

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

Application 10-12-____
Exhibit No.: (SCG-24)

**PREPARED DIRECT TESTIMONY OF
EDWARD J. REYES
ON BEHALF OF SOUTHERN CALIFORNIA GAS COMPANY**

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

DECEMBER 2010



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1 **PREPARED DIRECT TESTIMONY OF**
2 **EDWARD J. REYES**
3 **ON BEHALF OF SOUTHERN CALIFORNIA GAS COMPANY**
4 **(SHARED SERVICES BILLING POLICY AND PROCESS)**
5

6 **I. PURPOSE OF TESTIMONY**

7 The following testimony for Southern California Gas Company (“SCG” or “SoCalGas”) and San Diego Gas & Electric (“SDG&E”) (collectively, the “Utilities”) describes the policy with respect to the recovery of Shared Services costs in this Test Year (“TY”) 2012 General Rate Case (“GRC”), explains the Shared Services billing process, and summarizes the Shared Services book expenses for each utility, to be recovered in this GRC. This testimony serves as a resource to all Shared Services witnesses who are sponsoring Shared Services costs in their testimony.

13 **II. OVERVIEW OF SHARED SERVICES COST PRESENTATION IN THIS GRC**

14 **A. Policy**

15 SoCalGas and SDG&E have the same policy for Shared Services billing: to insure that Shared Services costs that are incurred by one utility on behalf of the other utility, and/or on behalf of Sempra Energy or any of its unregulated subsidiaries, are appropriately allocated and billed to those companies receiving services. The ratepayers of the utility providing a Shared Service should not subsidize the costs that are incurred in supporting another company.

21 **B. Shared Versus Non-Shared Services**

22 For purposes of this GRC, Shared Services are activities performed by a utility Shared Services department (i.e., functional area) for the benefit of (i) the other utility, (ii) the parent company (i.e., Sempra Energy) at its Corporate Center, and/or (iii) any unregulated affiliate.¹ The utility providing Shared Services must allocate and bill its costs to the entity or entities receiving those services. “Non-Shared Services” are activities that are performed by a utility solely for its own benefit. As such, Non-Shared

¹ Where Shared Services costs are being shown as allocated out to Corporate Center, those costs will ultimately be allocated to SCG, SDG&E, and the unregulated affiliates, in accordance with the Corporate Center reallocation methodology, which is described in Section IV of this testimony.

1 Services costs stay with the utility. Corporate Center, which provides certain services to
2 the utilities and to other subsidiaries, can be looked on as providing services which are
3 shared. However, for purposes of the GRC, the utility treats costs for services received
4 from Corporate Center as Non-Shared Services costs, consistent with any other outside
5 vendor costs incurred by the utility. This is an important concept to understand when
6 reading the testimonies of all the Shared Services witnesses.

7 **C. Changes from the Prior GRC**

8 For the TY 2012 GRC, the utilities are presenting Shared Services costs
9 differently than they did in the last TY 2008 GRC. First, costs for both Shared Services
10 and Non-Shared Services are presented by functional area, consisting of cost centers
11 and/or work groups. Thus, Non-Shared Services costs are no longer provided on a
12 Federal Energy Regulatory Commission (“FERC”) account basis. This change was made
13 pursuant to the California Public Utilities Commission’s (“CPUC”) decision that
14 “SDG&E and SoCalGas shall file the next GRC using the then-current “cost center”
15 system of internal accounting and control rather than convert and allocate the data to
16 approximate the Federal Energy Regulatory Commission’s Uniform System of
17 Accounts.”² Second, witnesses for the Shared Services functional areas are presenting
18 their Shared Services and Non-Shared Services costs in one testimony exhibit instead of
19 two. Third, the Shared Services Database (SSD) has been integrated in the Results of
20 Operations (RO) model, which eliminates the manual hand-off of data from the stand-
21 alone SSD to the RO model, and provides a direct link to the Summary of Earnings.
22 While the overall concept and calculation remain the same (i.e., overheads are applied
23 and billed to the appropriate entity or entities receiving a Shared Service), this direct link
24 between the SSD and RO model provides greater transparency and tracking of the Shared
25 Services costs into the RO model for purposes of computing the Revenue Requirement.

26 **D. Corporate Reorganization**

27 The corporate reorganization that became effective April 3, 2010, as discussed in
28 the Policy Overview testimony, Exhibits SCG-01 and SDG&E-01, and in other

² See D.08-07-046 (mimeo), Ordering Paragraph 22, p. 106.

1 testimonies, did not impact the Shared Services billing policy or process being sponsored
2 in this testimony. Regardless of how the reorganization may have impacted the structure
3 and costs of the functional areas at the utilities, once Shared Services costs are identified,
4 those costs are subject to the same billing policy and process that has existed prior to the
5 reorganization.
6

7 **III. DEFINITIONS AND LIST OF SHARED SERVICES EXHIBITS**

8 **A. Shared Services Terms Defined**

9 The following definitions are provided for terms used in this testimony as well as
10 in the testimonies of the Shared Services witnesses for SoCalGas and SDG&E.

11 Adjusted-recorded costs: 2009 actual costs, adjusted as needed to reflect an appropriate
12 base level of expenditures for the GRC.

13 Affiliates: business units within Sempra Energy, including SoCalGas and SDG&E, as
14 well as Corporate Center, and all other non-utility wholly-owned Sempra Energy
15 subsidiaries.

16 Allocations-in: see “Billed-in” below.

17 Allocations-out: costs billed from one utility to another or to Corporate Center/Other for
18 Shared Services provided. Shared Services allocations are performed at the cost center
19 level. Individual cost centers have specific, unique allocation methods described in detail
20 within the testimony work papers.

21 Allocation methods: direct charges or percentage-driven allocations based on
22 Causal/Beneficial drivers or Multi-Factors, which are applied to incurred costs to
23 determine the amount billed from the utility providing a Shared Service to the receiving
24 utility or other Sempra Energy affiliate benefiting from the activity.

25 Base year expenses: 2009 adjusted-recorded costs.

26 Billed-in: also referred to as Allocations-in, these are costs received by one utility, due to
27 another utility’s allocations. Billed-in costs become a component of book expense.

28 Book expense: retained plus billed-in costs. Book expense is the final cost to each utility.

29 Cost centers: the lowest level organizational unit for which Shared Services costs are
30 tracked and recorded.

1 Cost Driver: basis for which costs are allocated. Employee headcount is an example of a
2 cost driver.

3 Direct costs: specific costs, labor and non-labor, for each work activity.

4 Fully-loaded costs: direct costs plus all applicable indirect charges and overheads. For
5 example, in the process of billing the direct cost of non-union labor to an affiliate for
6 Shared Services performed, overhead costs are added for payroll taxes, workers'
7 compensation, pension and benefits, incentive compensation plan, and public liability and
8 property damage insurance, resulting in fully-loaded costs.

9 Functional areas: organizational groupings within the utilities that provide services of a
10 similar nature. Shared Services functional areas presented in this GRC are listed in
11 subsection B below.

12 Incurred costs: operating costs incurred by a utility before Shared Services allocations,
13 overhead loading, and escalation.

14 Non-Shared Services: activities provided by functional areas at one utility which benefit
15 only the utility performing the activity, the costs of which do not need to be allocated and
16 billed out to other entities. Non-Shared Services costs are costs incurred by a utility for
17 its sole benefit, and may include labor costs and non-labor costs. Costs for services
18 provided to the utility by Corporate Center are treated as Non-Shared Services costs by
19 the utility, consistent with how outside vendor costs are treated.

20 Retained costs: incurred costs remaining at the utility where the costs were incurred, net
21 of allocations.

22 Shared Services: activities performed by functional areas at one utility for the benefit of
23 (i) the other utility, (ii) Corporate Center, and/or (iii) an unregulated affiliate. A utility
24 providing Shared Services will allocate and bill its costs for providing those services to
25 the entity or entities receiving the service. A utility receiving Shared Services from the
26 other utility will include in its own book expense any costs allocated and billed to for the
27 services received.

