

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-25)

**PREPARED DIRECT TESTIMONY OF
PATRICK D. MOERSEN
ON BEHALF OF SOUTHERN CALIFORNIA GAS COMPANY**

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

DECEMBER 2010



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1 The utility owning the shared asset bills the other companies using allocation percentages,
2 which are based on factors that reflect the usage level of the asset by the other companies. These
3 utilization factors will vary depending upon the asset. For example, a software project for a
4 specific customer process may utilize the number of customers as the measure of utilization,
5 whereas, a software project which is used internally may rely upon a count of the number of
6 employees using the software.

7 These allocation percentages are reviewed annually and are adjusted as needed in
8 accordance with the Shared Asset Policy if there are material changes to the business activities.
9 This review is conducted by the organization responsible for the asset and is coordinated by the
10 Affiliate Billing and Costing organization. If necessary, the allocation percentage will change to
11 ensure each utility and affiliate is charged the appropriate level of costs.

12 The corporate reorganization that was effective on April 2010 as described in the testimony of
13 Anne Smith (Exhibit SCG-01) did not have an impact on the Shared Asset Policy as discussed in
14 this testimony. However, it does constitute a material change to SCG's business activities, and
15 as such, will result in a review of the shared asset allocation percentages in 2011.

16 Once the asset is initially capitalized, it will remain on the utility's records even though
17 the utilization factor may change in the future. This removes the undue administrative burden
18 and associated costs (such as incremental sales tax) caused by transferring the asset from one
19 utility to the other. Therefore, if an asset is originally placed on SCG's records but usage of the
20 asset subsequently declines below 50%, SCG will nonetheless remain the owner of such asset.
21 Any additions to a shared asset will be recorded on the owner's financial records where the
22 original asset is recorded.

23 **III. SHARED ASSET BILLING**

24 SCG's shared assets consist primarily of facilities, computer hardware and software, and
25 communication (telecommunication infrastructure) plant. SCG charges the Sempra Energy
26 affiliates for the use of these assets by developing a capital revenue requirement. This revenue
27 requirement is retained by SCG or billed to other entities according to the particular allocation
28 methodology chosen for each asset to distribute the costs.

29 In developing the revenue requirement, the shared assets are placed into asset categories.
30 Assets listed in these categories include those that are currently in service, as well as the

1 forecasted additions as requested in this General Rate Case (GRC) proceeding through Test Year
2 2012 (TY2012). For SCG, the shared assets are classified into the following categories:

- 3 ■ Structures and Improvements
- 4 ■ Computer Hardware
- 5 ■ Computer Software
 - 6 ○ 2-4 year life
 - 7 ○ 5-8 year life
 - 8 ○ 9-12 year life
 - 9 ○ 15 year life
- 10 ■ Communications
- 11 ■ Miscellaneous

12 For each asset category, an annual weighted-average rate base is calculated. A return on
13 rate base, state and federal income taxes, estimated depreciation expense, and property taxes are
14 derived from that information, resulting in a total revenue requirement. The Appendix to this
15 testimony provides further details for the shared asset rate base calculations. The various
16 revenue requirement components are determined and sponsored by other GRC witnesses.¹

17 Once the billable charges (i.e., revenue requirements) for the asset categories are
18 determined, they are apportioned to the appropriate Sempra Energy affiliates using the allocation
19 percentages. As discussed earlier, the allocation percentages are based on utilization factors
20 developed specifically for each forecasted project by the sponsoring witness. The allocation
21 percentages have been weighted by the net book value or estimated project costs to develop
22 composite allocation percentages for the asset classes in the Results of Operations Model (RO).
23 For example, based on the weighted calculations of the various projects, the structures and
24 improvements category may end up with an allocation of 81.12% retained by SCG, 17.6%
25 allocated to SDG&E, and 1.28% allocated to other Sempra affiliates. These percentages are used
26 to determine the amounts to be charged to the appropriate Sempra Energy affiliates.

