Division allocates some costs to Sempra Energy Corporate Center ("SECC") and its Affiliates ("Affiliates").

The Finance Division provides financial analysis, risk management, and strategic analysis services to the Utilities. This includes, but is not limited to, evaluating various project proposals for economic benefits to our customers, risk management primarily related to commodity purchases, and strategic initiatives for improved effectiveness and efficiency of business processes and services to our customers.

B. Testimony Overview

My testimony reflects the Test Year 2012 ("TY 2012") forecast for both SCG and SDG&E. Given that the Controller, Regulatory Affairs, and Finance Divisions are shared services functions, and thus nearly identical in terms of the services provided to SCG and SDG&E, and therefore, the testimony for the Controller, Regulatory Affairs, and Finance Divisions is the same in this 2012 General Rate Case ("GRC") showing for SCG and SDG&E.

The 2005-2009 historical data was thoroughly reviewed and adjusted as appropriate. The 2009 base year costs reflect 2009 adjusted-incurred costs by cost center. In some instances, the 2009 costs have been adjusted to reflect the organizational structure as of April 2010. For the 2005-2008 historical data, it was adjusted to reflect the 2009/2010 organizational structure in order to allow a meaningful comparison of historical costs. The 2005-2009 historical data was also adjusted to remove certain items that are not being sought for recovery in the GRC (e.g., unused event tickets and affiliate compliance audit costs). The detail related to the 2009 adjusted costs can be found in my workpapers along with a presentation with adjustments of the historical period 2005-2008. The 2005-2009 adjusted-recorded historical costs are an appropriate starting point for forecasting the TY 2012 costs.

My testimony begins with a summary of the combined book expense[3] for the Controller, Regulatory Affairs, and Finance Divisions for both SCG and SDG&E. What follows is a detailed showing by Division of the incurred expenses[4] by each department. Each section begins with a high-level discussion of the Division with more detailed discussion provided in the presentation of each department. Once the total incurred expenses have been discussed, the costs are allocated between SCG, SDG&E, SECC, and Sempra Energy Affiliates ("Affiliates") based on the allocation methodologies for each cost center. The result is the book expense for each individual Division (see Sections II.J, III.I., and IV.G.), which when

[3] Book expense equals incurred costs net of allocations in/out from shared services.
[4] Incurred expenses are the costs charged by cost center before allocations for shared services.

added together, would equal the book expense that is presented in the following Summary. A summary of the book expense for both SCG and SDG&E is provided below.

C. Summary of Request – Book Expense

Table KD-1

Summary of TY2012 Forecast

($2009 in thousands)

A&G – Controller, Regulatory Affairs, and Finance

SCG Request			
Description	2009 Adjusted-Recorded	TY2012 Estimated	Change
Total Non-Shared	8,713	9,530	817
Total Shared Services	11,126	12,690	1,564
Total O&M	**19,839**	**22,220**	**2,381**

SDG&E Request			
Description	2009 Adjusted-Recorded	TY2012 Estimated	Change
Total Non-Shared	12,299	12,229	(70)
Total Shared Services	10,698	14,582	3,884
Total O&M	**22,997**	**26,811**	**3,814**

For SCG, the TY 2012 forecasted book expense is $22.2 million compared to the 2009 adjusted recorded costs of $19.8 million. This is an increase of $2.4 million or 12.0%. For SDG&E, the TY 2012 forecasted book expense is $26.8 million compared to the 2009 adjusted recorded costs of $23.0 million. This is an increase of $3.8 million or 16.6%.

The regulatory challenges for both the Controller and Regulatory Affairs Divisions primarily relate to increased regulatory scrutiny, oversight of the business, and policy driven objectives. For instance, the Controller Division is managing the changing Sarbanes-Oxley ("SOX") interpretations to include risk assessments when evaluating business controls as well as managing the process for the convergence of accounting principles generally accepted in the United States (Generally Accepted Accounting Principles or "GAAP") to the International Financial Reporting Standards ("IFRS") as being directed by the Securities and Exchange Commission ("SEC"). If the SEC were to issue a directive whereby domestic companies are required to convert from GAAP to IFRS on an accelerated basis, SCG and SDG&E may incur additional costs in order to comply with the SEC directive. Regulatory Affairs continues to manage the increasing regulatory requirements at the federal and state level, including the policy objectives of increased renewables and reductions in greenhouse gas emissions. For both organizations, the increased pressure will be primarily managed by the existing workforce as has been accomplished over the past several years. The Finance Division, on the other hand, has expanded its workforce to manage increasing financial analysis challenges and to ensure the capital requirements for the Utilities are met cost-effectively.

D. Summary of Request – Incurred Expenses by Division

Table KD-2

A&G Incurred Costs by Division and Utility

($2009 in thousands)

	Base Year 2009			Forecast 2012			2009-2012 Incr (decr)		
A&G	Non-Shd	Shared	Total	Non-Shd	Shared	Total	Non-Shd	Shared	Total
SCG									
Controller	1,921	4,777	6,698	2,141	5,606	7,747	220	829	1,049
Reg Aff	88	3,044	3,132	80	2,761	2,841	(8)	(283)	(291)
Finance	0	271	271	0	271	271	0	0	0
Sub-Total	2,009	8,092	10,101	2,221	8,638	10,859	212	546	758
Claims	6,704	0	6,704	7,309	0	7,309	605	0	605
SCG Total	8,713	8,092	16,805	9,530	8,638	18,168	817	546	1,363
SDG&E									
Controller	2,788	7,026	9,814	2,872	7,923	10,795	84	897	981
Reg Aff	3,267	4,541	7,808	2,443	7,829	10,272	(824)	3,288	2,464
Finance	0	2,309	2,309	0	3,117	3,117	0	808	808
Sub-Total	6,055	13,876	19,931	5,315	18,869	24,184	(740)	4,993	4,253
Claims	6,244	0	6,244	6,914	0	6,914	670	0	670
SDG&E Total	12,299	13,876	26,175	12,229	18,869	31,098	(70)	4,993	4,923
Total Incurred	21,012	21,968	42,980	21,759	27,507	49,266	747	5,539	6,286

Note: The difference between total Book Expenses shown in the first Summary in Section I.C. vs. total Incurred Costs above is attributable to costs allocated to SECC and Affiliates.

The 2012 total forecasted incurred costs for the Controller, Regulatory Affairs, and Finance Divisions is $49.3 million compared to the adjusted recorded 2009 base year cost of $43.0 million. This is an increase of $6.3 million or 14.6%. The increase reflects the transfer of 17 SECC employees to the Utilities with a forecasted cost of $1.9 million. The SECC activities that were transferred include bank reconciliations, business analysis, regulatory strategy, legislative affairs, and strategic analysis. Also, there is a reduction in costs allocated from SECC to SCG and SDG&E as a result of the SECC employees being moved to the Utilities.

The 2010 reorganization is a significant cost driver that impacts the 2012 forecast of the Controller, Regulatory Affairs, and Finance Divisions. The 2010 reorganization moved functions into the Utilities that were previously provided by SECC shared service functions. However, the 2010 reorganization did not create additional costs on a net, combined basis to SCG, SDG&E and SECC. The net impact of the 2010 employee transfers from SECC is discussed in the testimony of Bruce A. Folkmann, Exhs. SCG-17 and SDG&E-23. The reasons for the reorganization are discussed in the policy testimonies of Michael R. Niggli (Exhibit SDG&E-01), and Anne Smith (Exhibit SCG-01). A zero-based budget methodology is used to forecast costs related to the SECC transfers based primarily on current employee salaries.

For the Controller and Regulatory Affairs Divisions, the TY 2012 forecast is based primarily on a five year average of 2005-2009 costs. Detailed analysis was performed of the historical data to adjust it to the current organizational structure. This analysis provides a consistent representation of the costs for each Division and department beginning in 2005. Based on the analysis of the historical costs, the five year period represents a reasonable business cycle for these Divisions. Furthermore, the Utilities have had to develop and expand the Finance Division to meet the increasing challenges associated with financial matters, particularly given the economic downturn in the economy and the meltdown of the financial markets. As a result, the Finance Division used the 2009 base year to forecast TY 2012 costs with some adjustments. A more detailed discussion of each Division and related departments is provided below.

The demands on the organization and its divisions are dynamic. For the Controller and Regulatory Affairs Divisions, the five year historical period (2005-2009) is a reasonable period to capture the workload fluctuations associated with the business. As such, both Divisions have used a five year average across all cost centers (excluding claims payments and SECC corporate transfers) to derive the TY 2012 forecast. The Divisions are managed in a manner that meets the demands in particular departments by moving resources within the applicable division as necessary. As projects ramp-up and down, the organization reallocates the necessary resources to meet current needs. One area of modest growth is the Finance Division to ensure the financial analysis rigor for proposed projects and initiatives, financial transactions, and commodity purchases. Given the tight capital markets and economic downturn, now more than ever, it is critical that sound and thorough analysis is performed over the Utilities projected five year aggressive capital program of $10.6 billion, reflecting CPUC approval of the Advanced Metering Infrastructure ("AMI") and Sunrise Powerlink projects and to analyze special projects such as the tax equity investment related to the NaturEner Rim Rock Wind Energy, LLC agreement and other renewable and smart grid projects.

II. CONTROLLER DIVISION

A. Introduction

The Controller Division consists of the following areas, which will be described in greater detail below:

- Vice President – CFO and Controller
- Utility Accounting
- Accounting Operations
- Financial Systems and Business Controls
- Planning & Analysis
- Claims Payments and Recovery Costs

The Controller Division activities are best viewed in the aggregate. Instead of evaluating each department and cost center, the Controller Division was aggregated and evaluated on a total basis. This approach of forecasting the Controller Divisions costs is consistent with management's intent to manage the Division's responsibilities and workforce in total to meet the needs of the Utilities, SECC, and Affiliates.