28 TY 2012: the year used in this GRC to establish base rates.

29 Work group: grouping of one or more cost centers with similar activities within a
30 functional area.

31

1 **B. Shared Services Exhibits**

2 The following table identifies all the Shared Services functional areas, and the
3 corresponding testimony exhibits presented in this GRC, along with the names of the
4 sponsoring witnesses:
5
6

Table EJR-USS-1

<u>Shared Services Functional Area, Exhibit and Witness List</u>		
<u>Functional Area</u>	<u>SCG/SDG&E Exhibit</u>	<u>SCG/SDG&E Witness</u>
Administrative & General (A&G) - Controller, Finance & Regulatory Affairs	SCG-22/SDG&E-28	Mr. Kenneth Deremer
Customer Service (Customer Svc) - Field Ops & Customer Contact	SCG-07/SDG&E-13	Mr. Ed Fong
Customer Svc - Information	SCG-09/SDG&E-15	Ms. Gillian Wright/Ms. Kathleen Cordova
Customer Svc - Office Operations	SCG-08/SDG&E-14	Mr. Michael Baldwin/Mr. Steve Rahon
Emergency Preparedness & Safety	SCG-16/SDG&E-22	Mr. Scott Drury
Engineering	SCG-05/SDG&E-04	Mr. Raymond Stanford
Environmental	SCG-15/SDG&E-21	Ms. Lisa Gomez
External Affairs & Legal	SCG-23/SDG&E-29	Ms. Cheryl Shepherd
Fleet Services	SCG-11/SDG&E-17	Mr. Hector Madariaga
Gas Distribution	SCG-02/SDG&E-02	Ms. Gina Orozco-Mejia
Gas Transmission	SCG-03/SDG&E-03	Mr. John Dagg
Human Resources, Disability & Workers Comp	SCG-21/SDG&E-27	Ms. Sarah Edgar
Information Technology (IT)	SCG-12/SDG&E-18	Mr. Jeff Nichols
Real Estate, Land & Facilities	SCG-14/SDG&E-20	Mr. David Taylor
Supply Services & Diverse Business Enterprises	SCG-10/SDG&E-16	Ms. Karen Sedgwick

7
8 **IV. SHARED SERVICES BILLING PROCESS**

9 **A. Overview**

10 Each Shared Services functional area at the utility is responsible for determining
11 the proper allocation of its Shared Services costs to the appropriate entity or entities
12 receiving the services. The main objectives of the Shared Services billing process are to
13 ensure that: (1) sharing of services is recognized via a formal billing process, (2) services
14 are billed at fully-loaded cost,³ and (3) supplemental loaders⁴ for applicable non-
15 regulated entities are applied to the billings. In addition, the Shared Services billing
16 process ensures that utility ratepayers are not subsidizing costs that are incurred in
17 support of another entity. However, to provide a complete picture of Shared Services
18 allocations and billing, those costs are presented to demonstrate that the utilities are
19 properly excluding those costs from book expense.

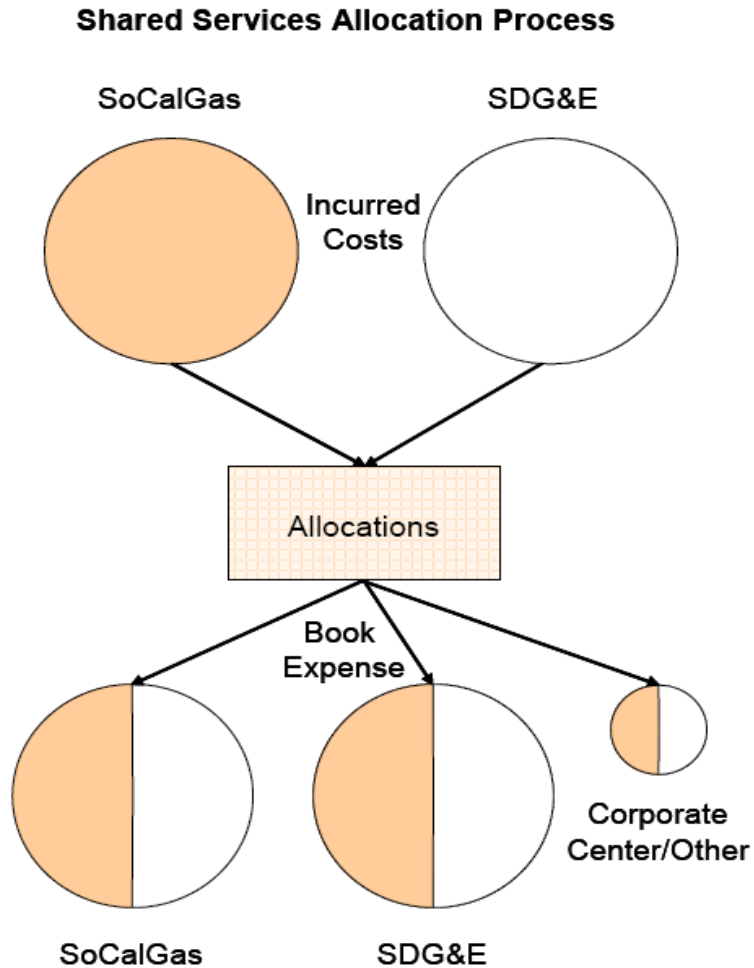
³ “Fully-loaded cost” means the direct cost of good or service plus all applicable indirect charges and overheads.

⁴ As required by the Affiliate Transaction Rules, charges to Corporate Center and/or any of the unregulated affiliates will be calculated at fully-loaded cost, plus a premium on direct labor.

1 **B. Allocation of Shared Services Costs**

2 To ensure proper billing of Shared Services costs to the entity or entities receiving
3 a utility-provided Shared Service, the utility must first allocate those costs to the
4 appropriate entity or entities, then bill those costs out to the appropriate entity or entities.

5 The following chart illustrates at a high level how Shared Services costs are
6 allocated:



7
8 There are two primary allocation methods for allocating Shared Services costs to
9 the entity or entities receiving the Shared Services: (1) direct allocation and (2)
10 percentage allocation. Each is discussed below.

11 **1. Direct Allocation**

12 Direct allocation is used for incurred costs that can be charged directly to
13 the entity or entities receiving the benefit of a Shared Service from the utility.

1 Where direct allocation can be applied, managers at the cost center⁵ level will
2 specifically identify and directly allocate a Shared Services activity. If certain
3 Shared Services are billed on a direct allocation method, the Affiliate Billing and
4 Costing (ABC)⁶ organization will open specific billing orders so related costs can
5 be captured directly and billed to the appropriate affiliates.

6 **2. Percentage Allocation**

7 Percentage Allocation is used for costs associated with activities that
8 cannot be directly allocated. Most Shared Services costs are allocated under a
9 percentage allocation method and are charged to the entity or entities receiving a
10 Shared Service based on percentages derived under two types of analyses: (1)
11 causal/beneficial or (2) multi-factor.

12 If Shared Services are billed via percentage allocation method, the Shared
13 Services managers submit allocation percentages for each entity that will receive
14 charges from a utility for Shared Services rendered to the ABC organization. The
15 ABC organization then inputs the allocation percentages into the SAP accounting
16 system, where they are processed and the resulting allocations billed as part of the
17 month-end closing procedures. The allocation percentages are reviewed annually
18 or more frequently when there are material changes to the Shared Services
19 organization's business condition. This review is the responsibility of the Shared
20 Services functional areas. Updates and retroactive adjustments are processed, as
21 appropriate, to re-align the billing percentages when necessary.

22 **(a) Causal-Beneficial**

23 When costs cannot be directly allocated, they are charged using a Causal-
24 Beneficial method, which is based on a "cost driver." Causal-Beneficial methods are the
25 most common basis for allocations by Shared Services organizations.
26

⁵ The term "cost center" refers to the lowest level of organizational grouping within functions at SCG and SDG&E.

⁶ The ABC organization provides services such as (i) guidance and support to the Shared Services functional areas on Shared Services billing requirements, (ii) maintaining the system allocation percentages for all shared O&M costs allocated from the cost centers in the SAP accounting system, and (ii) ensuring proper system coding for the application of appropriate overheads.

1 **(b) Multi-factor**

2 A four-factor analysis is performed for functions that cannot be appropriately
3 defined by a single causal-beneficial cost driver. The Multi-Factor weights four factors:
4 revenue, gross plant and investments, operating expenses, and full-time
5 employees/equivalents (FTEs). The specific Multi-Factor used by the utilities is called
6 the “California Regulated Multi-Factor.”