¹ The total company weighted-average rate base is sponsored by Rate Base witness, Garry G. Yee in Exhibit SCG-26. The calculation of return on rate base percentage is performed in the Results of Operations model and is sponsored by the Summary of Earnings witness, Deborah A. Hiromoto in Exhibit SCG-38. The tax expenses are sponsored by the Taxes witness, Randall G. Rose in Exhibit SCG-28. Finally, depreciation rates are sponsored by the Depreciation witness, Bob Wiczorek in Exhibit SCG-27.

1 When utility charges are billed to Corporate Center, the charges are then billed back to
 2 the utilities and other Sempra Energy affiliates based on a set of allocation percentages
 3 determined by Corporate Center. This process is discussed in the testimony of Bruce A.
 4 Folkmann (Exhibit SCG-17). However, in developing the revenue requirement, a net billing
 5 process is used for shared asset expense allocations to Corporate Center.² With the net billing
 6 process, the percentage allocation of shared asset charges billed to Corporate Center (that would
 7 then be re-allocated and billed out) is already incorporated within the percentage allocations to
 8 SDG&E and Sempra Energy affiliates and retained by SCG. This eliminates a second iteration
 9 required in developing the revenue requirement. In order to reflect this activity for the purposes
 10 of filing the GRC, the weighted allocation percentages for each company are adjusted to reflect
 11 the chargeback of shared asset expenses from Corporate Center.

12 For example, prior to the net billing process, the allocation of computer hardware was
 13 4.89% allocated to Corporate Center, 41.51% allocated to SDG&E, 53.6% retained by SCG, and
 14 0.0% allocated to the Sempra Energy non-regulated affiliates. With the net billing process,
 15 accounting for the results of the Corporate Center charge back process, the allocations would be
 16 adjusted to 0% allocated to Corporate Center, 43.28% allocated to SDG&E, 55.36% retained by
 17 SCG and 1.36% allocated to Sempra Energy non-regulated affiliates. Refer to Table SCG-PDM-
 18 1 below.

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 20 **Table SCG-PDM-1**
 21 **Example of Net Billing Process on Allocation Percentages**
 22

	Corporate	SDGE	SCG	Non Reg's	Total
Allocation %	4.89%	41.51%	53.60%	0.00%	100.00%
	-4.89%	1.77%	1.76%	1.36%	0.00%
Net Allocation %	0.00%	43.28%	55.36%	1.36%	100.00%

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 24 This process effectively leaves a zero allocation of shared asset costs to Corporate Center,
 25 with the Corporate Center allocations spread among SCG (retained), SDG&E, and the Sempra
 26 Energy non-regulated affiliates.

² This net billing process, also called the Business Unit Charge Up (BUCU) process, is explained in the Shared Services Billing Policy and Process testimony of Edward J. Reyes in Exhibit SCG-24.

1 Table SCG-PDM-2 reflects the summary of projected revenue requirements from the RO
 2 model related to shared assets by their asset category grouping for TY2012.

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 4 **Table SCG-PDM-2**
 5 **Summary of Shared Asset Revenue Requirements**
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2012	2012 Test Year (In Thousands)						Allocation \$	
	Weighted Avg Rate Base	Billable Return	Return Grossed Up for FIT & SIT	Annual Deprec. Expense	Annual Property Tax	Total Billable Charges	SCG Retained	Total Billed
Structures & Improvements	28,875	2,506	4,230	18,276	359	22,865	18,548	4,317
Computer Hardware	76,046	6,601	11,140	26,925	945	39,010	21,596	17,414
Computer Software:								
2-4 Yrs	357	31	52	155	0	208	144	64
5-8 Yrs	54,105	4,696	7,926	16,359	0	24,284	14,488	9,796
9-12 Yrs	115,834	10,054	16,968	13,561	0	30,529	20,186	10,343
15 Yrs	71,501	6,206	10,474	12,063	0	22,537	14,304	8,233
Communications	14,667	1,273	2,149	5,838	182	8,169	4,688	3,481
Miscellaneous	1,027	89	150	0	13	163	117	46
Total	362,412	31,457	53,089	93,176	1,499	147,764	94,071	53,694

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 10 The total amount billed to the Sempra Energy affiliates as noted above is reflected in the
 11 Miscellaneous Revenues testimony of Todd J. Cahill (Exhibit SCG-32).