Over the past five years 2005-2009, the Controller Division has experienced fluctuating costs associated with the services it provides to SCG, SDG&E, SECC, and Affiliates. The higher costs in the earlier years reflects the additional resources that were needed for the prior GRC in 2005-2006 as well as the start-up of the Management Accountant Rotational Program ("MARP"), which is an employee development program intended to attract and retain highly talented accounting and finance professionals. The latter years of 2007-2008 reflect a decrease in costs compared to the prior years as activities stabilized over time. 2009 saw a high level of vacancies, particularly in the Cost Accounting area which drove costs even lower. The cyclical nature of the historical five year period is representative of a typical business cycle for the

Controllers Division. As such, a five year average of 2005-2009 costs was chosen to forecast the TY 2012. Therefore, instead of forecasting each individual cost center separately, the Controller Division is using a five year average across the entire division (excluding claims payments and SECC corporate transfers). The five years of costs from 2005 through 2009 is fairly representative of the swings in costs and workforce needed to provide the Controller Division functions. As a result, individual departments and cost centers may see variances compared to prior years, but it is the overall request for the Controller Division that should be the focus. Management expects to manage upward pressures, such as the convergence from GAAP to IFRS, with the five year average for the workforce. The five year average for 2005-2009 of $17.8 million is presented below (excluding claims payments).

Table KD-3

2005-2009 Incurred Costs for the Controller Division (Excluding Claims)

($2009 in thousands)

A&G	2005	2006	2007	2008	2009	5-Year Average
Controller Total Incurred	17,953	19,304	17,795	17,353	16,512	17,783

B. Summary of Request by Director Department between incurred shared and non-shared costs

Table KD-4

Controller Incurred Costs by Department

($2009 in thousands)

A&G Controller	Base Year 2009 Non-Shd	Base Year 2009 Shared	Base Year 2009 Total	Forecast 2012 Non-Shd	Forecast 2012 Shared	Forecast 2012 Total	2009-2012 Incr (decr) Non-Shd	2009-2012 Incr (decr) Shared	2009-2012 Incr (decr) Total
SCG									
VP-CFO/Controller	0	253	253	0	813	813	0	560	560
Utility Acct	0	0	0	0	0	0	0	0	0
Acct Ops	1,921	1,091	3,012	2,141	1,194	3,335	220	103	323
Fin Syst	0	2,035	2,035	0	2,155	2,155	0	120	120
Plng & An	0	1,398	1,398	0	1,444	1,444	0	46	46
Sub-Total	1,921	4,777	6,698	2,141	5,606	7,747	220	829	1,049
Claims	6,704	0	6,704	7,309	0	7,309	605	0	605
SDG&E									
VP-CFO/Controller	0	415	415	0	405	405	0	(10)	(10)
Utility Acct	0	1,993	1,993	0	2,641	2,641	0	648	648
Acct Ops	2,168	812	2,980	2,274	806	3,080	106	(6)	100
Fin Syst	0	1,832	1,832	0	1,882	1,882	0	50	50
Plng & An	620	1,974	2,594	598	2,189	2,787	(22)	215	193
Sub-Total	2,788	7,026	9,814	2,872	7,923	10,795	84	897	981
Claims	6,244	0	6,244	6,914	0	6,914	670	0	670
TOTAL									
VP-CFO/Controller	0	668	668	0	1,218	1,218	0	550	550
Utility Acct	0	1,993	1,993	0	2,641	2,641	0	648	648
Acct Ops	4,089	1,903	5,992	4,415	2,000	6,415	326	97	423
Fin Syst	0	3,867	3,867	0	4,037	4,037	0	170	170
Plng & An	620	3,372	3,992	598	3,633	4,231	(22)	261	239
Sub-Total	4,709	11,803	16,512	5,013	13,529	18,542	304	1,726	2,030
Claims	12,948	0	12,948	14,223	0	14,223	1,275	0	1,275
Total Incurred	17,657	11,803	29,460	19,236	13,529	32,765	1,579	1,726	3,305

The Controller Division incurred costs (excluding claims) as forecasted for TY 2012 is $18.5 million compared to $16.5 million for the base year 2009. This is an increase of $2.0 million or 12.3%. The five year average forecast methodology as discussed above accounts for $1.2 million of the change. The remainder of the change relates to the transfer of 10 FTEs (9 to Utility Accounting and 1 to Financial Systems) and $0.8 million from SECC as part of the 2010 reorganization related to the bank reconciliation and business analysis functions. While the reorganization results in an increase in costs in this cost center, there is an overall net decrease in costs for SCG, SDG&E and SECC on a combined basis.

Below is a description of each of the departments within the Controller Division.

C. Vice President - CFO and Controller (2100-0657, 2200-8962, 2200-8963)

The Vice President - CFO and Controller function provides oversight and guidance related to the financial and accounting services at both SCG and SDG&E. Prior to 2009, there were separate shared services positions for the CFO and Controller for SCG and SDG&E. There is also a Director of Finance that performs services for both Utilities. The Director of Finance is involved in consultative support in preparing financial analysis and planning. There is also administrative support for the above management positions.

The costs and FTEs for the Vice President - CFO/Controller and the Director of Finance are as follows:

Table KD-5

VP - CFO / Controller Costs by Utility

($2009 in thousands)

A&G Controller	Base Year 2009			Forecast 2012			2009-2012 Incr (decr)		
VP-CFO/Controller	Non-Shd	Shared	Total	Non-Shd	Shared	Total	Non-Shd	Shared	Total
SCG	0	253	253	0	813	813	0	560	560
SDG&E	0	415	415	0	405	405	0	(10)	(10)
Total Incurred	0	668	668	0	1,218	1,218	0	550	550

VP - CFO / Controller FTE by Utility

A&G Controller	Base Year 2009			Forecast 2012			2009-2012 Incr (decr)		
VP-CFO/Controller	Non-Shd	Shared	Total	Non-Shd	Shared	Total	Non-Shd	Shared	Total
SCG	0.0	1.0	1.0	0.0	3.6	3.6	0.0	2.6	2.6
SDG&E	0.0	2.1	2.1	0.0	2.1	2.1	0.0	0.0	0.0
Total FTE	0.0	3.1	3.1	0.0	5.7	5.7	0.0	2.6	2.6

As explained above, the five year average methodology is being used for each of the departments in the Controller Division including the VP - CFO and Controller costs. From 2005-2008 there were separate positions for the CFO and the Controller for the Utilities. Both positions were shared services for SCG and SDG&E. However in late 2008, the two positions were combined resulting in one VP – CFO and Controller position that was shared between the Utilities. As part of the 2010 reorganization, SCG has selected a VP of Accounting and Finance which will result in no increase in FTEs as compared to activity prior to 2009[5]. The combination of the CFO and Controller positions in late 2008 is the primary cause of the

[5] The justification and the costs to support the leadership structure are consistent with the goals of the 2010 reorganization, as described in Exhibit SDG&E-01 and Exhibit SCG-01.

variance between 2009 base year and TY 2012 costs.

D. Utility Accounting (2100-3050, 2100-3051, 2100-3052, 2100-3798)

The Utility Accounting department provides accounting services to ensure that SCG and SDG&E policies, procedures, and transactional activities are accounted for and presented in conformity with SEC statutes, GAAP, and the FERC and CPUC regulatory reporting mandates. Transactional activities include the monthly closing of the general ledger and financial reporting, which includes the preparation of financial statements for SCG and SDG&E. Employees perform shared services for both SCG and SDG&E. The group provides:

(1) assurance of accuracy and integrity of utility-recorded financial data;
(2) accounting information and analysis for utility related filings and public disclosures;
(3) review and evaluation of internal control measures;
(4) guidance in the appropriate accounting treatment of various operating activities such as assessment of prospective variable interest entity consolidation evolving from electrical generation acquisitions;
(5) technical and analytical support for various statutory, regulatory, and tax compliance proceedings; and
(6) coordinating independent audit processes associated with financial and regulatory reporting.

The department is also responsible for recording customer revenues, maintaining and reporting regulatory balancing account activity to the CPUC and FERC, assessing the adequacy of accounting accruals, and reconciling general ledger activity. Staff is directly engaged in the compilation of GAAP and regulatory stand-alone financial statements/supplementary disclosures, implementation of new accounting standards, and ongoing management accounting and regulatory business cycle control activity coordination, testing, and execution designed to ensure authenticity of financial information as prescribed by SOX regulation. The Bank Reconciliation and Escheatment group was added to Utility Accounting as a result of the 2010 reorganization and prepares reconciliations and escheatment filings for SCG, SDG&E, and SECC. The group reviews and reconciles approximately 70 accounts and escheats over 130 unclaimed checks annually.