7 **C. Shared Services Billing Process**

8 **1. Compiling a Cost Center’s Shared Services Forecast**

9 The following steps are performed by the utilities to forecast Shared
10 Services costs for each cost center.

11 **Step 1.** The managers for the various utility Shared Services
12 organizations forecast their direct costs⁷ by cost center as:

- 13 • Directly Retained
- 14 • Directly Allocated
- 15 • Amounts Subject to Percent Allocation

16 Directly Retained costs represent costs incurred solely for a utility’s own
17 benefit, and therefore these costs would be retained at that utility and not allocated
18 out. Examples of Directly Retained costs are advertising and marketing charges
19 incurred by SCG to promote only SCG products and services.

20 Directly Allocated costs represent costs incurred for special projects
21 specifically for the benefit of another affiliate, and therefore are directly charged
22 to that affiliate.

23 Amounts Subject to Percentage Allocation costs represent Shared Services
24 costs incurred for Shared Services provided by one utility for the benefit of other
25 entities (e.g., SCG for the benefit of SDG&E, Corporate Center and unregulated
26 affiliates) and are allocated to entities based on their share of the services
27 received. Most of the Shared Services costs fall into this third category.

28 **Step 2.** The Directly Retained, Directly Allocated and Amounts Subject
29 to Percent Allocation sum to compose the cost center’s 100% level or Incurred

⁷ Direct costs are defined as the specific labor and/or non-labor costs of each work activity.

1 Costs. The Shared Services cost center forecast is presented in base year 2009
2 dollars and classified into labor, non-labor and non-standard escalated costs, as
3 applicable. This level of detail, which is in work papers, is summarized in the
4 testimony of the Shared Services witnesses.

5 **Step 3.** With respect to Amounts Subject to Percentage Allocation, the
6 managers determine by cost center the allocation percentage to apply to each
7 entity related to those costs.

8 **Step 4.** The allocation percentages derived in Step 3 above are applied to
9 those costs to arrive at costs allocable to each entity, except the utility providing
10 the Shared Services. After all allocations to the benefitting entities are made, the
11 remaining costs, if any, are allocated to the utility providing the Shared Services.
12 These remaining costs which are allocated to the utility are then treated in the
13 same manner as Directly Retained costs.

14 **Step 5.** All three types of costs (Directly Allocated, Directly Retained,
15 Amounts Subject to Percentage Allocation) are summarized to arrive at the
16 following totals:

- 17 (i) Total Allocated amounts per entity, computed as the Directly Allocated amounts
18 plus the Amount Allocated via Percentage Allocation. This total is presented at
19 the entity level (e.g., SoCalGas allocations to SDG&E, Corporate Center, and/or
20 unregulated affiliates).
- 21 (ii) Total Retained amounts for each utility, computed as the Directly Retained
22 amounts plus the remaining dollars retained at the utility once Amounts Subject to
23 Percentage Allocation are allocated out to the other entities. This total can also be
24 derived by taking the 100% level forecast and subtracting the Total Allocated
25 amount, as computed in (i) above.

26 Table USS-EJR-2 below illustrates the preparation of the forecasting process
27 described above.

28

TABLE USS-EJR-2

Shared Service Billing Process Illustration							
Shared Service Cost Center 2200-XXXX							
Line No.	Description	Notes	Company	Labor	NonLabor	NSE	
1	100% Level Forecast	(a)	SCG	\$ 100	\$ 50	\$ -	Line [3+8+10]
2							
3	Directly Retained	(b)	SCG	\$ 5	\$ 5	\$ -	
4							
5	Directly Allocated	(c)	SDG&E	\$ 15	\$ 15	\$ -	
6			Corp Center	-	-	-	
7			Unregulated	-	-	-	
8			Subtotal	<u>\$ 15</u>	<u>\$ 15</u>	<u>\$ -</u>	Line [5+6+7]
9							
10	Amount Subject to % Allocation	(d)	SCG	\$ 80	\$ 30	\$ -	
11							
12							
13	AMOUNT ALLOCATED VIA % ALLOCATION CALCULATION:						
14	Amount Subject to % Allocation	(d)	SCG	80	30	-	Line [10]
15							
16	Allocation Percentages	(e)	SDG&E	50.0%	50.0%	0.0%	
17			Corp Center	10.0%	10.0%	0.0%	
18			Unregulated	0.0%	0.0%	0.0%	
19							
20							
21	Amount Allocated via % Allocation	(f)	SDG&E	\$ 40	\$ 15	\$ -	Line [14x16]
22			Corp Center	8	3	-	Line [14x17]
23			Unregulated	-	-	-	Line [14x18]
24			Total	<u>\$ 48</u>	<u>\$ 18</u>	<u>\$ -</u>	Line [21+22+23]
25							
26	Unallocated Amount Retained	(g)	SCG	\$ 32	\$ 12	\$ -	Line [14-24]
27							
28							
29	SUMMARY OF COSTS:						
30	Total Allocated	(h)	SDG&E	\$ 55	\$ 30	\$ -	Line [5+21]
31			Corp Center	8	3	-	Line [6+22]
32			Unregulated	-	-	-	Line [7+23]
33			Total	<u>\$ 63</u>	<u>\$ 33</u>	<u>\$ -</u>	Line [30+31+32]
34							
35	Total Retained	(i)	SCG - Direct	\$ 5	\$ 5	\$ -	Line [3]
36			SCG - Unallocated	32	12	-	Line [26]
37			Total	<u>\$ 37</u>	<u>\$ 17</u>	<u>\$ -</u>	Line [35+36]
38							
39			Grand Total	<u>\$ 100</u>	<u>\$ 50</u>	<u>\$ -</u>	Line [33+37] = Line 1
40							
41							
42							
43	Notes:						
44	(a) 100% Level Forecast = Sum of the Directly Retained, Directly Allocated and the Amount Subject to % Allocation. The total cost center costs prior to any allocations out.						
45	(b) Directly Retained = Costs incurred solely for SDG&E's own benefit and are not billed out.						
46	(c) Directly Allocated = Costs incurred for special projects benefiting a special affiliate and directly charged to the affiliate.						
47	(d) Amount Subject to % Allocation = Routine, on-going shared service costs incurred for SCG, SECC, unregulated affiliates and SDG&E itself.						
48	(e) Allocation Percentages = Determined by the planners and applied to each benefiting affiliate.						
49	(f) Amount allocated via % Allocation = Amount allocated to each affiliate.						
50	(g) Unallocated Amount Retained = The amount retained at SDG&E from the Subject to % Allocation amount.						
51	(h) Total Allocated = Directly Allocated amount + the Amount Allocated via % Allocation.						
52	(i) Total Retained = Directly Retained amount + the Unallocated Amount Retained.						

1 **Step 6.** To get to Book Expense, Total Retained is combined with the
2 Billed-In costs from the other utility.

3 **2. Loading of Overheads**

4 In order to comply with Affiliate Transaction Rules, Total Allocated
5 amounts (also referred to as allocations-out costs) for Shared Services include:

- 6 • Standard labor and non-labor overhead loadings;
- 7 • Supplemental labor loader, where applicable (the supplemental
8 labor loader is not applied to billings to SCG and SDG&E); and
- 9 • Indirect support overhead loader.

10 These overheads are discussed in detail later in this testimony. The
11 overhead loading process consists of applying overheads to the Total Allocated
12 amounts to yield fully-loaded Total Allocated amounts. Overheads were not
13 loaded onto Total Retained amounts. Labor overheads were applied to the labor
14 costs, and non-labor overheads were applied to both the non-labor and non-
15 standard escalated costs. Supplemental labor loader was applied to labor costs,
16 and Indirect support overhead was applied to labor, non-labor and non-standard
17 escalated costs.