12 **IV. DESCRIPTION OF SHARED ASSET CATEGORIES**

13 **A. Structures and Improvements**

14 Structures and Improvements consist primarily of leasehold improvements to the Gas
 15 Company Tower and improvements to the Monterey Park Facilities. The allocations for the
 16 improvements of these assets are based on space studies developed and performed by the
 17 Facilities Management department. These projects are sponsored by the Real Estate, Land &
 18 Facilities witness, David G. Taylor (see Exhibit SCG-14).

19 **B. Computer Hardware and Software**

20 Computer Hardware and Software consists of mainframe, servers, exchange (email) and
 21 SAP Software, among others. Utilization measures for these various assets are tracked, ranging
 22 from number of users (either employees or customers) to the amount of activity used (bandwidth)

1 for each company. The utilization measures determine the allocation percentages. These
2 projects are sponsored by several witnesses. Please refer to Table SCG-PDM-3.

3 **C. Communications**

4 Communication assets include telecommunication infrastructure and network operations
5 equipment. The allocations for these assets are based on the amount of usage by the end users,
6 for example bandwidth. These projects are sponsored by several witnesses. Please refer to Table
7 SCG-PDM-3.

8 **D. Miscellaneous**

9 This category represents all other items that do not fit in the previous categories. This category
10 represents existing assets and does not include any future projects.

11 **V. SUMMARY**

12 Table SCG-PDM-3 reflects the forecasted shared asset projects for 2010 – 2012 with
13 allocation percentages (prior to the netting of Corporate Center charge-back) and the supporting
14 witness.

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Table SCG-PDM-3 Forecasted Shared Asset Projects and Allocation Percentages

