

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

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Application No. 10-12-\_\_\_\_  
Exhibit No.: (SCG-36)

**PREPARED DIRECT TESTIMONY OF  
RAJAN AGARWAL  
ON BEHALF OF SOUTHERN CALIFORNIA GAS COMPANY**

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

**DECEMBER 2010**



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**PREPARED DIRECT TESTIMONY  
OF RAJAN AGARWAL  
ON BEHALF OF SOUTHERN CALIFORNIA GAS COMPANY  
(RE-ASSIGNMENT RATES)**

**I. INTRODUCTION**

The purpose of this testimony is to relate how Southern California Gas Company (“SCG”) proposes to reassign a portion of its administrative and general (“A&G”) and certain operations and maintenance (“O&M”) expenses to capital to recognize that they are incurred in support of construction efforts. Most of SCG’s operating costs are charged directly to either O&M or to capital activities, but certain A&G costs, labor overheads and non-labor overheads are not charged directly to capital. In order to appropriately associate these support costs with capital-related business activities, SCG has developed a process that reassigns these costs to capital for inclusion in ratebase.

My testimony is organized as follows.

- Section II.A provides the background of why and how SCG reassigns its expenses to capital.
- Section II.B presents a summary of the capital reassignment expense categories and proposed reassignment percentages for Test Year (“TY”) 2012 in this General Rate Case (“GRC”).
- Section II.C discusses each expense category and derivation of the proposed reassignment rate.

**II. REASSIGNMENT TO CAPITAL**

**A. General Discussion**

SCG charges most of its operating costs directly to either O&M or capital. However, some of the A&G costs, labor overhead, and non-labor clearing overhead costs (e.g., A&G Salaries, office supplies, pension and benefits, injuries and damages) support construction efforts. Since these costs are not charged directly to capital, reassignment to capital rates have been developed based on 2009 base year data. This is in compliance with the Gas Plant Instructions in Part

1 201 of the Code of Federal Regulations adopted by the California Public Utilities  
2 Commission (“CPUC”). These reassigned costs become part of SCG’s rate base.

3 In this GRC, the TY 2012 O&M costs are forecasted by cost center. This  
4 was ordered in the 2008 General Rate Case Decision (“D.”) 08-07-046 (see pp. 11  
5 and Ordering Paragraph 22). In order to utilize the reassignment rates, which are  
6 prepared by FERC account, the 2009 recorded O&M cost center data was mapped  
7 to FERC accounts. The Results of Operations Model (“RO Model”) applies the  
8 reassignment factors proposed in this testimony to the costs associated with the  
9 FERC accounts. For a detailed discussion about the mapping process, please see  
10 the Cost Center to FERC Mapping testimony and appendix of Khai Nguyen (see  
11 Exh. SCG-35).

12 For TY 2012, the O&M reassignment for non-labor overheads, labor  
13 overheads and A&G costs to capital for expenses that are being transferred to  
14 construction projects is \$81,970,000. The calculation and derivation of the  
15 various reassignment rates for each category are discussed below in section II.B.

16 **B. Categories / Accounts Subject to Reassignment**

17 The following categories of costs are subject to capitalization via a  
18 reassignment from Labor Overheads, O&M or the Clearing Accounts, and further  
19 discussed in detail below:

20 **TABLE SCG-RA-1**

21 **Summary of Reassignments % to Capital**

| <b>Category</b> | <b>Reassignment %</b> |
|-----------------|-----------------------|
| Labor Overheads | 17.6%                 |
| A&G Costs       | 12.9%                 |
| Warehousing     | 78.2%                 |
| Purchasing      | 43.7%                 |
| Fleet           | 19.3%                 |
| Shop            | 13.7%                 |
| Exempt Material | 75.1%                 |
| Small Tools     | 13.8%                 |
| Pipe Fittings   | 55.1%                 |

22

1           **C.     Discussion of Reassignment Percentage Derivation**

2           1.     Labor Overheads

3                     Labor Overheads subject to capitalization are: incentive  
4                     compensation program (“ICP”) costs (FERC account 920.4), public  
5                     liability and property damage (“PLPD”) costs (FERC account 925.0),  
6                     workers’ compensation costs (FERC account 925.1), and pension and  
7                     benefits (“P&B”) costs (FERC account 926). These are considered  
8                     indirect costs related to company labor and accumulated each month in  
9                     individual Clearing Accounts. These costs are then dispersed through  
10                    overhead loading rates that are applied on company labor.