18 **3. Corporate Center Reallocation**

19 SCG and SDG&E allocate Shared Services to Corporate Center based on
20 the direct support of the Shared Services organizations to Corporate Center.
21 However, since Corporate Center is in turn supporting the utilities and other
22 unregulated affiliates, these support costs are then reallocated back to those
23 entities. To avoid the inefficiencies of allocating these costs to Corporate Center
24 and then Corporate Center in turn allocating back, a process has been
25 implemented to reallocate Corporate Center charges to the receiving affiliate "on
26 behalf" of Corporate Center based on the same allocation percentages that
27 Corporate Center derived for its allocations. The Corporate Reallocation, also
28 known as Business Unit Charge Ups (BUCU), allocation percentages are included
29 in the table below and the details can be found in the work papers supporting

Exhibit SCG-17/ SDG&E-23 (Corporate Center testimony of Bruce A. Folkmann).

Table EJR-USS-3

Corporate Reallocation Rates										
Calculation for 2012 Forecast										
2012 Budget (Labor) - \$ '000										
Business Unit	Human External Facilities / Pension &							Total	BU	
	Finance	Governance	Legal	Resources	Affairs	Assets	Benefits		Allocations	
SDG&E	5,219	1,726	2,701	2,299	557	617	7,806	20,924	A	36.24% A/Z
SoCal Gas	5,143	1,593	1,957	2,945	602	728	7,730	20,699	B	35.85% B/Z
Global Business Units	6,680	666	1,413	485	478	360	6,035	16,118	C	27.91% C/Z
Corporate Retained	1,252	2,609	-	-	485	146	4,449	8,941		0.00%
Total	18,294	6,594	6,071	5,730	2,122	1,851	26,020	66,682		100.00%
Total less Corporate Center								57,741	Z	

V. OVERHEADS

A. Types of Overheads

Overheads were applied to shared service billings to ensure they are fully-loaded. The following are the types of overheads applied to billings:

1. Standard Labor Overheads

The standard labor overheads include:

- Payroll Tax
- Incentive Compensation Plan (ICP)
- Workers' Compensation (Workers' Comp)
- Public Liability and Property Damage (PLPD)
- Pension and Benefits (P&B)

These labor overheads represent additional indirect costs associated with salaries paid to employees and are loaded on internal labor and labor billed to other parties. The specific overhead rates that were applied to the shared service allocations-out costs in this GRC were developed using 2009 historical data.

(a) Payroll Tax Overhead

The Payroll Tax overhead represents the company's portion of required contributions to the state and federal governments for State Unemployment Insurance,

1 Federal Unemployment Insurance, and Federal Retirement and Medicare Insurance. The
2 Payroll Tax rate applied to the allocations-out labor was provided by the Tax Department
3 for use in this GRC. Further details on payroll taxes can be found in Exhibit SCG-28/
4 SDG&E-34 (taxes testimony of Randall G. Rose).

5 (b) ICP Overhead

6 The ICP overhead represents the incentive compensation plan costs paid to
7 employees based on individual employee and company performance as compared to pre-
8 established goals. The ICP overhead rate used in this GRC was applied to the total labor
9 allocated out to the affiliates. The ICP rate in this GRC equals to the 2009 pool funding
10 divided by the total 2009 non-union company labor.

11 (c) Workers' Comp Overhead

12 The Workers' Comp overhead represents the cost of expected payments to
13 employees for work-related injuries, plus the cost of workers' compensation insurance
14 premiums to cover claims over a certain dollar amount. The Workers' Comp overhead
15 rate used in this GRC was applied to the total labor allocated out to the affiliates. The
16 Workers' Comp rate in this GRC equals to the 2009 pool funding divided by the total
17 2009 company labor.

18 (d) PLPD Overhead

19 The PLPD overhead represents the cost of expected payments to third parties for
20 liability and property damage claims submitted to the company, plus the cost of insurance
21 premiums to cover claims over a certain dollar limit. The PLPD overhead rate used in
22 this GRC was applied to the total labor allocated out to the affiliates. The PLPD rate in
23 this GRC equals to the 2009 pool funding divided by the total 2009 company labor.

24 (e) P&B Overhead

25 The P&B overhead represents costs paid by the company to provide employee
26 benefits, such as flex health benefit plans, employee pension contributions and expense,
27 the company match portion of contributions to the qualified retirement savings plan
28 401(k), and retiree health benefits. The P&B overhead rate used in this GRC was applied
29 to the total labor allocated out to the affiliates. The P&B rate in this GRC application
30 equals to the 2009 pool funding divided by the total 2009 company labor.

1 **2. Non-Labor Overheads**

2 The standard non-labor overheads consist solely of the Purchasing
3 overhead rate. The Purchasing overhead rate loads the costs related to the
4 procurement activity in obtaining goods and services for the organizations. The
5 costs for any procurement activities benefiting the affiliates are billed directly as
6 part of the shared service billings. The Purchasing overhead rate used in this
7 GRC was applied to the non-labor charges (which generally represent purchased
8 materials and services). The Purchasing rate in this GRC equals to the 2009 pool
9 funding divided by total 2009 company non-labor charges.

10 **3. Supplemental Labor Loader**

11 In addition to the standard labor loaders, a supplemental labor loader was
12 applied to Shared Services billed to Corporate Center and other unregulated
13 affiliates. The applicable required loader for these billings is 5% of fully-loaded
14 labor. The supplemental labor overhead rate presented in Tables EJR-USS-4 and
15 Table EJR-USS-5 below reflects the required loading rate applied to direct labor
16 prior to any loading. In other words, this rate equates to the required loading rate
17 of 5% on fully-loaded labor.

18 **4. Indirect Support Overhead**

19 This indirect support is represented by the Affiliate Billing Administrative
20 & General (A&G) overhead. This overhead represents the cost of A&G support
21 provided to all affiliate billings by functional areas, such as Accounting and
22 Human Resources. The Affiliate Billing A&G overhead used in this GRC is
23 applied to the total labor and non-labor allocations-out costs to the affiliates. The
24 Affiliate Billing A&G rate in this GRC equals to the 2009 pool funding divided
25 by total 2009 labor and non-labor costs billed to the affiliates.

26 **B. SCG Overheads**

27 Composite overhead loading factors were developed based on 2009 historical data
28 and used to bill each affiliate for the applicable overheads. The 2012 loading factors are
29 presented in Table EJR-USS-4 below.

1 The use of an overhead rate based on historical data in this GRC is a reasonable
 2 and fair representation of TY 2012 loadings for shared service billings. There is no
 3 indication of stranded costs or cross-subsidization at the utilities by using an overhead
 4 rate based on historical data. These composite rates will ensure that Shared Services
 5 provided are billed at fully-loaded cost.

6
 7 **Table EJR-USS-4**

2012 Composite Overhead Loading Factors for SCG			
	San Diego Gas & Electric Company	Sempra Energy Corporate Center	Unregulated Affiliates
Labor			
Standard	65.8%	65.8%	65.8%
Supplemental	-	8.3%	8.3%
Indirect Support	22.6%	22.6%	22.6%
Subtotal	88.4%	96.7%	96.7%
Non-Labor			
Standard Procurement	0.9%	0.9%	0.9%
Indirect Support	22.6%	22.6%	22.6%
Subtotal	23.5%	23.5%	23.5%

8
 9 **C. SDG&E Overheads**

10 Composite overhead loading factors were developed based on 2009 historical data
 11 and used to bill each affiliate for the applicable overheads. The 2012 loading factors are
 12 presented in Table EJR-USS-5 below.

13 The use of an overhead rate based on historical data in this GRC is a reasonable
 14 and fair representation of TY 2012 loadings for shared service billings. There is no
 15 indication of stranded costs or cross-subsidization at the utilities by using an overhead
 16 rate based on historical data. SDG&E believes that these composite rates will still ensure
 17 that Shared Services provided are billed at fully-loaded cost.