Project_Name	Percentage Retained By SCG	Percentage Allocated To SDGE	Percentage Allocated To Sempra Corp and Affiliates	Witness
2011 DR Mainframe Hardware Upgrade	51%	43%	6%	Jeff Nichols
Active Directory Refresh	51%	43%	6%	Jeff Nichols
BPS Replacement	55%	40%	5%	Jeff Nichols
C&A Security Operations Management	51%	43%	6%	Jeff Nichols
California Producer	60%	40%	0%	Jeff Nichols
Citrix 6	51%	43%	6%	Jeff Nichols
CSFOE	95%	5%	0%	Jeff Nichols
DC Perimeter 2010	51%	43%	6%	Jeff Nichols
DC Rebuild 2012	51%	43%	6%	Jeff Nichols
Distributed Backup Growth 2010	51%	43%	6%	Jeff Nichols
Distributed Backup Growth 2012	51%	43%	6%	Jeff Nichols
Distributed Storage Growth 2010	51%	43%	6%	Jeff Nichols
Distributed Storage Growth 2011	51%	43%	6%	Jeff Nichols
Distributed Storage Growth 2012	51%	43%	6%	Jeff Nichols
Distributed Storage Resource Management Tool	51%	43%	6%	Jeff Nichols
DS8100 Storage Arrays Refresh 2012	51%	43%	6%	Jeff Nichols
EMF Upgrade	51%	43%	6%	Jeff Nichols
Endpoint Security 2010 SW	51%	43%	6%	Jeff Nichols
Endpoint Security 2011	60%	40%	0%	Jeff Nichols
Endpoint Security HW	51%	43%	6%	Jeff Nichols
Enhance Environmental Tracking System	60%	40%	0%	Jeff Nichols
Enterprise Command Center Display	60%	40%	0%	Jeff Nichols
Enterprise Encryption 2010 HW	51%	43%	6%	Jeff Nichols
Enterprise Encryption 2010 SW	51%	43%	6%	Jeff Nichols
Enterprise Encryption 2011	51%	43%	6%	Jeff Nichols
Enterprise Encryption 2011 SW	51%	43%	6%	Jeff Nichols
Enterprise Encryption 2012 HW	51%	43%	6%	Jeff Nichols
Enterprise Encryption 2012 SW	51%	43%	6%	Jeff Nichols
ESM Capacity Planning	51%	43%	6%	Jeff Nichols
ESM Enhancement	51%	43%	6%	Jeff Nichols
ESM Event Management	51%	43%	6%	Jeff Nichols
ESM Service Monitoring	51%	43%	6%	Jeff Nichols
E-Sourcing, Contract Lifecycle Management	60%	40%	0%	Jeff Nichols
GCT Lease Renegotiation	79%	15%	6%	David Taylor
Govern Risk & Complainance HW	51%	43%	6%	Jeff Nichols
Govern Risk & Compliance 2011 HW	51%	43%	6%	Jeff Nichols
Govern Risk & Compliance SW	51%	43%	6%	Jeff Nichols
GRC Model Development	60%	40%	0%	Jeff Nichols
i3 Ph 2	51%	43%	6%	Jeff Nichols
i3 Ph 3	51%	43%	6%	Jeff Nichols
IAM Phase 2 HW	51%	43%	6%	Jeff Nichols
IAM Phase 2 SW	51%	43%	6%	Jeff Nichols
IAM Phase 3	51%	43%	6%	Jeff Nichols
IEO Small Cap	51%	43%	6%	Jeff Nichols
JDK/WLS/WLP Upgrade	60%	40%	0%	Jeff Nichols
JDK/WLS/WLP Upgrade - Envoy Rules Engine	60%	40%	0%	Jeff Nichols
JDK/WLS/WLP Upgrade 2	60%	40%	0%	Jeff Nichols
JDK/WLS/WLP Upgrade 3	60%	40%	0%	Jeff Nichols
LINUX/UNIX Server Refresh Ph 5	51%	43%	6%	Jeff Nichols
LINUX/UNIX Server Refresh Ph 6	51%	43%	6%	Jeff Nichols
Logistics Mobile Refresh & Expansion	60%	40%	0%	Jeff Nichols
M4 Fleet Application Replacement	60%	40%	0%	Jeff Nichols
Mainframe Hardware Upgrade	51%	43%	6%	Jeff Nichols
Mainframe Storage Growth 2011	51%	43%	6%	Jeff Nichols
Master Data Management HW	51%	43%	6%	Jeff Nichols
Master Data Management SW	51%	43%	6%	Jeff Nichols
MCS Improvement Project	60%	40%	0%	Jeff Nichols
Messaging Project	60%	40%	0%	Jeff Nichols
Meta Data Repository HW	51%	43%	6%	Jeff Nichols
Meta Data Repository SW	51%	43%	6%	Jeff Nichols
Microwave Refresh 1	60%	40%	0%	Jeff Nichols
Microwave Refresh 2	60%	40%	0%	Jeff Nichols
Microwave Refresh3	60%	40%	0%	Jeff Nichols