11                    In deriving the percentage of labor overheads that should be  
12                    reassigned to capital, labor cost data from 2009 base year was used from  
13                    SCG’s 2009 FERC Form 2, Distribution of Salaries & Wages pages 354 &  
14                    355. The total labor charged to gas plant and to plant removal is divided  
15                    by the total salaries and wages as retrieved from the Distribution of  
16                    Salaries & Wages. The resulting reassignment rate of 17.6% was used for  
17                    the 2010-2012 GRC period. See workpaper RA-WP-2.

18           2.     A&G Costs

19                    A percentage of A&G direct costs in FERC Accounts 920 - A&G  
20                    Salaries and 921 - Office Supplies & Expenses and shared service costs in  
21                    FERC Account 923 -Outside Services Employed are reassigned to  
22                    construction each year in accordance with the Gas Plant Instructions in  
23                    Part 201 of the Code of Federal Regulations. The reassignment rate to  
24                    construction projects is determined by an A&G effort study. In this study,  
25                    various A&G cost center managers were asked to provide an allocation  
26                    percentage for their work that should be applied to construction jobs.  
27                    Based on the most recent study conducted at the end of 2009, the transfer  
28                    rate reflected for all years in this GRC is 12.9%. See workpaper RA-WP-  
29                    3.

30

1                   3.     Warehousing

2                   Warehousing costs are also charged to a Clearing Account that is  
3 mapped from the cost center to FERC account 163.1 (see appendix to  
4 Khai Nguyen's Cost Center to FERC Mapping testimony, Exh. SCG-35).  
5 These costs are allocated as an overhead loading applied on warehouse  
6 issuances. The capital reassignment rate of 78.2% was calculated by  
7 taking the actual 2009 warehouse issuance costs assigned to capital  
8 projects and dividing it by actual 2009 total warehouse issuance costs.  
9 The resulting percentage of 78.2% that went to capital was used for the  
10 2010-2012 GRC period. See workpaper RA-WP-4.

11                   4.     Purchasing

12                   Purchasing costs are also charged to a Clearing Account that is  
13 mapped from the cost center to FERC account 163.2 (see appendix to  
14 Khai Nguyen's Cost Center to FERC Mapping testimony, Exh. SCG-35).  
15 These costs are dispersed as an overhead loading applied on all material  
16 and services costs. The capital reassignment rate of 43.7% was calculated  
17 by taking the actual 2009 purchasing overheads assigned to capital  
18 projects and dividing it by actual 2009 total purchasing overheads. The  
19 resulting percentage of 43.7% that went to capital was used for the 2010-  
20 2012 GRC period. See workpaper RA-WP-4.

21                   5.     Fleet

22                   Fleet expenditures are posted to a Clearing Account by specific  
23 vehicle class based on vehicle type. Fleet expenditures are mapped from  
24 the cost centers to FERC account 184.2 (see appendix to Khai Nguyen's  
25 Cost Center to FERC Mapping testimony, Exh. SCG-35). The costs in the  
26 Clearing Account are subsequently allocated based on a hourly utilization  
27 rate recorded against each vehicle in the fleet system. Vehicle utilization  
28 can be recorded based on hourly usage or a 100% assignment. The  
29 utilization is charged to various O&M accounts and capital jobs. The  
30 capital reassignment rate for TY 2012 in this GRC is 19.3%, and was  
31 calculated by taking the actual 2009 fleet overheads assigned to capital

1 projects and dividing it by actual 2009 total fleet overheads. The resulting  
2 percentage of 19.3% that went to capital was used for the 2010-2012 GRC  
3 period. See workpaper RA-WP-4.