The costs and FTEs for the Utility Accounting Department are as follows:

Table KD-6

Utility Accounting Costs by Utility

($2009 in thousands)

A&G Controller Utility Acct	Base Year 2009 Non-Shd	Base Year 2009 Shared	Base Year 2009 Total	Forecast 2012 Non-Shd	Forecast 2012 Shared	Forecast 2012 Total	2009-2012 Incr (decr) Non-Shd	2009-2012 Incr (decr) Shared	2009-2012 Incr (decr) Total
SCG	0	0	0	0	0	0	0	0	0
SDG&E	0	1,993	1,993	0	2,641	2,641	0	648	648
Total Incurred	0	1,993	1,993	0	2,641	2,641	0	648	648

Utility Accounting FTEs by Utility

A&G Controller Utility Acct	Base Year 2009 Non-Shd	Base Year 2009 Shared	Base Year 2009 Total	Forecast 2012 Non-Shd	Forecast 2012 Shared	Forecast 2012 Total	2009-2012 Incr (decr) Non-Shd	2009-2012 Incr (decr) Shared	2009-2012 Incr (decr) Total
SCG	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
SDG&E	0.0	24.7	24.7	0.0	33.4	33.4	0.0	8.7	8.7
Total FTE	0.0	24.7	24.7	0.0	33.4	33.4	0.0	8.7	8.7

The increase of $648,000 relates primarily to the addition of the bank reconciliation function as a result of the SECC transfers to the Utilities in 2010. Nine FTEs were added to the Utility Accounting group which provides bank reconciliation services to both Utilities and SECC. For the existing functions, a five year average was used to forecast the TY 2012, consistent with the forecast methodology used for the entire Controller Division. For the Utility Accounting department (excluding the bank reconciliation group), the five year average methodology results in a small decrease in costs between TY 2012 and base year 2009 of $21,000. As described above, while the reorganization results in an increase in costs in this cost center, there is an overall net decrease in costs for SCG, SDG&E and SECC on a combined basis.

E. Accounting Operations (2100-3636)

Accounting Operations consists of primarily three areas: Cost Accounting, Sundry

Services, and Affiliate Billing and Costing. Cost Accounting[6] (2100-0277, 2100-0666, 2100-0667, 2100-3764, 2200-0335, 2200-0336, 2200-0337, 2200-2121)[7] is responsible for rate base accounting, operating cost accounting, new business accounting, fixed asset management, billable project accounting, and generation accounting. The Cost Accounting group maintains a rate base of approximately $4.3 billion and $2.7 billion for SDG&E and SCG, respectfully. This work requires issuing, monitoring and accounting for work orders; transferring construction work in progress ("CWIP") into rate base; analyzing and developing asset classes; preparing depreciation life studies; calculating depreciation expense; plant forecasting; accounting for plant retirements; joint venture partner accounting issue management; and developing and monitoring internal control procedures with the objective of safeguarding company assets.

Cost Accounting also handles numerous accounting and regulatory issues including: determining proper accounting treatment for individual work order expenditures (including application of overhead rates, accounting classification, and FERC account assignments); analysis and reconciliation of general ledger accounts; Sarbanes Oxley (SOX) 404 business process controls testing; and special projects (such as accounting for and testifying on Catastrophic Event Memo Account (CEMA) events and publishing capitalization guidelines). In addition, Cost Accounting provides technical expertise/guidance, information, analytical support and data responses for various regulatory and tax filings.

Sundry Services (2200-2178, 2200-2195, 2100-3702, 2100-0007, 2200-2039)[8] is responsible for the provision of products and services (i.e., sundry services) other than commodity, transportation and delivery costs. Sundry Services Policy & Compliance is responsible for supporting both Utilities with CPUC compliance, policies and procedures related to non-tariff products and services as a shared service. This group conducts annual training of the business managers for sundry activities to ensure compliance with policy and GAAP. Sundry Services also creates monthly reports for the business managers to aid in the management of activities and provides analysis of miscellaneous revenues. Sundry Services also coordinates and prepares the Non-Tariff Products & Services ("NTP&S") annual report to the CPUC and participates in the periodic internal and/or external audit of NTP&S. Lastly,

[6] Cost Accounting was recently renamed to Asset & Project Accounting.
[7] Cost Centers 2100-0277, 2100-0666, and 2100-0667 are located in SDG&E NSS work paper 1CN001.000. Cost Centers 2200-0335, 2200-0336, 2200-0337, and 2200-2121 are located in SCG NSS work paper 2CN001.000.
[8] Cost Center 2100-0007 is located in SDG&E NSS work paper 1CN005.000.

Sundry Services coordinates and supervises the SOX activities related to sundry services, including testing.

Affiliate Billing & Costing ("ABC") (2100-0274, 2200-1334) is responsible for managing the cost allocation process, setting overhead rates and administering the cost allocation and overhead distribution processes to ensure that overhead costs are properly allocated to operations and maintenance ("O&M"), capital and utility third party billings and accurately reflected in the financial statements. Additionally, ABC oversees the billings to Affiliates for shared service activities performed at each of the Utilities. This group administers the Utilities' Shared Service Policy and guidelines. This group also works closely with Affiliate Compliance and Internal Audit to ensure that the Utilities are in compliance with all regulatory decisions affecting inter-company transactions and SOX 404 requirements. As the subject matter experts in overheads, cost allocations and the shared service processes, ABC provides analytical, forecasting and reporting support for internal management and performance monitoring, regulatory filings and compliance reporting.

The costs and FTEs for the Accounting Operations Department are as follows:

Table KD-7

Accounting Operations Costs by Utility

($2009 in thousands)

A&G Controller Acct Ops	Base Year 2009			Forecast 2012			2009-2012 Incr (decr)		
	Non-Shd	Shared	Total	Non-Shd	Shared	Total	Non-Shd	Shared	Total
SCG	1,921	1,091	3,012	2,141	1,194	3,335	220	103	323
SDG&E	2,168	812	2,980	2,274	806	3,080	106	(6)	100
Total Incurred	4,089	1,903	5,992	4,415	2,000	6,415	326	97	423

Accounting Operations FTEs by Utility

A&G Controller Acct Ops	Base Year 2009			Forecast 2012			2009-2012 Incr (decr)		
	Non-Shd	Shared	Total	Non-Shd	Shared	Total	Non-Shd	Shared	Total
SCG	28.5	15.1	43.6	32.6	16.4	49.0	4.1	1.3	5.4
SDG&E	29.7	10.1	39.8	32.3	9.6	41.9	2.6	(0.5)	2.1
Total FTE	58.2	25.2	83.4	64.9	26.0	90.9	6.7	0.8	7.5

Consistent with the methodology used for the entire Controller Division, the TY 2012 forecast is derived using the five year average methodology of recorded costs from 2005-2009. The variance between the 2009 base year and TY 2012 primarily relates to the vacancies in

Cost Accounting that resulted in a six FTE decline compared to the prior year. The vacant positions have since been filled.

F. Financial Systems and Business Controls (2100-3492, 2100-4007)

The Financial Systems and Business Controls Department consists of three distinct sections: (1) Business Controls, (2) Financial Systems, and (3) Accounts Payable.

The Business Controls section (2100-3555, 2200-2212) is responsible for organizing, coordinating, and managing several of the Utilities' compliance processes as they develop and expand under evolving state and federal guidelines. The Business Controls department provides shared services to SCG and SDG&E and works with their SECC and Global counterparts to ensure consistency across Sempra Energy. Business Controls is responsible for: (1) policy management; (2) SOX compliance; (3) accounting research for GAAP and IFRS; (4) records management; and (5) forensic accounting and business controls.

Financial Systems (2100-1343, 2100-3493, 2200-1342) provides shared services for SCG and SDG&E. The department provides technical support to accounting, budget systems and other operational users to obtain information, as well as assists in maintaining these systems so that the required financial information can be obtained efficiently and effectively. Financial Systems is involved in making business process or system improvements to the recording or reporting of operating costs and capital expenditures. Financial Systems is responsible for providing data assistance for regulatory filings and validations of data loads to operational data stores for analytics. Financial Systems provides training and assistance to the financial system users so that they can effectively use the system to gather data and monitor their costs in a timely manner. The goal is to provide the financial tools to utility leadership and other personnel to effectively manage their operations while providing accounting interpretation of their business requirements.

The Accounts Payable section (2100-3058, 2200-0338, 2200-2049) is responsible for timely and accurate payment of all service and material invoices and contract obligations for the Utilities and SECC. This section ensures that all payments are appropriately authorized prior to disbursement, assists in resolving payment disputes, and maintains the vendor master information consistent with SOX processes and controls. Accounts Payable also provides 1099 Internal Revenue Service ("IRS") filing and reporting, as well as checks escheatment filings.

The costs and FTEs for the Financial Systems and Business Controls Department are as follows:

Table KD-8

Financial Systems and Business Controlls Costs by Utility

($2009 in thousands)

A&G Controller	Base Year 2009			Forecast 2012			2009-2012 Incr (decr)		
FinSyst & BusCtrls	Non-Shd	Shared	Total	Non-Shd	Shared	Total	Non-Shd	Shared	Total
SCG	0	2,035	2,035	0	2,155	2,155	0	120	120
SDG&E	0	1,832	1,832	0	1,882	1,882	0	50	50
Total Incurred	0	3,867	3,867	0	4,037	4,037	0	170	170

Financial Systems and Business Controls FTEs by Utility

A&G Controller	Base Year 2009			Forecast 2012			2009-2012 Incr (decr)		
FinSyst & BusCtrls	Non-Shd	Shared	Total	Non-Shd	Shared	Total	Non-Shd	Shared	Total
SCG	0.0	27.6	27.6	0.0	29.9	29.9	0.0	2.3	2.3
SDG&E	0.0	22.8	22.8	0.0	23.5	23.5	0.0	0.7	0.7
Total FTE	0.0	50.4	50.4	0.0	53.4	53.4	0.0	3.0	3.0

Consistent with the methodology used for the entire Controller's Division, the TY 2012 forecast is derived using the five year average of recorded costs from 2005-2009, with the exception of one FTE that was transferred from SECC as a result of the 2010 reorganization. The combined result of the five-year-average methodology combined with the transfer from SECC results in a slight increase in costs when compared to the 2009 base year primarily due to the transfer from SECC.