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Project Name	Percentage	Percentage	Percentage	Witness
	Retained By SCG	Allocated To SDGE	Allocated To Sempra Corp and Affiliates	
MPK Data Center Generators	80%	18%	2%	David Taylor
MPK Data Center Master Plan - Bldg C Server Room Expansion	80%	18%	2%	David Taylor
MPK Exterior Site Improvement	80%	18%	2%	David Taylor
MPK Server Room 2010	51%	43%	6%	Jeff Nichols
MPK Server Room 2011	51%	43%	6%	Jeff Nichols
MPK Server Room 2012	51%	43%	6%	Jeff Nichols
NCS Telecom Small Cap	51%	43%	6%	Jeff Nichols
NCS Network Small Cap	51%	43%	6%	Jeff Nichols
Network Middleware Refresh	51%	43%	6%	Jeff Nichols
Next Generation Envoy	60%	40%	0%	Jeff Nichols
NMS Refresh 2011	60%	40%	0%	Jeff Nichols
NMS Refresh 2012	60%	40%	0%	Jeff Nichols
OpEx 20/20 Asset Management & Smart Grid - GIS Software	64%	36%	0%	Richard Phillips
OpEx 20/20 Asset Management & Smart Grid - GIS Software Phase 1 2011	64%	36%	0%	Richard Phillips
OpEx 20/20 Asset Management & Smart Grid - GIS Software Trailing Charges for 2012	64%	36%	0%	Richard Phillips
OpEx 20/20 Customer Care - ICE Self Service - IVR	75%	25%	0%	Richard Phillips
OpEx 20/20 Customer Care - ICE Self Service HBA	75%	25%	0%	Richard Phillips
OpEx 20/20 Customer Care - Ice Self Service IVR	75%	25%	0%	Richard Phillips
OpEx 20/20 Customer Care - Operational Insight Analytics	75%	25%	0%	Richard Phillips
OpEx 20/20 Customer Care - Single View of the Customer	75%	25%	0%	Richard Phillips
OpEx 20/20 Customer Care - Single View of the Customer	75%	25%	0%	Richard Phillips
OpEx 20/20 Enterprise PMO 2010	70%	30%	0%	Richard Phillips
OpEx 20/20 Enterprise PMO 2011	70%	30%	0%	Richard Phillips
OpEx 20/20 Enterprise PMO 2012	70%	30%	0%	Richard Phillips
OpEx 20/20 Field Force - Construction Phase	70%	30%	0%	Richard Phillips
OpEx 20/20 Field Force - Construction Phase	70%	30%	0%	Richard Phillips
OpEx 20/20 Field Force Forecasting and Scheduling - Phase 1 & 2	63%	37%	0%	Richard Phillips
OpEx 20/20 Field Force Forecasting and Scheduling - Phase 1 & 2	63%	37%	0%	Richard Phillips
OpEx 20/20 Field Force Mobile Enablement - Maintenance and Inspection Phase	73%	27%	0%	Richard Phillips
OpEx 20/20 Field Force Mobile Enablement - Maintenance and Inspection Phase	73%	27%	0%	Richard Phillips
OpEx 20/20 Field Force Work Management - Maintenance and Inspection Phase	63%	37%	0%	Richard Phillips
OpEx 20/20 Field Force Work Management - Maintenance and Inspection Phase	63%	37%	0%	Richard Phillips
OpEX 20/20 IT Enterprise Information & Analytics	70%	30%	0%	Richard Phillips
OpEx 20/20 IT Environments Project - Hardware	70%	30%	0%	Richard Phillips
Oracle Enterprise Environment HW	51%	43%	6%	Jeff Nichols
Physical Layer Refresh	51%	43%	6%	Jeff Nichols
Print Servers Upgrade - HW	51%	43%	6%	Jeff Nichols
Print Servers Upgrade - SW	51%	43%	6%	Jeff Nichols
RB Server Room 2010	51%	43%	6%	Jeff Nichols
RB Server Room 2011	51%	43%	6%	Jeff Nichols
RB Server Room 2012	51%	43%	6%	Jeff Nichols
RB Tape Library Replacement	51%	43%	6%	Jeff Nichols
Records Management Project Phase 1	60%	40%	0%	Jeff Nichols
Records Management Project Phase 2	60%	40%	0%	Jeff Nichols
Safety Performance Management Reporting	49%	44%	7%	Jeff Nichols
SAP (ERP) Upgrade EHP5	55%	40%	5%	Jeff Nichols
SAP BI Software Enterprise Agreement	55%	40%	5%	Jeff Nichols
SAP BI Upgrade	49%	44%	7%	Jeff Nichols
SAP BIA HW	55%	40%	5%	Jeff Nichols
SAP BIA SW	55%	40%	5%	Jeff Nichols
SAP GRC Tools Firefighter	55%	40%	5%	Jeff Nichols
SAP Support Pack 2011	55%	40%	5%	Jeff Nichols
SAP Support Pack 2012	55%	40%	5%	Jeff Nichols
SCG Data Warehouse Infrastructure Upgrade HW	49%	44%	7%	Jeff Nichols
SCG Data Warehouse Infrastructure Upgrade SW	49%	44%	7%	Jeff Nichols
Security Operations Management 2011 HW	51%	43%	6%	Jeff Nichols
Security Operations Management 2011 SW	51%	43%	6%	Jeff Nichols
Security Operations Management 2012 HW	51%	43%	6%	Jeff Nichols
Security Operations Management 2012 SW	51%	43%	6%	Jeff Nichols
Security Small Cap (Blanket)	51%	43%	6%	Jeff Nichols
Sharepoint Phase 3	60%	40%	0%	Jeff Nichols
Sharepoint Refresh	60%	40%	0%	Jeff Nichols
SMS Upgrade	51%	43%	6%	Jeff Nichols
Software Code Security 2011 HW+C13	51%	43%	6%	Jeff Nichols
Software Code Security 2011 SW	51%	43%	6%	Jeff Nichols
Software Code Security 2011A HW	51%	43%	6%	Jeff Nichols
Software Code Security 2011A SW	51%	43%	6%	Jeff Nichols
Software Code Security 2012B HW	51%	43%	6%	Jeff Nichols
Software Code Security 2012B SW	51%	43%	6%	Jeff Nichols
Source to Pay	55%	40%	5%	Jeff Nichols
Test Automation SAP Processes	55%	40%	5%	Jeff Nichols
Various (carved out) MPK Proj (Shared)	80%	18%	2%	David Taylor
Voice to Service	60%	40%	0%	Jeff Nichols
Windows 7 Remediation for CCS	51%	43%	6%	Jeff Nichols
Wintel Refresh Phase 5	51%	43%	6%	Jeff Nichols