4 6. Shop

5 Shop costs are charged to a Clearing Account and dispersed as an  
6 overhead loading applied on union labor costs. Shop costs are mapped  
7 from the Cost Centers to FERC account 184.3 (see appendix to Khai  
8 Nguyen's Cost Center to FERC Mapping testimony, Exh. SCG-35). The  
9 capital reassignment rate of 13.7% was calculated by taking the actual  
10 2009 shop overheads assigned to capital projects and dividing it by actual  
11 2009 total shop overheads. The resulting percentage of 13.7% that went  
12 to capital was used for the 2010-2012 GRC period. See workpaper RA-  
13 WP-4.

14 7. Exempt Material

15 Exempt Material costs are also charged to a Clearing Account.  
16 These costs are for bulk type materials, such as nuts and bolts, that are not  
17 individually inventoried or managed by the warehouses and are restocked  
18 onto service trucks as needed. Exempt Material costs are dispersed as an  
19 overhead loading applied to warehouse issuances. These costs are  
20 dispersed as an overhead loading applied on warehouse issuances.  
21 Exempt Materials costs are mapped from the Cost Centers to FERC  
22 account 184.6 (see appendix to Khai Nguyen's Cost Center to FERC  
23 Mapping testimony, Exh. SCG-35). The capital reassignment rate of  
24 75.1% was calculated by taking the actual 2009 exempt material costs  
25 assigned to capital projects and dividing it by actual 2009 total exempt  
26 material costs. The resulting percentage of 75.1% that went to capital was  
27 used for the 2010-2012 GRC period. See workpaper RA-WP-4.

1  
2 8. Small Tools

3 Small Tools costs are charged to a Clearing Account and dispersed  
4 as an overhead loading applied on union labor costs because the primary  
5 users of the small tools are union employees. Small Tools costs are  
6 mapped from the Cost Centers to FERC account 184.7 (see appendix to  
7 Khai Nguyen's Cost Center to FERC Mapping testimony, Exh. SCG-35).  
8 The capital reassignment rate of 13.8% was calculated by taking the  
9 actual 2009 small tools overheads assigned to capital projects and dividing  
10 it by actual 2009 total small tools overheads. The resulting percentage of  
11 13.8% that went to capital was used for the 2010-2012 GRC period. See  
12 workpaper RA-WP-4.

13 9. Pipe Fittings

14 Like the other reassignment categories, Pipe Fitting costs are  
15 initially charged to an O&M account. Pipe fittings are used primarily in  
16 capital projects, such as new business and replacement work, and  
17 maintenance on services and meter set assemblies. They include items  
18 such as caps, couplings, ells, nipples, plugs, and stockcock valves, among  
19 others. Pipe Fitting costs are mapped from the Cost Centers to FERC  
20 account 892.4 (see appendix to Khai Nguyen's Cost Center to FERC  
21 Mapping testimony, Exh. SCG-35). The capital reassignment rate of  
22 55.1% was derived by the Gas Distribution organization based on a 5-year  
23 average of O&M and capital non-labor activities and was used for the  
24 2010-2012 GRC period. See workpaper RA-WP-5.

25 **III. CONCLUSION**

26 The processes and derivation of the reassignment rates are based on 2009 base  
27 year data. The reassignments of labor and non-labor overheads and O&M are consistent  
28 with the past GRCs, including the most recent settlement approved in the 2008 GRC  
29 decision D08-07-046, and have been accepted by the Commission. The reassignment of  
30 these costs is also consistent with the FERC guidelines. SCG believes that the methods



1 used and rates computed are reasonable, and therefore should be adopted by the  
2 Commission to determine the SCG TY 2012 revenue requirement.