1

Table EJR-USS-5

2012 Composite Overhead Loading Factors for SDG&E			
	Southern California Gas Company	Sempra Energy Corporate Center	Unregulated Affiliates
Labor			
Standard	61.2%	61.2%	61.2%
Supplemental	-	8.1%	8.1%
Indirect Support	11.5%	11.5%	11.5%
Subtotal	72.7%	80.8%	80.8%
Non-Labor			
Standard Procurement	0.3%	0.3%	0.3%
Indirect Support	11.5%	11.5%	11.5%
Subtotal	11.8%	11.8%	11.8%

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D. Overhead Credit

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The Overhead credit is a total of all the overhead loadings that were applied to the Total Allocations amount (i.e., allocations-out costs). The overhead loadings were credited out so as to not get accounted for twice in SCG's or SDG&E's revenue requirement. For example, SCG will reflect its pension and benefits ("P&B") forecast costs at the 100% level. However, a portion of SCG's P&B costs which are related to SCG employees who provide Shared Services to other entities (SDG&E, Corporate Center and other unregulated affiliates), are billed to those entities in the form of overhead loadings. This is so SCG ratepayers do not subsidize the portion of P&B costs related to services provided to other entities. As a result, a credit for SCG's P&B overhead loadings must be applied in the RO model in order to reflect the proper request level for SCG's revenue requirement. In contrast, the Payroll Tax and Supplemental Labor overhead loading was not considered an overhead credit to the RO model's O&M Summary. Unlike the other overhead loadings (e.g., P&B), the payroll taxes calculated in the shared service revenue requirement for SCG and SDG&E were based on the Total Retained labor amount and not the 100% level labor forecast. Therefore, there is no need to credit the payroll tax overhead portion from the RO model for SCG or SDG&E. The Supplemental Labor Loader was applied to Shared Services billed to Corporate Center and other unregulated affiliates. There was no forecasted cost related to this loader in the RO model. Therefore, it was also excluded from the overhead credit calculation.

1 **VI. SUMMARY OF SHARED SERVICES COSTS**

2 **A. SCG Forecasts**

3 In the following section, Table EJR-USS-6, “SCG Shared Services Summary
4 (Direct Costs)” is presented by labor, non-labor and non-standard escalated and will show
5 the details on the following amounts⁸, which are prior to overhead loadings:

- 6 a) 100% level forecast by functional area - \$94,134;
- 7 b) Allocations-out costs by functional area – \$14,090;
- 8 c) Retained costs by functional area - \$80,044;
- 9 d) Allocations-in costs by functional area - \$76,676; and
- 10 e) Book Expense by functional area - \$156,720.

11 Table EJR-USS-7, “SCG Overheads” will show the details on the following
12 amounts, which are after the overhead loadings:

- 13 a) Allocations-out to SDG&E - \$22,222;
- 14 b) Allocations-out to Corporate Center - \$1,388; and
- 15 c) Allocations-out to Unregulated Affiliates - \$176.

16 Table EJR-USS-8, “SCG Shared Services Summary (Retained and Allocations
17 In)” will show the details on the following amounts:

- 18 a) Retained costs by functional area - \$80,044;
- 19 b) Allocations-in (fully loaded) costs by functional area - \$111,474;
- 20 c) Overhead Credit - \$(8,928); and
- 21 d) Net Shared Services O&M - \$182,590.

22 Finally, Table EJR-USS-9, “SCG Corporate Reallocation Costs” will show the
23 details on the following amounts re-allocated from Corporate Center:

- 24 a) SDG&E - \$6,104;
 - 25 b) SCG - \$6,038; and
 - 26 c) Unregulated Affiliates - \$4,700.
- 27

⁸ Presented in base year 2009 dollars and in thousands

TABLE EJR-USS-6

SCG Shared Services Summary (Direct Costs)				
Test Year 2012				
(\$2009 Thousands)				
Incurred (100% Level Forecast)				
Functional Area	L	NL	NSE	Total
A&G - Controller/Finance/Regulatory Affairs	7,794	844	-	8,638
CS - Field Operations & Customer Contact	4,973	421	-	5,394
CS - Information	4,529	1,863	-	6,392
CS - Office Operations	5,956	1,514	5	7,475
Emergency Preparedness & Safety	1,567	360	-	1,927
Engineering	13,465	4,364	-	17,829
Environmental	1,717	545	-	2,262
External Affairs & Legal	5,255	207	-	5,462
Fleet Services	1,677	74	-	1,751
Gas Distribution	815	145	-	960
Gas Transmission	4,108	657	-	4,765
Human Resources, Disability & Workers Comp	2,200	1,216	-	3,416
Information Technology	2,237	524	-	2,761
Real Estate, Land & Facilities	1,718	3,747	16,548	22,013
Supply Services & Diverse Business Enterprises	2,289	800	-	3,089
Total	60,300	17,281	16,553	94,134
Allocations Out				
Functional Area	L	NL	NSE	Total
A&G - Controller/Finance/Regulatory Affairs	2,773	344	-	3,117
CS - Field Operations & Customer Contact	488	29	-	517
CS - Information	599	209	-	808
CS - Office Operations	1,230	278	1	1,509
Emergency Preparedness & Safety	651	160	-	811
Engineering	1,441	469	-	1,910
Environmental	99	23	-	122
External Affairs & Legal	197	9	-	206
Fleet Services	644	119	-	763
Gas Distribution	54	14	-	68
Gas Transmission	529	84	-	613
Human Resources, Disability & Workers Comp	237	102	-	339
Information Technology	619	131	-	750
Real Estate, Land & Facilities	186	544	1,708	2,438
Supply Services & Diverse Business Enterprises	96	23	-	119
Total	9,843	2,538	1,709	14,090
Retained				
Functional Area	L	NL	NSE	Total
A&G - Controller/Finance/Regulatory Affairs	5,021	500	-	5,521
CS - Field Operations & Customer Contact	4,485	392	-	4,877
CS - Information	3,930	1,654	-	5,584
CS - Office Operations	4,726	1,236	4	5,966
Emergency Preparedness & Safety	916	200	-	1,116
Engineering	12,024	3,895	-	15,919
Environmental	1,618	522	-	2,140
External Affairs & Legal	5,058	198	-	5,256
Fleet Services	1,033	(45)	-	988
Gas Distribution	761	131	-	892
Gas Transmission	3,579	573	-	4,152
Human Resources, Disability & Workers Comp	1,963	1,114	-	3,077
Information Technology	1,618	393	-	2,011
Real Estate, Land & Facilities	1,532	3,203	14,840	19,575
Supply Services & Diverse Business Enterprises	2,193	777	-	2,970
Total	50,457	14,743	14,844	80,044

TABLE EJR-USS-6 Continued

Allocations In				
Functional Area	L	NL	NSE	Total
A&G - Controller/Finance/Regulatory Affairs	6,188	981	-	7,169
CS - Field Operations & Customer Contact	505	9	-	514
CS - Information	789	357	-	1,146
CS - Office Operations	800	27	-	827
Emergency Preparedness & Safety	603	1,089	-	1,692
Engineering	127	7	-	134
Environmental	1,467	655	-	2,122
External Affairs & Legal	151	4	-	155
Fleet Services	423	93	-	516
Gas Distribution	238	25	-	263
Gas Transmission	-	-	-	-
Human Resources, Disability & Workers Comp	2,740	582	-	3,322
Information Technology	23,549	18,611	7,858	50,018
Real Estate, Land & Facilities	2,251	2,243	313	4,807
Supply Services & Diverse Business Enterprises	2,465	1,526	-	3,991
Total	42,296	26,209	8,171	76,676

Book Expense				
Functional Area	L	NL	NSE	Total
A&G - Controller/Finance/Regulatory Affairs	11,209	1,481	-	12,690
CS - Field Operations & Customer Contact	4,990	401	-	5,391
CS - Information	4,719	2,011	-	6,730
CS - Office Operations	5,526	1,263	4	6,793
Emergency Preparedness & Safety	1,519	1,289	-	2,808
Engineering	12,151	3,902	-	16,053
Environmental	3,085	1,177	-	4,262
External Affairs & Legal	5,209	202	-	5,411
Fleet Services	1,456	48	-	1,504
Gas Distribution	999	156	-	1,155
Gas Transmission	3,579	573	-	4,152
Human Resources, Disability & Workers Comp	4,703	1,696	-	6,399
Information Technology	25,167	19,004	7,858	52,029
Real Estate, Land & Facilities	3,783	5,446	15,153	24,382
Supply Services & Diverse Business Enterprises	4,658	2,303	-	6,961
Total	92,753	40,952	23,015	156,720

Note: "Allocations In" section have not been loaded. Loading for these costs will be shown in Table EJR-USS-8 SCG Shared Services Summary (Retained and Allocations In).