G. Planning and Analysis (2100-3662, 2100-0071, 2100-0275, 2200-2041, 2100-3681, 2200-2272, 2100-3115, 2100-3116, 2200-2095, 2200-0339)[9]

The Planning & Analysis Department is responsible for developing and measuring the financial performance targets of SDG&E and SCG. Responsibilities include compiling various inputs to develop operating capital and financial targets for one to five years. These targets are measured against actual results on a monthly basis. Other responsibilities include administering the budgeting system and processing third party claims. The Claims Department is responsible for the investigation, processing, and recovery of and payment for all third party property damage and bodily injury claims for the Utilities, SECC, and Affiliates.

[9] Cost Center 2100-3116 is located in SDG&E NSS work paper 1CN006.000.

Responsibilities include conducting investigations, documenting facts into the claims information database, determining company liability, and settlement and collection of claims from the responsible party in the case of a recovery claim. The department also conducts loss control/prevention activities designed to prevent and reduce accidents, which mitigate utility operational expenses, reduce customer costs, and promote public safety. The A&G costs of the Claims group for managing these responsibilities are included in the Planning & Analysis Department's costs while the actual claims payments made to third parties and recovery expenses are addressed separately in the Claims Payments and Recovery Costs section that follows.

The costs and FTEs for the Planning & Analysis Department are as follows:

Table KD-9

Planning & Analysis Costs by Utility

($2009 in thousands)

A&G Controller	Base Year 2009			Forecast 2012			2009-2012 Incr (decr)		
Plng & An	Non-Shd	Shared	Total	Non-Shd	Shared	Total	Non-Shd	Shared	Total
SCG	0	1,398	1,398	0	1,444	1,444	0	46	46
SDG&E	620	1,974	2,594	598	2,189	2,787	(22)	215	193
Total Incurred	620	3,372	3,992	598	3,633	4,231	(22)	261	239

Planning & Analysis FTEs by Utility

A&G Controller	Base Year 2009			Forecast 2012			2009-2012 Incr (decr)		
Plng & An	Non-Shd	Shared	Total	Non-Shd	Shared	Total	Non-Shd	Shared	Total
SCG	0.0	17.8	17.8	0.0	17.2	17.2	0.0	(0.6)	(0.6)
SDG&E	8.5	21.0	29.5	7.6	22.5	30.1	(0.9)	1.5	0.6
Total FTE	8.5	38.8	47.3	7.6	39.7	47.3	(0.9)	0.9	(0.0)

Consistent with the methodology used for the entire Controller's Division, the TY 2012 forecast is derived using the five year average of recorded costs from 2005-2009.

H. Claims Payments and Recovery costs (2100-8960, 2100-8961, 2200-8960, 2200-8961)[10]

Below is a forecast of the claims expenses to be paid to third parties and recovery expenses above the purchased insurance coverage. Most claims paid to third parties primarily relate to property damage and bodily injury claims. During the last three years the Utilities have experienced increased litigation and claims exposure from new theories of liability and a concerted effort by skillful plaintiff advocates to expand the "duty owed" and the forseeability as applied to public utilities. Significant claims have been defended and settled, including cases involving: Allegations of inverse condemnation (no prior claim experience); natural gas odor fade on the customer's house line (no prior claim experience); a helicopter line strike into an electric transmission tower that a jury verdict determined was a foreseeable accident; and several cases involving gas facilities that were struck by a vehicle eight feet or more off the roadway, but a jury determined that these accidents were foreseeable and consequently, the jury held the utility comparatively negligent for not installing adequate protection. Additionally, the Utilities are experiencing an upswing of significant motor vehicle accidents where the third party claimant/plaintiff is more inclined to elect surgery to resolve back or neck injuries, thus increasing the settlement value of the cases. As to the "duty owed" by public utilities, plaintiff advocates are attempting to expand appliance inspection responsibility to include defective but not serviced appliances by the utility. Due to current economic realities, we are also experiencing more aggressive claimant and insurance subrogation actions where the utility is being accused of liability because we had been to the location recently.

Table KD-10

Claims Costs by Utility

($2009 in thousands)

A&G Controller Claims	Base Year 2009			Forecast 2012			2009-2012 Incr (decr)		
	Non-Shd	Shared	Total	Non-Shd	Shared	Total	Non-Shd	Shared	Total
SCG	6,704	0	6,704	7,309	0	7,309	605	0	605
SDG&E	6,244	0	6,244	6,914	0	6,914	670	0	670
Total Incurred	12,948	0	12,948	14,223	0	14,223	1,275	0	1,275

[10] Cost Centers 2100-8960 and 2100-8961 are located in SDG&E NSS work paper 1CN010.000. Cost Centers 2200-8960 and 2200-8961 are located in SCG NSS work paper 2CN010.000.

As a result of the spike in litigation and claims exposure over the past three years, both SDG&E and SCG are using a three-year average (2007-2009) to forecast TY 2012 claims payments and recovery expenses to reflect the current realities of third-party claims as discussed above. In addition, the three-year forecast is adjusted upward to reflect that in mid 2010 the Self Insurance Retention ("SIR") related to both SDG&E and SCG was changed to $4 million from the historical level of $1 million. The SIR adjustment is equal to all historical claims expenses that would have been paid if the $4 million SIR was in place for the full three year period. In summary, the Utilities used a three year average (2007-2009) with an adjustment for the higher SIR level to derive the TY 2012 forecast.

I. Allocation Methodology

The Controller Division is a shared service function that provides services to SDG&E, SCG, SECC, and Affiliates. Generally, cost centers in the same department use the same allocation methodology; however in some cases the allocation methodologies between cost centers in the same department may differ. Below, I highlight the allocation methodology that is most often applied for the applicable department. The allocation methodologies for each cost center can be found in the workpapers.

- Vice President/CFO – Controller: The California ("CA") Regulated Multi-Factor allocation methodology was employed to allocate shared service costs for the Vice President - CFO/Controller area. The CA Regulated Multi-Factor allocation is appropriate based on the equal weighting of operating revenues, operation expenses, gross noncurrent assets, and FTE's for each utility.
- Utility Accounting: A weighted average allocation methodology was employed to allocate Utility Accounting shared service costs to both Utilities and to SECC. A weighted average, based on an estimate of time spent by employees on utility and SECC projects. is the most appropriate allocation methodology as the amount of effort to perform financial and regulatory accounting is similar for companies in this business and size range.
- Accounting Operations: A weighted average allocation methodology was employed to allocate a majority of Accounting Operations' shared service costs to both Utilities, SECC and Affiliates. A weighted average, based on an estimate of time spent by employees on utility and non-utility projects, is the

most appropriate allocation methodology, as the amount of effort to perform financial and regulatory accounting is similar for companies in this business and size range.

- Financial Systems and Business Controls: This department has determined its cost center allocations through the use of the weighted average and the CA Regulated Multi-factor methodologies, and in the case of Accounts Payable, the ratio of SDG&E-related transactions compared to SCG-related transactions and non-utility transactions. Given the unique services provided by each cost center, the employment of specialized methodologies provides greater accuracy in the allocation of costs than using a department-wide methodology.
- Planning & Analysis: A weighted average allocation methodology was primarily employed to allocate Financial Planning and Claims shared service costs to both Utilities, SECC and Affiliates. A weighted average, based on an estimate of time spent by employees on utility and non-utility projects is the most appropriate allocation methodology, as the amount of effort to perform financial and regulatory accounting is similar for companies in this business and size range. The CA Regulated Multi-Factor allocation methodology was also used for the Business Planning & Budgets cost centers. The CA Regulated Multi-Factor allocation is appropriate based on the equal weighting of operating revenues, operation expenses, gross noncurrent assets, and FTE's for each utility.

J. Summary of Request

Table KD-11

Controller

Book Expense by Utility

($2009 in thousands)

A&G Controller	Base Year 2009	Forecast 2012	2009-2012 Incr (Decr)
SCG			
Incurred Cost	13,402	15,056	1,654
Allocations Out	1,118	1,508	390
SCG Retained	12,284	13,548	1,264
Billed in from SDG&E	2,764	3,274	510
SCG Book Expense	15,048	16,822	1,774
SDG&E			
Incurred Cost	16,058	17,709	1,651
Allocations Out	2,859	3,455	596
SDG&E Retained	13,199	14,254	1,055
Billed in from SCG	1,068	1,455	387
SDG&E Book Expense	14,267	15,709	1,442

For the Controller's Division, the book expense to SCG for TY 2012 is $16.8 million compared to $15.0 million for base year 2009, resulting in an increase of $1.8 million or 11.8%. For SDG&E, TY 2012 is $15.7 million compared to $14.3 million for base year 2009, resulting in an increase of $1.4 million or 10.1%.

III. REGULATORY AFFAIRS DIVISION

A. Introduction

The Regulatory Affairs Division provides advocacy, case management, policy formulation, legislative analysis, regulatory strategy, demand forecasting, economic analysis, tariff administration, and compliance services to the organization. More specifically, Regulatory Affairs manages cases/issues before the CPUC, FERC, CAISO, CEC and other regulatory agencies, calculates customer rates, administers tariffs, develops policy, analyzes and forecasts gas and electric demand, manages relationships between regulators and the Utilities, and ensures compliance with affiliate compliance rules.

