

Application of San Diego Gas & Electric Company (U902M) for Authority, Among Other Things, to Increase Rates and Charges for Electric and Gas Service Effective on January 1, 2012.

A.10-12-005
(Filed December 15, 2010)

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

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

Application No. 10-12-006
Exhibit No.: (SCG-36-R)

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

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

JULY 2011



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CHANGE LOG FOR ERRATA

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 \$81,745,000. 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**

Category	Reassignment %
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 Khai
4 Nguyen's Cost Center to FERC Mapping testimony, Exh. SCG-35). These
5 costs are allocated as an overhead loading applied on warehouse issuances.
6 The capital reassignment rate of 78.2% was calculated by taking the actual
7 2009 warehouse issuance costs assigned to capital projects and dividing it
8 by actual 2009 total warehouse issuance costs. The resulting percentage of
9 78.2% that went to capital was used for the 2010-2012 GRC period. See
10 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 Khai
14 Nguyen's Cost Center to FERC Mapping testimony, Exh. SCG-35). These
15 costs are dispersed as an overhead loading applied on all material and
16 services costs. The capital reassignment rate of 43.7% was calculated by
17 taking the actual 2009 purchasing overheads assigned to capital projects
18 and dividing it by actual 2009 total purchasing overheads. The resulting
19 percentage of 43.7% that went to capital was used for the 2010-2012 GRC
20 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

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

5 6. Shop

6 Shop costs are charged to a Clearing Account and dispersed as an
7 overhead loading applied on union labor costs. Shop costs are mapped
8 from the Cost Centers to FERC account 184.3 (see appendix to Khai
9 Nguyen's Cost Center to FERC Mapping testimony, Exh. SCG-35). The
10 capital reassignment rate of 13.7% was calculated by taking the actual
11 2009 shop overheads assigned to capital projects and dividing it by actual
12 2009 total shop overheads. The resulting percentage of 13.7% that went to
13 capital was used for the 2010-2012 GRC period. See workpaper RA-WP-
14 4.

15 7. Exempt Material

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

1 8. Small Tools

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

12 9. Pipe Fittings

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

24 **III. CONCLUSION**

25 The processes and derivation of the reassignment rates are based on 2009 base
26 year data. The reassignments of labor and non-labor overheads and O&M are consistent
27 with the past GRCs, including the most recent settlement approved in the 2008 GRC
28 decision D08-07-046, and have been accepted by the Commission. The reassignment of
29 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 revised prepared direct testimony.

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1 **IV. WITNESS QUALIFICATIONS**

2 My name is Rajan Agarwal and I am employed as the Financial Planning Manager
3 responsible for developing the financial plans for both SDG&E and SCG. My business
4 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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16 //
17 //

APPENDIX

APPENDIX

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

Line #	FERC Account	Account Description	Capital Reassignment Rate
1	Clearing:		
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	Gas Distribution:		
10	892.4	Pipe Fittings	55.1%
11			
12	A&G:		
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%