TABLE EJR-USS-7

SCG Overheads Test Year 2012 (\$2009 Thousands)												
	(a) Direct Costs				(b) = (a)*Overhead Rates Overheads				(c)=(a)+(b) Fully Loaded Costs			
	L	NL	NSE	Total	L	NL	NSE	Total	L	NL	NSE	Total
	Retained	50,457	14,743	14,844	80,044	-	-	-	-	50,457	14,743	14,844
Allocations Out:												
SDG&E												
A&G - Controller/Finance/Regulatory Affairs	2,722	342	-	3,064	2,405	79	-	2,484	5,127	421	-	5,548
CS - Field Operations & Customer Contact	488	29	-	517	431	6	-	437	919	35	-	954
CS - Information	598	209	-	807	527	49	-	576	1,125	258	-	1,383
CS - Office Operations	1,230	278	1	1,509	1,088	64	-	1,152	2,318	342	1	2,661
Emergency Preparedness & Safety	651	160	-	811	575	37	-	612	1,226	197	-	1,423
Engineering	1,399	460	-	1,859	1,234	106	-	1,340	2,633	566	-	3,199
Environmental	99	23	-	122	88	6	-	94	187	29	-	216
External Affairs & Legal	171	4	-	175	152	1	-	153	323	5	-	328
Fleet Services	644	119	-	763	571	27	-	598	1,215	146	-	1,361
Gas Distribution	54	14	-	68	48	3	-	51	102	17	-	119
Gas Transmission	529	84	-	613	470	19	-	489	999	103	-	1,102
Human Resources, Disability & Workers Comp	216	93	-	309	191	20	-	211	407	113	-	520
Information Technology	589	127	-	716	522	30	-	552	1,111	157	-	1,268
Real Estate, Land & Facilities	133	357	1,016	1,506	118	84	240	442	251	441	1,256	1,948
Supply Services & Diverse Business Enterprises	91	18	-	109	80	3	-	83	171	21	-	192
Total SDG&E	9,614	2,317	1,017	12,948	8,500	534	240	9,274	18,114	2,851	1,257	22,222
Corporate Center												
A&G - Controller/Finance/Regulatory Affairs	30	1	-	31	29	-	-	29	59	1	-	60
CS - Information	1	-	-	1	-	-	-	-	1	-	-	1
External Affairs & Legal	26	5	-	31	25	1	-	26	51	6	-	57
Human Resources, Disability & Workers Comp	12	5	-	17	8	1	-	9	20	6	-	26
Information Technology	27	3	-	30	26	1	-	27	53	4	-	57
Real Estate, Land & Facilities	51	186	683	920	48	44	160	252	99	230	843	1,172
Supply Services & Diverse Business Enterprises	5	5	-	10	4	1	-	5	9	6	-	15
Total Corporate Center	152	205	683	1,040	140	48	160	348	292	253	843	1,388
Unregulated												
A&G - Controller/Finance/Regulatory Affairs	21	1	-	22	19	-	-	19	40	1	-	41
Engineering	42	9	-	51	39	2	-	41	81	11	-	92
Human Resources, Disability & Workers Comp	9	4	-	13	9	1	-	10	18	5	-	23
Information Technology	3	1	-	4	1	-	-	1	4	1	-	5
Real Estate, Land & Facilities	2	1	9	12	1	-	2	3	3	1	11	15
Total Unregulated	77	16	9	102	69	3	2	74	146	19	11	176
Total Allocations Out:	9,843	2,538	1,709	14,090	8,709	585	402	9,696	18,552	3,123	2,111	23,786
Total SCG Shared Service Forecast	60,300	17,281	16,553	94,134	8,709	585	402	9,696	69,009	17,866	16,955	103,830
Overhead Rates:		Labor	NonLabor	NSE								
Bill To Company:	Year	OH %	OH %	OH %								
SDG&E	2012	88.4%	23.5%	23.5%								
Corporate Center/Unregulated	2012	96.7%	23.5%	23.5%								

TABLE EJR-USS-8

SCG Shared Services Summary (Retained and Allocations In)			
Test Year 2012			
(\$2009 Thousanddss)			
Total Company Summary	(a)	(b)	(c)=(a)+(b)
	Direct Costs	Overheads	Fully Loaded Costs
Retained	80,044	-	80,044
Allocations In			
SDG&E	76,676	34,798	111,474
Overhead Credit Gross	-	(9,696)	(9,696)
Less Payroll Tax + Supp Ldr	-	768	768
Adjusted Overhead Credit	-	(8,928)	(8,928)
Total Net Shared Services O&M	156,720	25,870	182,590
Functional Area Detail			
Retained	Direct Costs	Overheads	Fully Loaded Costs
A&G - Controller/Finance/Regulatory Affairs	5,521	-	5,521
CS - Field Operations & Customer Contact	4,877	-	4,877
CS - Information	5,584	-	5,584
CS - Office Operations	5,966	-	5,966
Emergency Preparedness & Safety	1,116	-	1,116
Engineering	15,919	-	15,919
Environmental	2,140	-	2,140
External Affairs & Legal	5,256	-	5,256
Fleet Services	988	-	988
Gas Distribution	892	-	892
Gas Transmission	4,152	-	4,152
Human Resources, Disability & Workers Comp	3,077	-	3,077
Information Technology	2,011	-	2,011
Real Estate, Land & Facilities	19,575	-	19,575
Supply Services & Diverse Business Enterprises	2,970	-	2,970
Total Retained	80,044	-	80,044
Allocations In	Direct Costs	Overheads	Fully Loaded Costs
From SDG&E			
A&G - Controller/Finance/Regulatory Affairs	7,169	4,609	11,778
CS - Field Operations & Customer Contact	514	366	880
CS - Information	1,146	615	1,761
CS - Office Operations	827	585	1,412
Emergency Preparedness & Safety	1,692	567	2,259
Engineering	134	93	227
Environmental	2,122	1,143	3,265
External Affairs & Legal	155	110	265
Fleet Services	516	316	832
Gas Distribution	263	176	439
Gas Transmission	-	-	-
Human Resources, Disability & Workers Comp	3,322	2,059	5,381
Information Technology	50,018	20,252	70,270
Real Estate, Land & Facilities	4,807	1,935	6,742
Supply Services & Diverse Business Enterprises	3,991	1,972	5,963
Total Allocations In	76,676	34,798	111,474
Shared Service O&M	Direct Costs	Overheads	Fully Loaded Costs
A&G - Controller/Finance/Regulatory Affairs	12,690	4,609	17,299
CS - Field Operations & Customer Contact	5,391	366	5,757
CS - Information	6,730	615	7,345
CS - Office Operations	6,793	585	7,378
Emergency Preparedness & Safety	2,808	567	3,375
Engineering	16,053	93	16,146
Environmental	4,262	1,143	5,405
External Affairs & Legal	5,411	110	5,521
Fleet Services	1,504	316	1,820
Gas Distribution	1,155	176	1,331
Gas Transmission	4,152	-	4,152
Human Resources, Disability & Workers Comp	6,399	2,059	8,458
Information Technology	52,029	20,252	72,281
Real Estate, Land & Facilities	24,382	1,935	26,317
Supply Services & Diverse Business Enterprises	6,961	1,972	8,933
Total Shared Service O&M	156,720	34,798	191,518
Overhead Credit	-	(8,928)	(8,928)
Total Net Shared Service O&M	156,720	25,870	182,590

TABLE EJR-USS-9

SCG Corporate Reallocation Costs			
Test Year 2012			
(\$2009 Thousands)			
<u>Corporate Reallocation</u>			
Costs to Corporate Center	Direct Costs	Overheads	Fully Loaded Costs
From SCG	1,040	348	1,388
From SDG&E	11,448	4,013	15,461
Total Costs to Corporate Center	12,488	4,361	16,849
Costs Allocated Back to Affiliates			
	Direct Costs	Overheads	Fully Loaded Costs
SDG&E	4,525	1,579	6,104
SCG	4,476	1,562	6,038
Unregulated	3,484	1,216	4,700
Total	12,485	4,357	16,842
<u>Reallocation Factors From Corporate Center</u>			
BillToCo	TY2012		
SDG&E	36.24%		
SCG	35.85%		
Unregulated	27.91%		
<i>Note: Difference due to rounding.</i>			

1 **B. SDG&E Forecasts**

2 In the following section, Table EJR-USS-10, “SDG&E Shared Services Summary
3 (Direct Costs)” is presented by labor, non-labor and non-standard escalated and will show the
4 details on the following amounts⁹, which are prior to overhead loadings:

- 5 a) 100% level forecast by functional area - \$190,669;
- 6 b) Allocations-out costs by functional area – \$91,968;
- 7 c) Retained costs by functional area - \$98,701;
- 8 d) Allocations-in costs by functional area - \$12,948; and
- 9 e) Book Expense by functional area - \$111,649.