Regulatory Affairs is a shared service function between SCG and SDG&E. The shared service structure allows for standardization of policies and practices, and eliminates redundant positions and activities across both Utilities. The shared services are performed within the following departments within Regulatory Affairs, as discussed in further detail below:

- Senior Vice President – Finance, Regulatory, and Legislative Affairs
- Regulatory Relations and Legislative Affairs
- California Case Management
- GRC, Rates, and Analysis
- FERC, CAISO, and Compliance

The Regulatory Affairs Division primarily used the five year average of 2005-2009 costs to forecast the TY 2012. The historical five year period represents a reasonable business cycle in Regulatory Affairs. As shown below, Regulatory Affairs costs were higher in 2005 and 2006 due primarily to the processing of the 2008 GRC. Beginning in 2007 through 2009, Regulatory Affairs costs have remained relatively stable in years with no GRC proceeding. The five year average captures the peak in Regulatory Affairs costs related primarily to the GRC and the valleys in non-GRC years. The five year average of Regulatory Affairs historical costs is $11.6 million.

Table KD-12

2005-2009 Incurred Costs for the Regulatory Affairs Division

($2009 in thousands)

A&G	2005	2006	2007	2008	2009	5-Year Average
Reg Aff Total Incurred	12,120	12,781	11,219	10,927	10,941	11,598

B. Summary of Request by Department between incurred shared and non-shared costs

Table KD-13

Regulatory Affairs Incurred Costs by Department

($2009 in thousands)

A&G	Base Year 2009			Forecast 2012			2009-2012 Incr (decr)		
Reg Aff	Non-Shd	Shared	Total	Non-Shd	Shared	Total	Non-Shd	Shared	Total
SCG									
SVP Reg Aff	0	0	0	0	0	0	0	0	0
Reg Rel/Leg Aff	0	0	0	0	0	0	0	0	0
CA Case Mgmt	0	764	764	0	759	759	0	(5)	(5)
GRC, Rates & An	88	2,105	2,193	80	1,808	1,888	(8)	(297)	(305)
FERC/CAISO/Comp	0	175	175	0	194	194	0	19	19
Sub-total	88	3,044	3,132	80	2,761	2,841	(8)	(283)	(291)
SDG&E									
SVP Reg Aff	0	640	640	0	1,050	1,050	0	410	410
Reg Rel/Leg Aff	0	1,011	1,011	0	1,792	1,792	0	781	781
CA Case Mgmt	0	1,726	1,726	0	1,680	1,680	0	(46)	(46)
GRC, Rates & An	2,595	821	3,416	1,305	2,950	4,255	(1,290)	2,129	839
FERC/CAISO/Comp	672	343	1,015	1,138	357	1,495	466	14	480
Sub-total	3,267	4,541	7,808	2,443	7,829	10,272	(824)	3,288	2,464
TOTAL									
SVP Reg Aff	0	640	640	0	1,050	1,050	0	410	410
Reg Rel/Leg Aff	0	1,011	1,011	0	1,792	1,792	0	781	781
CA Case Mgmt	0	2,490	2,490	0	2,439	2,439	0	(51)	(51)
GRC, Rates & An	2,683	2,926	5,609	1,385	4,758	6,143	(1,298)	1,832	534
FERC/CAISO/Comp	672	518	1,190	1,138	551	1,689	466	33	499
Total Incurred	3,355	7,585	10,940	2,523	10,590	13,113	(832)	3,005	2,173

The Regulatory Affairs 2012 forecasted incurred costs are $13.1 million compared to the 2009 base year of $10.9 million. This is an increase of $2.2 million or 19.9%. The increase primarily relates to the transfer of 6 FTEs and $0.9 million from SECC in the areas of legislative affairs, regulatory strategy, and State agency affairs moving to the Utilities. In addition 3 FTEs that were included in the SDG&E AMI business case were added to base margin as discussed in the testimony of Paul C. Pruschki (Exh. SDG&E-12). SDG&E AMI costs are part of base margin beginning with the 2012 GRC. The 3 FTEs were part of the SDG&E AMI business case as approved in D.07-04-043. Lastly, Regulatory Affairs expects upward pressure related to its case management activities before the CPUC and non-transmission costs associated with North American Electric Reliability Corporation ("NERC") Reliability Standards.

C. Senior Vice President (2100-3161)

The Senior Vice President of Finance, Regulatory & Legislative Affairs provides leadership and oversight to the Controller, Regulatory Affairs, and Finance Divisions at both SCG and SDG&E. The Senior Vice President has leadership responsibilities for the Controller and Finance organizations, as these divisions are discussed in Sections II. and IV., respectively.

The costs and FTEs for the SVP are as follows:

Table KD-14

SVP - Finance, Regulatory & Legislative Affairs

($2009 in thousands)

A&G Reg Aff	Base Year 2009			Forecast 2012			2009-2012 Incr (decr)		
SVP Reg Aff	Non-Shd	Shared	Total	Non-Shd	Shared	Total	Non-Shd	Shared	Total
SCG	0	0	0	0	0	0	0	0	0
SDG&E	0	640	640	0	1,050	1,050	0	410	410
Total Incurred	0	640	640	0	1,050	1,050	0	410	410

SVP - Finance, Regulatory & Legislative Affairs FTE by Utility

A&G Reg Aff	Base Year 2009			Forecast 2012			2009-2012 Incr (decr)		
SVP Reg Aff	Non-Shd	Shared	Total	Non-Shd	Shared	Total	Non-Shd	Shared	Total
SCG	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
SDG&E	0.0	2.1	2.1	0.0	2.7	2.7	0.0	0.6	0.6
Total FTE	0.0	2.1	2.1	0.0	2.7	2.7	0.0	0.6	0.6

The five-year average methodology was used to forecast TY 2012 costs. The TY 2012 forecast exceeds the 2009 base year primarily due to the higher non-labor costs in 2005-2007. Historically, the SVP position funded some Division costs that were applicable to specific departments. The five-year average methodology represents a reasonable business cycle for forecasting the Regulatory Affairs Division costs including the Senior Vice President costs.

D. Regulatory Relations & Legislative Affairs (2100-3162, 2100-3797, 2100-4006, 2100-4005)

Regulatory Relations is the primary point of contact between SDG&E/SCG and the CPUC's Commissioners, advisors and key staff. The department is responsible for participating in case development; developing regulatory and advocacy strategies to achieve utility objectives and implementing those strategies; gathering information relating to CPUC policies, proceedings and procedures; analyzing and developing policy positions; and reporting and making recommendations to management of SDG&E and SCG.

Legislative Affairs analyzes California and federal legislative issues and recommends actions that permit the Utilities to provide safe and reliable service, while balancing the various needs of customers and the State's policy objectives. The functions performed include reviewing proposed legislation, identifying operational and policy issues, consulting with subject matter experts, recommending positions and responses, and developing recommended future legislative actions and policies. Additionally, Legislative Affairs provides advice on compliance with recently passed laws and follow-up activity on regulations implementing new laws. In Sacramento, high level advocacy is performed for State environmental, safety and energy issues affecting the Utilities.

Table KD-15

Regulatory Relations & Legislative Affairs Costs by Utility

($2009 in thousands)

A&G Reg Aff	Base Year 2009			Forecast 2012			2009-2012 Incr (decr)		
Reg Rel / Leg Aff	Non-Shd	Shared	Total	Non-Shd	Shared	Total	Non-Shd	Shared	Total
SCG	0	0	0	0	0	0	0	0	0
SDG&E	0	1,011	1,011	0	1,792	1,792	0	781	781
Total Incurred	0	1,011	1,011	0	1,792	1,792	0	781	781

Regulatory Relations & Legislative Affairs FTE by Utility

A&G Reg Aff	Base Year 2009			Forecast 2012			2009-2012 Incr (decr)		
Reg Rel / Leg Aff	Non-Shd	Shared	Total	Non-Shd	Shared	Total	Non-Shd	Shared	Total
SCG	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
SDG&E	0.0	4.9	4.9	0.0	10.9	10.9	0.0	6.0	6.0
Total FTE	0.0	4.9	4.9	0.0	10.9	10.9	0.0	6.0	6.0

Consistent with the overall forecasting methodology for the Regulatory Affairs Division, TY 2012 costs were forecasted using the five year average methodology. In addition, six SECC transfers related to the 2010 reorganization were added to the group in 2010 costing $0.9 million. Excluding the SECC transfers, the TY 2012 forecast would have been lower than the 2009 base year costs. As discussed above, the additional costs of the SECC transfers from the 2010 reorganization is offset by greater reductions in the overall costs allocated from SECC shared services to the Utilities (see the testimony of Bruce Folkmann, Exhs. SDGE-23 and

SCG-17). While the reorganization results in an increase in costs in this cost center, there is an overall net decrease in costs for SCG, SDG&E and SECC on a combined basis.

E. California Case Management (2100-3427, 2100-3430, 2200-2075)

The California case management group has overall responsibility for: (1) coordinating SDG&E's and SCG's participation in all regulatory proceedings and related activities before the CPUC, including rate and non-rate applications, CPUC- initiated investigations and rulemakings, and related legislative activities; (2) managing all regulatory filings with the CPUC; (3) ensuring compliance with all CPUC directives and requirements; (4) ensuring the appropriate retention of all regulatory records and related information as part of the Utilities' Regulatory Central Files; and (5) maintaining effective working relationships with the CPUC and its staff and being responsive to their requests for information or assistance.