Project_Name	Percentage Retained By SCG	Percentage Allocated To SDGE	Percentage Allocated To Sempra Corp and Affiliates	Witness
Wintel Refresh Phase 6	51%	43%	6%	Jeff Nichols
Wired NAC	60%	40%	0%	Jeff Nichols

Table SCG-PDM-4 reflects the total miscellaneous revenue (allocated shared asset expenses to the Sempra Energy affiliates) for SCG for 2009 Recorded Year and TY2012.

Table SCG-PDM-4

Shared Asset Miscellaneous Revenue (\$000's)		
2009 Recorded	2012 Test Year	Net Change
19,468	53,694	34,226

The main reason for the increase from 2009 recorded to TY2012 is the spending related to the various Information System projects that support both SCG and Sempra Energy Affiliates. Since these assets are being established on SCG's financial records, a significant revenue requirement is billed to the Sempra Energy Affiliates.

As discussed previously, each utility will bill the other utility for the allocation of the revenue requirement for each asset category. Table SCG-PDM-5 reflects the Shared Asset expense allocation billed to SCG from SDG&E for 2009 Recorded and TY2012.

Table SCG-PDM-5

Shared Asset Expense Allocation from SDG&E (\$000's)		
2009 Recorded	2012 Test Year	Net Change
5,910	8,270	2,360

The main reason for the increase in the expense allocation from SDG&E is due to the improvements at the Rancho Bernardo Data Center and several Information System projects that are being established on SDG&E's financial records. The list of projects is identified in my SDG&E Shared Asset Testimony (see Exhibit SDG&E-31, Table SDG&E-PDM-3). The calculation for the shared asset expense can be found in the Appendix to this testimony.

This concludes my prepared direct testimony.

1 **VI. WITNESS QUALIFICATIONS**

2 My name is Patrick D. Moersen. My business address is 555 W. Fifth Street, Los
3 Angeles, California, 90013. I am employed by Southern California Gas Company (SCG) as the
4 Asset and Project Accounting Manager for SCG. I have been in this position since September
5 2005.

6 I received a Bachelor of Science degree in Business, with an emphasis in Finance from
7 California State University of Northridge. I also received my Masters of Business
8 Administration, with an emphasis in Finance from California Lutheran University. I have been
9 employed by SCG in various positions and responsibilities since 1994. My experience includes
10 Asset and Project Accounting (formerly known as Cost Accounting), Accounts Payable,
11 Financial Planning and Internal Audit.

APPENDIX