10 Table EJR-USS-11, “SDG&E Overheads” will show the details on the following
11 amounts, which are after the overhead loadings:

- 12 a) Allocations-out to SCG - \$111,474;
- 13 b) Allocations-out to Corporate Center - \$15,461; and
- 14 c) Allocations-out to Unregulated Affiliates - \$4,443.

15 Table EJR-USS-12, “SDG&E Shared Services Summary (Retained and Allocations
16 In)” will show the details on the following amounts:

- 17 a) Retained costs by functional area - \$98,701;
- 18 b) Allocations-in (fully loaded) costs by functional area - \$22,222;
- 19 c) Overhead Credit - \$(35,784); and
- 20 d) Net Shared Services O&M - \$85,139.

21 Finally, Table EJR-USS-13, “SDG&E Corporate Reallocation Costs” will show the
22 details on the following amounts re-allocated from Corporate Center:

- 23 d) SDG&E - \$6,104;
 - 24 e) SCG - \$6,038; and
 - 25 a) Unregulated Affiliates - \$4,700.
- 26

⁹ Presented in base year 2009 dollars and in thousands

TABLE EJR-USS-10

SDG&E Shared Services Summary (Direct Costs)				
Test Year 2012				
(\$2009 Thousands)				
Incurred (100% Level Forecast)				
Functional Area	L	NL	NSE	Total
A&G - Controller/Finance/Regulatory Affairs	16,297	2,572	-	18,869
CS - Field Operations & Customer Contact	766	19	-	785
CS - Information	1,139	555	-	1,694
CS - Office Operations	3,906	75	-	3,981
Emergency Preparedness & Safety	1,402	3,117	-	4,519
Engineering	148	8	-	156
Environmental	5,389	2,225	-	7,614
External Affairs & Legal	7,801	1,055	-	8,856
Fleet Services	1,246	352	-	1,598
Gas Distribution	252	31	-	283
Gas Transmission	-	-	-	-
Human Resources, Disability & Workers Comp	5,725	1,473	-	7,198
Information Technology	44,720	36,560	15,558	96,838
Real Estate, Land & Facilities	4,436	6,786	16,809	28,031
Supply Services & Diverse Business Enterprises	6,069	3,942	236	10,247
Total	99,296	58,770	32,603	190,669
Allocations Out				
Functional Area	L	NL	NSE	Total
A&G - Controller/Finance/Regulatory Affairs	6,347	1,004	-	7,351
CS - Field Operations & Customer Contact	505	9	-	514
CS - Information	789	357	-	1,146
CS - Office Operations	800	27	-	827
Emergency Preparedness & Safety	603	1,089	-	1,692
Engineering	127	7	-	134
Environmental	1,531	678	-	2,209
External Affairs & Legal	297	88	-	385
Fleet Services	423	93	-	516
Gas Distribution	238	25	-	263
Gas Transmission	-	-	-	-
Human Resources, Disability & Workers Comp	2,830	614	-	3,444
Information Technology	26,695	21,585	8,572	56,852
Real Estate, Land & Facilities	2,531	5,181	3,447	11,159
Supply Services & Diverse Business Enterprises	2,713	2,527	236	5,476
Total	46,429	33,284	12,255	91,968
Retained				
Functional Area	L	NL	NSE	Total
A&G - Controller/Finance/Regulatory Affairs	9,950	1,568	-	11,518
CS - Field Operations & Customer Contact	261	10	-	271
CS - Information	350	198	-	548
CS - Office Operations	3,106	48	-	3,154
Emergency Preparedness & Safety	799	2,028	-	2,827
Engineering	21	1	-	22
Environmental	3,858	1,547	-	5,405
External Affairs & Legal	7,504	967	-	8,471
Fleet Services	823	259	-	1,082
Gas Distribution	14	6	-	20
Gas Transmission	-	-	-	-
Human Resources, Disability & Workers Comp	2,895	859	-	3,754
Information Technology	18,025	14,975	6,986	39,986
Real Estate, Land & Facilities	1,905	1,605	13,362	16,872
Supply Services & Diverse Business Enterprises	3,356	1,415	-	4,771
Total	52,867	25,486	20,348	98,701

TABLE EJR-USS-10 Continued

Allocations In				
Functional Area	L	NL	NSE	Total
A&G - Controller/Finance/Regulatory Affairs	2,722	342	-	3,064
CS - Field Operations & Customer Contact	488	29	-	517
CS - Information	598	209	-	807
CS - Office Operations	1,230	278	1	1,509
Emergency Preparedness & Safety	651	160	-	811
Engineering	1,399	460	-	1,859
Environmental	99	23	-	122
External Affairs & Legal	171	4	-	175
Fleet Services	644	119	-	763
Gas Distribution	54	14	-	68
Gas Transmission	529	84	-	613
Human Resources, Disability & Workers Comp	216	93	-	309
Information Technology	589	127	-	716
Real Estate, Land & Facilities	133	357	1,016	1,506
Supply Services & Diverse Business Enterprises	91	18	-	109
Total	9,614	2,317	1,017	12,948

Book Expense				
Functional Area	L	NL	NSE	Total
A&G - Controller/Finance/Regulatory Affairs	12,672	1,910	-	14,582
CS - Field Operations & Customer Contact	749	39	-	788
CS - Information	948	407	-	1,355
CS - Office Operations	4,336	326	1	4,663
Emergency Preparedness & Safety	1,450	2,188	-	3,638
Engineering	1,420	461	-	1,881
Environmental	3,957	1,570	-	5,527
External Affairs & Legal	7,675	971	-	8,646
Fleet Services	1,467	378	-	1,845
Gas Distribution	68	20	-	88
Gas Transmission	529	84	-	613
Human Resources, Disability & Workers Comp	3,111	952	-	4,063
Information Technology	18,614	15,102	6,986	40,702
Real Estate, Land & Facilities	2,038	1,962	14,378	18,378
Supply Services & Diverse Business Enterprises	3,447	1,433	-	4,880
Total	62,481	27,803	21,365	111,649

Note: "Allocations In" section has not been loaded. Loading for these costs will be shown in Table EJR-USS-12 SDG&E Shared Services Summary (Retained and Allocations In).