Table KD-16

California Case Management Costs by Utility

($2009 in thousands)

A&G Reg Aff	Base Year 2009			Forecast 2012			2009-2012 Incr (decr)		
CA Case Mgmt	Non-Shd	Shared	Total	Non-Shd	Shared	Total	Non-Shd	Shared	Total
SCG	0	764	764	0	759	759	0	(5)	(5)
SDG&E	0	1,726	1,726	0	1,680	1,680	0	(46)	(46)
Total Incurred	0	2,490	2,490	0	2,439	2,439	0	(51)	(51)

California Case Management FTE by Utility

A&G Reg Aff	Base Year 2009			Forecast 2012			2009-2012 Incr (decr)		
CA Case Mgmt	Non-Shd	Shared	Total	Non-Shd	Shared	Total	Non-Shd	Shared	Total
SCG	0.0	5.8	5.8	0.0	6.0	6.0	0.0	0.2	0.2
SDG&E	0.0	19.8	19.8	0.0	18.8	18.8	0.0	(1.0)	(1.0)
Total FTE	0.0	25.6	25.6	0.0	24.8	24.8	0.0	(0.8)	(0.8)

TY 2012 was forecasted by using the five year average methodology consistent with the overall methodology for the Regulatory Affairs Division plus the addition of two FTEs. The two additional FTEs were hired in 2009 to meet the additional demands being placed on Regulatory Case Management. The regulatory activity before the CPUC has been significantly increasing each year. In the past, the CPUC would initiate a new investigation or rulemaking as needed and close the proceeding once its objectives had been met. As a result of the extraordinary efforts being made by California to achieve its energy policy objectives and implement the State's Energy Action Plan, the CPUC must now continuously pursue this agenda through critical proceedings in such areas as energy efficiency, renewable energy, resource planning, greenhouse gas regulation, demand response, dynamic pricing, distributed generation, smart grid deployment, alternative fuel vehicle transportation, and electric transmission. The CPUC has also significantly increased its efforts to address the interests of low income customers and diverse business enterprises, and to enhance its regulatory process to better enable public awareness and participation in its proceedings. Moreover, the amount of active participation by interested parties before the CPUC is steadily increasing each year. All this has increased the demands on the California Case Management group, created a higher than normal turnover rate for personnel, and resulted in the need for additional staffing with greater experience and skills.

F. GRC, Rates and Analysis (2100-3602, 2100-3717, 2100-3718, 2100-3725, 2100-3726, 2100-3727, 2200-2308, 2200-2309, 2200-2040,)[11]

The GRC group is responsible for the management and coordination of SDG&E and SCG's GRC proceedings before the CPUC. This is a significant undertaking due to the proceeding's considerable size, scope, and duration. Beyond procedural management of the case itself, the GRC group: (1) oversees and coordinates internal business units' data collection and forecasting efforts, as well as the development of witness testimony; (2) develops and maintains GRC database software; (3) responds to numerous intervener and CPUC inquiries; and (4) provides detailed analysis of utility revenues, expenses, and investments in plant and equipment, in order to appropriately establish revenue requirements for the Utilities.

The Rates and Analysis department provides economic analysis, demographics, gas and electric customer forecasts; alternate fuel price and gas price forecasts; gas and electric demand forecasts and analyses; gas and electric rate designs and cost allocation; and policy, analyses, and coordination for use in business development and regulatory proceedings. These activities are used in the development of customer cost allocations and customer rate designs for CPUC-required filings, proceedings, and ad hoc requests, as well as CEC proceedings and requests.

The Tariff groups are responsible for activities relating to: (1) filing advice letters and

[11] Cost Centers 2100-3718, 2100-3725, 2100-3726, and 2100-3727 are located in SDG&E NSS work paper 1RA001.000. Cost Center 2200-2309 is located in SCG NSS work paper 2RA001.000.

responding to protests and draft resolutions; (2) maintaining, interpreting and revising tariff schedules and developing new tariffs; (3) providing guidance to both SDG&E and SCG on regulatory compliance with tariffs; and (4) responding to CPUC staff inquiries. Additionally, the Tariff groups provide case management for certain CPUC Investigation and CPUC Rulemaking proceedings relating to the tariff schedules or the CPUC's general orders, and provide tariff support to Case Management in other major proceedings. Additionally, the groups track regulatory compliance requirements for both Utilities. Over the course of a typical year, there is approximately 300 advice letters filed revising upwards of 3,000 tariff sheets at the Utilities.

Table KD-17

GRC, Rates & Analysis Costs by Utility

($2009 in thousands)

A&G Reg Aff	Base Year 2009			Forecast 2012			2009-2012 Incr (decr)		
GRC, Rates & An	Non-Shd	Shared	Total	Non-Shd	Shared	Total	Non-Shd	Shared	Total
SCG	88	2,105	2,193	80	1,808	1,888	(8)	(297)	(305)
SDG&E	2,595	821	3,416	1,305	2,950	4,255	(1,290)	2,129	839
Total Incurred	2,683	2,926	5,609	1,385	4,758	6,143	(1,298)	1,832	534

GRC, Rates & Analysis FTE by Utility

A&G Reg Aff	Base Year 2009			Forecast 2012			2009-2012 Incr (decr)		
GRC, Rates & An	Non-Shd	Shared	Total	Non-Shd	Shared	Total	Non-Shd	Shared	Total
SCG	1.1	15.2	16.3	1.0	15.4	16.4	(0.1)	0.2	0.1
SDG&E	26.6	7.8	34.4	14.3	27.2	41.5	(12.3)	19.4	7.1
Total FTE	27.7	23.0	50.7	15.3	42.6	57.9	(12.4)	19.6	7.2

Consistent with the overall forecasting methodology for the Regulatory Affairs Division, the TY 2012 forecast for the GRC, Rates, and Analysis department is based on the five year average methodology. The five year average captures a representative business cycle for the department which includes the significant resources needed to manage the 2008 GRC in 2005 and 2006 as well as the non-GRC years of 2007-2009. In addition, three load research staff members as outlined in the SDG&E AMI business case and discussed in the testimony of Paul C. Pruschki (Exh. SDG&E-12) were added to the TY 2012 forecast. In total, the TY 2012 costs exceed the 2009 base year by $0.5 million or 9.5%, of which $0.244 million is attributed to the three load research analysts due to Smart Meter.

G. FERC, CAISO, and Compliance (2100-3428, 2100-3594, 2200-2202)[12]

The FERC and CAISO Regulatory Affairs groups: (1) develop and implement regulatory strategies; (2) manage regulatory filings before the FERC, as well as stakeholder initiatives before the CAISO; (3) determine the impact of proposed and implemented regulatory initiatives; and (4) maintain effective working relationships with FERC and CAISO staff, industry stakeholders, and other regulatory agencies.

The Affiliate Compliance department is responsible for facilitating compliance with state and federal affiliate transaction-type rules, such as the CPUC's Affiliate Rules and FERC Standards of Conduct. In particular, Affiliate Compliance (1) provides training, monitoring, support, and compliance guidance on affiliate policies and guidelines and related inter-company billings; (2) completes a variety of CPUC annual reports related to affiliate compliance; and (3) participates in state-wide rulemakings and implementation efforts related affiliate transactions. Affiliate Compliance audit costs are excluded from the historical costs given that these costs are borne by shareholders.

North American Electric Reliability Corporation ("NERC") Reliability Standards compliance related to non-transmission groups such as generation and electric & fuel procurement are included in the TY 2012 forecast. These costs are related to ensuring compliance with the NERC Reliability Standards for the reliability of the Bulk Electric System. NERC Reliability Standards costs associated with transmission are excluded from this filing and recoverable through FERC transmission rates.

[12] Cost Center 2100-3428 is located in SDG&E NSS work paper 1RA003.000.

Table KD-18

FERC, CAISO, and Compliance Costs by Utility

($2009 in thousands)

A&G Reg Aff FERC/CAISO/Comp	Base Year 2009			Forecast 2012			2009-2012 Incr (decr)		
	Non-Shd	Shared	Total	Non-Shd	Shared	Total	Non-Shd	Shared	Total
SCG	0	175	175	0	194	194	0	19	19
SDG&E	672	343	1,015	1,138	357	1,495	466	14	480
Total Incurred	672	518	1,190	1,138	551	1,689	466	33	499

FERC, CAISO, and Compliance FTE by Utility

A&G Reg Aff FERC/CAISO/Comp	Base Year 2009			Forecast 2012			2009-2012 Incr (decr)		
	Non-Shd	Shared	Total	Non-Shd	Shared	Total	Non-Shd	Shared	Total
SCG	0.0	2.0	2.0	0.0	2.2	2.2	0.0	0.2	0.2
SDG&E	5.7	3.7	9.4	8.3	4.0	12.3	2.6	0.3	2.9
Total FTE	5.7	5.7	11.4	8.3	6.2	14.5	2.6	0.5	3.1

The TY 2012 forecast was derived by using the five year average methodology consistent with the methodology used for all of Regulatory Affairs, plus incremental costs related to non-transmission costs related NERC Reliability Standards compliance. Based on an analysis of NERC Reliability Standards and requirements, approximately 25% of NERC Reliability Standards are applicable to non-transmission related groups. For instance, NERC Reliability Standards are applicable to SDG&E's generation facilities and well as its Electric & Fuel Procurement group, both of which are base margin related costs. Electric transmission related costs are recoverable from FERC electric transmission rates. As such, beginning in 2012, 25% of the costs forecasted related to non-transmission activities for NERC Reliability Standards ($200K) is added to the TY 2012 forecast. The NERC Reliability Standards costs are split between labor and non-labor.

H. Allocation Methodology

The Regulatory Affairs Division is a shared service function that allocates costs between SDG&E and SCG. Generally, cost centers in the same department use the same allocation methodology; however in some cases the allocation methodologies between cost centers in the same department may differ. Below, I highlight the allocation methodology that is most often applied for the applicable department. The allocation methodologies for each cost center can be found in my workpapers.