3 This concludes my prepared direct testimony.

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6 //

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1 **IV. WITNESS QUALIFICATIONS**

2 My name is Rajan Agarwal and I am employed as the Financial Planning  
3 Manager responsible for developing the financial plans for both SDG&E and SCG. My  
4 business address is 8330 Century Park Court, San Diego, California 92123.

5 I received a Bachelor of Science degree in Commerce from Punjab University,  
6 India and also a Chartered Accountant-Intermediate certificate from the Institute of  
7 Chartered Accountants of India. I was employed by Sempra Energy and San Diego Gas  
8 and Electric in 1998 and held various positions in the Utility Financial Accounting and  
9 Cost Accounting department. Prior to joining Sempra Energy, my relevant employment  
10 history includes an analyst position with a CPA firm in San Diego, and as an analyst with  
11 a retail company in Connecticut. I also completed my audit training with  
12 PricewaterhouseCoopers, India (formerly Price Waterhouse) in the audit division. I have  
13 not previously testified before the Commission.

14 This concludes my prepared direct testimony.

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17 //

# APPENDIX

**APPENDIX**

**2012 General Rate Case  
Southern California Gas Company  
Capital Reassignment Rates  
Based on January - December 2009 Data**

| <b>Line #</b> | <b>FERC Account</b>      | <b>Account Description</b>   | <b>Capital Reassignment Rate</b> |
|---------------|--------------------------|--|----------------------------------|
| 1             | <b>Clearing:</b>         |  |                                  |
| 2             | 163.1                    | Warehousing  | 78.2%                            |
| 3             | 163.2                    | Purchasing   | 43.7%                            |
| 4             | 184.2                    | Fleet  | 19.3%                            |
| 5             | 184.3                    | Shop Order   | 13.7%                            |
| 6             | 184.6                    | Exempt Materials   | 75.1%                            |
| 7             | 184.7                    | Small Tools  | 13.8%                            |
| 8             |                          |  |                                  |
| 9             | <b>Gas Distribution:</b> |  |                                  |
| 10            | 892.4                    | Pipe Fittings  | 55.1%                            |
| 11            |                          |  |                                  |
| 12            | <b>A&amp;G:</b>          |  |                                  |
| 13            | 920.0                    | Admin & General Salaries - Non-Sr. Management                      | 12.9%                            |
| 14            | 920.1                    | Admin & General Salaries - Sr. Management                          | 12.9%                            |
| 15            | 920.2                    | Administrative & General - HR                                      | 12.9%                            |
| 16            | 920.4                    | Administrative & General - ICP                                     | 17.6%                            |
| 17            | 920.5                    | Admin & General Salaries - RPA                                     | 12.9%                            |
| 18            | 921.0                    | Office Supplies & Exp - Non-Sr. Management                         | 12.9%                            |
| 19            | 921.2                    | Administrative & General - HR                                      | 12.9%                            |
| 20            | 921.5                    | Admin Expenses Transferred - Credit                                | 12.9%                            |
| 21            | 923.0                    | Outside Services Employed - Outside Vendors                        | 12.9%                            |
| 22            | 923.1                    | Outside Services Employed - SECC                                   | 12.9%                            |
| 23            | 923.2                    | Outside Services Employed - BUCU's                                 | 12.9%                            |
| 24            | 925.0                    | Injuries & Damages PLPD Claims                                     | 17.6%                            |
| 25            | 925.1                    | Injuries & Damages - Workers Comp                                  | 17.6%                            |
| 26            | 926.0                    | Employee Pensions & Benefits - Other                               | 17.6%                            |
| 27            | 926.1                    | Employee Pensions & Benefits - Pension                             | 17.6%                            |
| 28            | 926.2                    | Employee Pensions & Benefits - PBOPs                               | 17.6%                            |
| 29            | 926.3                    | Employee Pensions & Benefits -Medical                              | 17.6%                            |
| 30            | 926.4                    | Employee Pensions & Benefits - Retirement Savings                  | 17.6%                            |
| 31            | 926.5                    | Employee Pensions & Benefits - Benefit Fees, Educ, Transport, Etc. | 17.6%                            |