TABLE EJR-USS-11

SDG&E Overheads												
Test Year 2012												
(\$2009 Thousands)												
	(a)				(b) = (a)*Overhead Rates				(c)=(a)+(b)			
	Direct Costs				Overheads				Fully Loaded Costs			
	L	NL	NSE	Total	L	NL	NSE	Total	L	NL	NSE	Total
Retained	52,867	25,486	20,348	98,701	-	-	-	-	52,867	25,486	20,348	98,701
Allocations Out:												
SCG												
A&G - Controller/Finance/Regulatory Affairs	6,188	981	-	7,169	4,499	110	-	4,609	10,687	1,091	-	11,778
CS - Field Operations & Customer Contact	505	9	-	514	366	-	-	366	871	9	-	880
CS - Information	789	357	-	1,146	574	41	-	615	1,363	398	-	1,761
CS - Office Operations	800	27	-	827	582	3	-	585	1,382	30	-	1,412
Emergency Preparedness & Safety	603	1,089	-	1,692	438	129	-	567	1,041	1,218	-	2,259
Engineering	127	7	-	134	92	1	-	93	219	8	-	227
Environmental	1,467	655	-	2,122	1,066	77	-	1,143	2,533	732	-	3,265
External Affairs & Legal	151	4	-	155	110	-	-	110	261	4	-	265
Fleet Services	423	93	-	516	306	10	-	316	729	103	-	832
Gas Distribution	238	25	-	263	173	3	-	176	411	28	-	439
Human Resources, Disability & Workers Comp	2,740	582	-	3,322	1,991	68	-	2,059	4,731	650	-	5,381
Information Technology	23,549	18,611	7,858	50,018	17,118	2,202	932	20,252	40,667	20,813	8,790	70,270
Real Estate, Land & Facilities	2,251	2,243	313	4,807	1,634	264	37	1,935	3,885	2,507	350	6,742
Supply Services & Diverse Business Enterprises	2,465	1,526	-	3,991	1,793	179	-	1,972	4,258	1,705	-	5,963
Total SCG	42,296	26,209	8,171	76,676	30,742	3,087	969	34,798	73,038	29,296	9,140	111,474
Corporate Center												
A&G - Controller/Finance/Regulatory Affairs	143	20	-	163	112	2	-	114	255	22	-	277
Environmental	52	20	-	72	40	3	-	43	92	23	-	115
External Affairs & Legal	146	84	-	230	117	10	-	127	263	94	-	357
Human Resources, Disability & Workers Comp	43	13	-	56	34	1	-	35	77	14	-	91
Information Technology	3,073	2,800	679	6,552	2,482	327	80	2,889	5,555	3,127	759	9,441
Real Estate, Land & Facilities	194	2,042	914	3,150	155	240	109	504	349	2,282	1,023	3,654
Supply Services & Diverse Business Enterprises	234	755	236	1,225	186	87	28	301	420	842	264	1,526
Total Corporate Center	3,885	5,734	1,829	11,448	3,126	670	217	4,013	7,011	6,404	2,046	15,461
Unregulated												
A&G - Controller/Finance/Regulatory Affairs	16	3	-	19	10	-	-	10	26	3	-	29
Environmental	12	3	-	15	9	-	-	9	21	3	-	24
Human Resources, Disability & Workers Comp	47	19	-	66	35	2	-	37	82	21	-	103
Information Technology	73	174	35	282	45	19	4	68	118	193	39	350
Real Estate, Land & Facilities	86	896	2,220	3,202	68	106	263	437	154	1,002	2,483	3,639
Supply Services & Diverse Business Enterprises	14	246	-	260	9	29	-	38	23	275	-	298
Total Unregulated	248	1,341	2,255	3,844	176	156	267	599	424	1,497	2,522	4,443
Total Allocations Out:	46,429	33,284	12,255	91,968	34,044	3,913	1,453	39,410	80,473	37,197	13,708	131,378
Total SDG&E Shared Service Forecast	99,296	58,770	32,603	190,669	34,044	3,913	1,453	39,410	133,340	62,683	34,056	230,079
Overhead Rates:		Labor	NonLabor	NSE								
Bill To Company:	Year	OH %	OH %	OH %								
SCG	2012	72.7%	11.8%	11.8%								
Corporate Center/Unregulated	2012	80.8%	11.8%	11.8%								

TABLE EJR-USS-12

SDG&E Shared Services Summary (Retained and Allocations In)			
Test Year 2012			
(\$2009 Thousands)			
Total Company Summary	(a)	(b)	(c)=(a)+(b)
	Direct Costs	Overheads	Fully Loaded Costs
Retained	98,701		98,701
Allocations In			
SCG	12,948	9,274	22,222
Overhead Credit Gross	-	(39,410)	(39,410)
Less Payroll Tax + Supp Ldr	-	3,626	3,626
Adjusted Overhead Credit	-	(35,784)	(35,784)
Total Net Shared Services O&M	111,649	(26,510)	85,139
Functional Area Detail			
Retained	Direct Costs	Overheads	Fully Loaded Costs
A&G - Controller/Finance/Regulatory Affairs	11,518	-	11,518
CS - Field Operations & Customer Contact	271	-	271
CS - Information	548	-	548
CS - Office Operations	3,154	-	3,154
Emergency Preparedness & Safety	2,827	-	2,827
Engineering	22	-	22
Environmental	5,405	-	5,405
External Affairs & Legal	8,471	-	8,471
Fleet Services	1,082	-	1,082
Gas Distribution	20	-	20
Gas Transmission	-	-	-
Human Resources, Disability & Workers Comp	3,754	-	3,754
Information Technology	39,986	-	39,986
Real Estate, Land & Facilities	16,872	-	16,872
Supply Services & Diverse Business Enterprises	4,771	-	4,771
Total Retained	98,701	-	98,701
Allocations In	Direct Costs	Overheads	Fully Loaded Costs
From SCG			
A&G - Controller/Finance/Regulatory Affairs	3,064	2,484	5,548
CS - Field Operations & Customer Contact	517	437	954
CS - Information	807	576	1,383
CS - Office Operations	1,509	1,152	2,661
Emergency Preparedness & Safety	811	612	1,423
Engineering	1,859	1,340	3,199
Environmental	122	94	216
External Affairs & Legal	175	153	328
Fleet Services	763	598	1,361
Gas Distribution	68	51	119
Gas Transmission	613	489	1,102
Human Resources, Disability & Workers Comp	309	211	520
Information Technology	716	552	1,268
Real Estate, Land & Facilities	1,506	442	1,948
Supply Services & Diverse Business Enterprises	109	83	192
Total Allocations In	12,948	9,274	22,222
Shared Service O&M	Direct Costs	Overheads	Fully Loaded Costs
A&G - Controller/Finance/Regulatory Affairs	14,582	2,484	17,066
CS - Field Operations & Customer Contact	788	437	1,225
CS - Information	1,355	576	1,931
CS - Office Operations	4,663	1,152	5,815
Emergency Preparedness & Safety	3,638	612	4,250
Engineering	1,881	1,340	3,221
Environmental	5,527	94	5,621
External Affairs & Legal	8,646	153	8,799
Fleet Services	1,845	598	2,443
Gas Distribution	88	51	139
Gas Transmission	613	489	1,102
Human Resources, Disability & Workers Comp	4,063	211	4,274
Information Technology	40,702	552	41,254
Real Estate, Land & Facilities	18,378	442	18,820
Supply Services & Diverse Business Enterprises	4,880	83	4,963
Total Shared Service O&M	111,649	9,274	120,923
Overhead Credit	-	(35,784)	(35,784)
Total Net Shared Service O&M	111,649	(26,510)	85,139

TABLE EJR-USS-13

SDG&E Corporate Reallocation Costs			
Test Year 2012			
(\$2009 Thousands)			
<u>Corporate Reallocation</u>			
<i>Costs to Corporate Center</i>	Direct Costs	Overheads	Fully Loaded Costs
From SCG	1,040	348	1,388
From SDG&E	11,448	4,013	15,461
Total Costs to Corporate Center	12,488	4,361	16,849
<i>Costs Allocated Back to Affiliates</i>			
	Direct Costs	Overheads	Fully Loaded Costs
SDG&E	4,525	1,579	6,104
SCG	4,476	1,562	6,038
Unregulated	3,484	1,216	4,700
Total	12,485	4,357	16,842
<u>Reallocation Factors From Corporate Center</u>			
<u>BillToCo</u>	<u>TY2012</u>		
SDG&E	36.24%		
SCG	35.85%		
Unregulated	27.91%		
<i>Note: Difference due to rounding.</i>			

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This concludes my prepared direct testimony.

1 **VII. WITNESS QUALIFICATIONS**

2 My name is Edward J. Reyes. My business address is 555 West Fifth Street, Los Angeles,
3 California 90013. My current position is Affiliate Billing and Costing Manager for San Diego Gas &
4 Electric Company and Southern California Gas Company (SCG).

5 I received a Bachelor of Science from California State University, Dominguez Hills in May
6 1994. I was initially employed by SCG in November 1994 and have held various positions of
7 increasing responsibility in the Accounting and Finance areas of the company, including Cost
8 Accounting, Financial Accounting, Accounts Payable, New Business Accounting, and Financial
9 Systems. My responsibilities have included participation and/or supervision of SAP CO month-end
10 closing, affiliate billing, overhead rate studies, plant accounting, system design and implementation,
11 and SAP/Business Warehouse client support.

12 The Affiliate Billing and Costing organization is responsible for system oversight of the SAP
13 CO Module, which performs the internal management cost tracking function for cost center data and
14 construction activity. Affiliate Billing and Costing also develops overhead rates and fixed cost studies
15 for internal cost allocations and billing purposes and also supports Shared Services organizations at the
16 utilities in properly billing their cost via the SAP accounting system to other Sempra Energy affiliates.