- SVP: The CA Regulated Multi-Factor allocation methodology was employed to allocate shared service costs for the Senior Vice President of Finance, Regulatory & Legislative Affairs. The CA Regulated Multi-Factor allocation is appropriate based on the equal weighting of operating revenues, operation expenses, gross noncurrent assets, and FTE's for each utility.
- Regulatory Relations and Legislative Affairs: The CA Regulated Multi-Factor allocation methodology was employed to allocate shared service costs for Regulatory Relations & Legislative Affairs. The CA Regulated Multi-Factor allocation is appropriate based on the equal weighting of operating revenues, operation expenses, gross noncurrent assets, and FTE's for each utility.
- California Case Management: A weighted average allocation methodology was employed to allocate California Case Management shared service costs to both Utilities. A weighted average, which is based on an employee's estimation of time spent on SDG&E and SCG activities is the most appropriate allocation methodology.
- GRC, Rates, and Analysis: Shared Service allocations for GRC, Rates & Analysis were calculated based on the percentage of time spent per utility. A weighted average, which is based on an employee's estimation of time spent on SDG&E and SCG activities is the most appropriate allocation methodology.
- FERC, CAISO, and Compliance department: A weighted average allocation methodology was employed to allocate FERC, CAISO, and Compliance shared service costs to both Utilities. A weighted average, which is based on an employee's estimation of time spent on SDG&E and SCG projects is the most appropriate allocation methodology.

I. Summary of Request

Table KD-19

Regulatory Affairs

Book Expense by Utility

($2009 in thousands)

A&G Reg Aff	Base Year 2009	Forecast 2012	2009-2012 Incr (Decr)
SCG			
Incurred Cost	3,132	2,841	(291)
Allocations Out	1,467	1,471	4
SCG Retained	1,665	1,370	(295)
Billed in from SDG&E	1,977	2,573	596
SCG Book Expense	3,642	3,943	301
SDG&E			
Incurred Cost	7,808	10,272	2,464
Allocations Out	1,977	2,574	597
SDG&E Retained	5,831	7,698	1,867
Billed in from SCG	1,467	1,471	4
SDG&E Book Expense	7,298	9,169	1,871

For the Regulatory Affairs Division, the SCG book expense for TY 2012 is $3.9 million compared to $3.6 million for base year 2009, for an increase of $0.3 million or 8.3%. For SDG&E, the TY 2012 forecast is $9.2 million compared to $7.3 million for base year 2009, for an increase of $1.9 million or 25.6%. The disproportionate change in costs between the Utilities relates primarily to the additional three FTEs from the SDG&E AMI base case as well as the NERC Reliability Standards costs that are allocated to base margin. These costs relate solely to SDG&E and are allocated as such.

IV. FINANCE DIVISION

A. Introduction

The Finance Division reports to the Senior Vice President of Finance, Regulatory and Legislative Affairs and is primarily responsible for analyzing new projects, technologies, initiatives, and managing regulatory accounts for the Utilities as a shared service. The Risk Management function, among other things, analyzes energy procurement policies and transactions for SDG&E's Electric and Fuel Procurement ("E&FP") and SCG Gas Acquisition divisions. The Finance Division consists of the following three groups:

- Financial Analysis
- Risk Management
- Strategic Analysis

Each department is described in more detail below.

B. Summary of Request by Director Department between incurred shared and non-shared costs

Table KD-20

Finance Division Incurred Costs by Department

($2009 in thousands)

A&G	Base Year 2009			Forecast 2012			2009-2012 Incr (decr)		
Finance	Non-Shd	Shared	Total	Non-Shd	Shared	Total	Non-Shd	Shared	Total
SCG									
Fin An	0	271	271	0	271	271	0	0	0
Risk Mgt	0	0	0	0	0	0	0	0	0
Strategic An	0	0	0	0	0	0	0	0	0
Sub-total	0	271	271	0	271	271	0	0	0
SDG&E									
Fin An	0	1,579	1,579	0	1,799	1,799	0	220	220
Risk Mgt	0	497	497	0	607	607	0	110	110
Strategic An	0	233	233	0	711	711	0	478	478
Sub-total	0	2,309	2,309	0	3,117	3,117	0	808	808
TOTAL									
Fin An	0	1,850	1,850	0	2,070	2,070	0	220	220
Risk Mgt	0	497	497	0	607	607	0	110	110
Strategic An	0	233	233	0	711	711	0	478	478
Total Incurred	0	2,580	2,580	0	3,388	3,388	0	808	808

The Finance Division is seeking a $0.8 million or 31% increase in the TY 2012 forecasted costs compared to the 2009 base year. The Finance Division has evolved over the last few years and stabilized under its current structure in 2009. Beginning in 2009, the Finance Division began reporting to the Senior Vice President of Finance, Regulatory and Legislative Affairs and continued to grow. By the beginning of 2010, the Finance Division had expanded with another four FTEs beyond 2009 levels and is expected to add another two FTEs beyond the 2009 base year. Consistent with the Controller and Regulatory Affairs Divisions, the TY 2012 forecast for the Finance Division is evaluated on an aggregate basis. The Finance

Division is viewed in its totality and forecasted as such. For the Finance Division, the TY 2012 is forecasted by taking the 2009 base year costs and adding the expected and already known growth to the Division. The base year method for forecasting costs is appropriate given the growth in the Division.

Of the additional FTEs above the 2009 base year, one FTE for the Finance Division relates to a transfer from SECC as a result of the 2010 reorganization. This additional FTE leads the Strategic Analysis Department for both Utilities. Two FTEs have already been added to the Financial Analysis group in late 2009/ early 2010. An additional FTE is also forecasted for the Risk Management group and two additional FTEs for the Strategic Analysis department. One of the Strategic Analysis FTEs has already been hired as well. Additional details on the proposed FTE additions are discussed below.

C. Financial Analysis (2100-3429, 2100-3583, 2100-3663, 2200-2091, 2200-2189)

The Financial Analysis department performs a wide variety of financial and regulatory accounting functions, including project evaluation, the development, analysis and implementation of revenue requirements, regulatory accounts and ratemaking mechanisms in support of regulatory filings and large-scale financial projects. In addition, the department maintains a utility treasury function that analyzes cash flows and financing requirements in support of the Utilities' short and long-term debt issuances. The department consists of four separate groups: Regulatory Case Financials; Regulatory Accounts; Financial Services; and Financial Strategies.

The Regulatory Case Financials group develops and analyzes the calculations of revenue requirements in support of significant regulatory filings. This includes testifying before the CPUC and FERC on the financial viability of capital projects and the derivation of the supporting revenue requirements. In addition, the group performs financial analysis on other large utility projects and conducts economic analysis of purchase power and other utility contracts. The group also maintains the financial evaluation models that are utilized company-wide for evaluating the economics of capital projects.

The Regulatory Accounts group is responsible for the development, implementation and analysis of regulatory balancing and memorandum accounts and other cost recovery/ratemaking mechanisms. This includes the oversight of over 100 regulatory accounts approved in current tariffs. The Regulatory Accounts group serves as a liaison with the regulatory agencies as well as the Utility Accounting group to ensure that the accounts are maintained in compliance with Commission directives and financial accounting standards. The group also supports regulatory proceedings (often as expert witnesses) where cost recovery issues are addressed.

The Financial Services group (i.e., Utilities' Treasury function) works closely with the Sempra Treasury group in formulating, analyzing and implementing strategies to optimize the nature, timing and sizing of debt issuances, dividend payments and equity infusions. This includes the forecast and analysis of short and long-term cash flows and the assessment of market conditions to minimize the cost of financing to support the Utilities' capital expenditures. The Financial Services group is actively involved in supporting the Cost of Capital, Debt Financing, and GRC proceedings. The group also performs a number of compliance functions in support of debt and dividend issuances, including the development of due diligence packages.

The Financial Strategies group provides strategic, operational and administrative guidance, control and validation for both Utilities on financial and economic project evaluations. The group also performs short and long term financial analysis, business model creation and validates business cases developed by others while supplying consistent economic assumptions to the Utilities. The level of scrutiny this group provides for SCG's and SDG&E's proposed major investments facilitates effective financial decision-making. The group also performs financial due diligence on all executive level proposals and regulatory filings, as well as technical review of purchase contracts.

Table KD-21

Financial Analysis Incurred Cost by Utility

($2009 in thousands)

A&G Finance Fin An	Base Year 2009			Forecast 2012			2009-2012 Incr (decr)		
	Non-Shd	Shared	Total	Non-Shd	Shared	Total	Non-Shd	Shared	Total
SCG	0	271	271	0	271	271	0	0	0
SDG&E	0	1,579	1,579	0	1,799	1,799	0	220	220
Total Incurred	0	1,850	1,850	0	2,070	2,070	0	220	220

Financial Analysis FTE by Utility

A&G Finance Fin An	Base Year 2009			Forecast 2012			2009-2012 Incr (decr)		
	Non-Shd	Shared	Total	Non-Shd	Shared	Total	Non-Shd	Shared	Total
SCG	0.0	3.0	3.0	0.0	3.0	3.0	0.0	0.0	0.0
SDG&E	0.0	17.3	17.3	0.0	19.3	19.3	0.0	2.0	2.0
Total FTE	0.0	20.3	20.3	0.0	22.3	22.3	0.0	2.0	2.0

The Financial Analysis group used the 2009 base year to forecast TY 2012 costs. As mentioned above, the Finance Division in its current structure was formed in 2009 to meet the growing financial needs of SCG and SDG&E. In addition to the 2009 base year costs, the test year includes two additional FTEs that have already been hired to support the treasury function and the Financial Analysis department.

An incremental position was added in 2009 to support the treasury function at SDG&E and SCG. At the time, there was only one person responsible for the oversight and analysis of the Utilities financing landscape to ensure that the Utilities' long-term and current capital and liquidity needs are met. This area is responsible for implementing strategies to minimize financing costs while maintaining compliance with regulatory directives and financial covenants. Over the past two years, the utility Treasury function has taken on a greater role in formulating policy and developing analysis in both the areas of financing and regulatory support. This includes an active role in debt issuances, dividend policy, witness involvement in regulatory proceedings and fostering banking relationships, including opportunities for Diverse Business Enterprises in underwriting and community banking. Since SDG&E and SCG are planning to implement a significant capital spending program over the next 5 years (reflecting recent approvals of AMI and the Sunrise Powerlink) the development of financing plans to minimize borrowing costs has become increasingly important. To that end, Financial Services has developed more timely and useful financial tools to provide forecasts of current cash needs (90 days) and longer-term capital requirements (5-10 years).

An incremental position was added in 2009 to support the financial evaluation, analysis and implementation of major projects at SDG&E and SCG. Over the past few years, the volume and complexity of projects requiring financial examination and review have increased due to the focus on renewable energy standards, greenhouse gas reductions, energy efficiency, technological advances and changing customer needs. Projects such as utility ownership in renewable assets, smart meter and smart grid have increased the demand for expert financial analysts to determine the economic viability of these projects and prepare the financial analysis for senior management and regulatory approvals. The Financial Analysis group takes an active role in both the strategic analysis of projects in the early stages of investigation as well as providing a thorough financial review of all major contracts and regulatory filings prior to submittal. A significant effort is also needed to develop financial models to determine the financial impacts of projects in the renewable energy sector, including tax equity.

D. Risk Management (2100-3590)

The Risk Management function is an independent function responsible for monitoring market, credit and operational risks for energy procurement operations in accordance with governance polices approved by each Utility's Board of Directors. This function is the working arm of the Risk Management Committee ("RMC") and monitors position exposure for compliance with approved positions and instruments defined by policies, including the adequacy review and approval of methods, systems and procedures employed by electric and gas procurement departments. The group issues daily compliance reports and provides technical support across the Utilities as it pertains to risk quantification, monitoring and management processes. The Risk Management group reviews bilateral long term contracts presented for board approval and facilitates the identification of other inherent and prospective utility risks by advocating risk management capability.

Table KD-22

Risk Management Incurred Cost by Utility

($2009 in thousands)

A&G Finance Risk Mgt	Base Year 2009			Forecast 2012			2009-2012 Incr (decr)		
	Non-Shd	Shared	Total	Non-Shd	Shared	Total	Non-Shd	Shared	Total
SCG	0	0	0	0	0	0	0	0	0
SDG&E	0	497	497	0	607	607	0	110	110
Total Incurred	0	497	497	0	607	607	0	110	110

Risk Management FTE by Utility

A&G Finance Risk Mgt	Base Year 2009			Forecast 2012			2009-2012 Incr (decr)		
	Non-Shd	Shared	Total	Non-Shd	Shared	Total	Non-Shd	Shared	Total
SCG	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
SDG&E	0.0	4.0	4.0	0.0	5.0	5.0	0.0	1.0	1.0
Total FTE	0.0	4.0	4.0	0.0	5.0	5.0	0.0	1.0	1.0

The Risk Management department was created in 2005 and has grown to its existing staff level of four FTEs as of 2009. As a result, the 2009 base year is employed to forecast TY 2012. In addition, the Risk Management function is seeking to add a FTE. The Risk Management group has been mandated to expand its role beyond the traditional energy procurement area and increase risk management acumen within the Utilities. The additional responsibilities include performing risk management functions (risk identification, assessment, measurement, monitoring and mitigation) for Enterprise Risk Management, Fleet Services, Supply Management, Claims and major strategic projects undertaken by the Utilities, such as AMI, potential tax equity investment opportunities, entrance to new markets, etc. In order to adequately perform the required risk functions to protect all stakeholders' interest, an additional FTE is needed.

E. Strategic Analysis (2100-3724, 2100-0272)

The Strategic Analysis Department supports and facilitates the implementation of strategies intended to deliver the best value for customers and financial stability for the Utilities on a sustainable basis. Among other things, in order to help achieve this mission, the department analyzes the availability and economics associated with new technologies, as well as the demand for new products and services for both our electric and natural gas businesses. This group partners with other departments to assess the environmental landscape for new opportunities. The strategic analysis function assists senior management in developing the tools necessary to help employees focus on meeting the changing needs and desires of customers in a cost-effective manner. Additionally, the group is responsible for the quarterly monitoring and reporting of all aspirational goals.

Table KD-23

Strategic Analysis Incurred Cost by Utility

($2009 in thousands)

A&G Finance	Base Year 2009			Forecast 2012			2009-2012 Incr (decr)		
Strategic An	Non-Shd	Shared	Total	Non-Shd	Shared	Total	Non-Shd	Shared	Total
SCG	0	0	0	0	0	0	0	0	0
SDG&E	0	233	233	0	711	711	0	478	478
Total Incurred	0	233	233	0	711	711	0	478	478

Strategic Analysis FTE by Utility

($2009 in thousands)

A&G Finance	Base Year 2009			Forecast 2012			2009-2012 Incr (decr)		
Strategic An	Non-Shd	Shared	Total	Non-Shd	Shared	Total	Non-Shd	Shared	Total
SCG	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
SDG&E	0.0	3.0	3.0	0.0	6.0	6.0	0.0	3.0	3.0
Total FTE	0.0	3.0	3.0	0.0	6.0	6.0	0.0	3.0	3.0

The Strategic Analysis department was created in 2007 and grew to its existing staff level of 3 FTEs in 2009. Since 2009, two FTEs have already been added to the department with another FTE slated to be added later in 2010. As a result, the 2009 base year method is being used to forecast TY 2012, plus three additional FTEs. One FTE is a transfer from SECC as a result of the 2010 reorganization.

The interaction and complexity of the increasing number of potential products and services that are becoming available to consumers and/or which may become available to consumers in the future is growing quickly. In order to meet the needs and desires of our customers today and in the future, these alternatives must be better understood from various perspectives to determine whether they create an ability for Utilities to offer new services, for third parties to offer new services, and how customers may or may not want to see these services developed in the future. These new services can also impact the level of investments the utility should be making in traditional technologies to avoid stranding of costs, thus protecting ratepayers and maximize the value of utility services for consumers.

Among the activities performed by the Strategic Analysis Department are monitoring of technology developments, research into price forecasts and rate design policies, and using these inputs, together with input from other departments, to better understand what customers want to see in the future from these technologies, how they should be introduced into the market, and by whom. As technology development continues to increase, the demands on the department for critical support and strategic analysis for senior management and areas of the company considering the possible development of a new line of businesses are increasing accordingly. This increase in workload leads to a need for the Strategic Analysis Department to add 2 FTEs to meet the demands driven by the new environment. Therefore, the Utilities are well positioned to meet customer needs and desires and to protect customers against the possibility of stranded investment that could result from new technology development before more traditional investments are made. Of the two additional FTEs, one has already been hired.

F. Allocation Methodology

The Finance Division is a shared service between SDG&E and SCG. Generally, cost centers in the Finance Division use the same allocation methodology; however in some cases the allocation methodologies between cost centers may differ. Below, I highlight the allocation methodology that is most often applied for the Finance Division cost centers. The allocation methodologies for each cost center can be found in the workpapers.

A weighted average allocation methodology was employed to allocate shared service costs to both Utilities. The cost centers in this department support both SCG and SDG&E. A weighted average, which is based on an employee's estimation of time spent on SDG&E and SCG activities is the most often used allocation methodology for the Finance Division cost centers.

G. Summary of Request

Table KD-24

Finance Division

Book Expense by Utility

($2009 in thousands)

A&G Finance	Base Year 2009	Forecast 2012	2009-2012 Incr (Decr)
SCG			
Incurred Cost	271	271	0
Allocations Out	124	138	14
SCG Retained	147	133	(14)
Billed in from SDG&E	1,002	1,322	320
SCG Book Expense	1,149	1,455	306
SDG&E			
Incurred Cost	2,309	3,117	808
Allocations Out	1,002	1,322	320
SDG&E Retained	1,307	1,795	488
Billed in from SCG	124	138	14
SDG&E Book Expense	1,431	1,933	502

For the Finance Division, the SCG book expense for the TY 2012 is $1.5 million compared to $1.2 million for base year 2009, for an increase of $0.3 million or 26.6%. For SDG&E, the TY 2012 forecast is $1.9 million compared to $1.4 million for base year 2009, for an increase of $0.5 million or 35.1%.

This concludes my prepared direct testimony.

V. WITNESS QUALIFICATIONS

My name is Kenneth J. Deremer and my business address is 8330 Century Park Court, San Diego, California 92123. I am currently employed by SDG&E as the Director of Financial Analysis & Assistant Treasurer. My responsibilities include overseeing the development, analysis, and implementation of revenue requirements, regulatory accounts, and cost recovery strategies for SDG&E and SoCalGas. I assumed my current position in January 2009 after serving as the Director of Tariffs and Regulatory Accounts since May 2007, where my responsibilities included the implementation and oversight of the utilities' tariffs and regulatory accounts, including the preparation of testimony in various regulatory proceedings, including the General Rate Case. Prior to May 2007, I served as the Regulatory Accounts Manager since April 2002. In that position, I managed the process for implementing and maintaining regulatory accounts, including serving testimony in ERRA proceedings.

I have been employed by SDG&E and Sempra Energy since 1991. In addition to my work experience described above, I worked from 1999 through 2002 as a Regulatory Tariff Administrator and held various positions in the Financial Reporting Department.

I received a Bachelors of Science in Business Administration from the University of California, Riverside in June 1987. I also received a Masters in Business Administration, with an emphasis in Finance, from the University of California, Riverside in December 1989.

I have previously testified before this Commission.