

Company: Southern California Gas Company (U904G)
Proceeding: 2016 General Rate Case
Application: A.14-11-004
Exhibit: SCG-216

SOCALGAS

REBUTTAL TESTIMONY OF JAMES CARL SEIFERT

(REAL ESTATE)

June 2015

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



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I. SUMMARY OF DIFFERENCES

TOTAL O&M - Constant 2013 (\$000)			
	Base Year 2013	Test Year 2016	Change
SoCalGas	16,724	18,613	1,889
ORA	16,724	16,900	176
TURN	16,724	13,649	(3,075)

II. INTRODUCTION

A. ORA

The Office of Ratepayer Advocates (ORA) issued its report on Real Estate on April 24, 2015. ORA did not contest our SoCalGas non-shared forecast, but did recommend a 10.4% reduction from our shared O&M forecast, or \$1.7 million less than the \$16.4 million requested. This was done by using a 3 year average (2012-2014).

B. TURN

The Utility Reform Network (TURN) submitted testimony on May 15, 2015. TURN recommends a reduction of SoCalGas' \$15.002 million Gas Company Tower rent forecast in Corporate Real Estate by \$4.962 million in the test year, consistent with a three-year average of historical costs for Operating Expenses and Property Tax, as proposed by ORA, and based on the 2016 payment amounts for Base Rent due under the terms of SCG's lease agreement. The total forecast recommendation is \$10.040 million.

II. REBUTTAL TO PARTIES' O&M PROPOSALS

A. Non-Shared Services O&M

NON-SHARED O&M - Constant 2013 (\$000)			
	Base Year 2013	Test Year 2016	Change
SoCalGas	2,215	2,190	(25)
ORA	2,215	2,190	(25)

1 **1. Disputed Cost**

2 **a. ORA**

3 ORA agreed with SoCalGas’ forecast for the non-shared O&M request. The Commission
4 should adopt SoCalGas’ forecast as reasonable. No other party contested Real Estate non-shared
5 expenses.

6 **B. Shared Services O&M**

SHARED O&M - Constant 2013 (\$000)			
	Base Year 2013	Test Year 2016	Change
SoCalGas	14,509	16,423	1,914
ORA	14,509	14,710	201
TURN	14,509	11,459	(3,050)

7 **1. Disputed Cost**

8 **a. ORA**

9 ORA recommends adopting a three-year average forecast of \$14.710 million¹,
10 compared to the SoCalGas request of \$15.002 million for shared services. This category consists
11 of Microwave Tower Rents and Gas Company Tower Rents. The Gas Company Tower Rents
12 (GCT) is a lease expense consisting of three major components: GCT Base Rent, Operating
13 Expenses, and Property Tax. SoCalGas disagrees with ORA’s methodology to use a three year
14 average for this category. As stated in my direct testimony, these costs are primarily based on
15 “contractual rent escalations and increases in common area expenses for the GCT facility.”²
16 Additionally, “[t]he cost increases are based upon the annual escalation in the base rent and
17 certain operating expenses such as parking.”³ My workpapers also demonstrate the “zero-based”
18 nature of this GCT rent forecast.⁴ Because these costs are for the most part contractually based,
19 they are also treated in my forecast as “non-standard escalation” (NSE), meaning that these costs
20 do not escalate by normal inflationary pressures, but are more predictable future values derived
21 from known or more certain terms, such as contract terms. Thus, in this situation where the rent
22 costs are more or less fixed by contract, the more reasonable forecasting method is the one based

¹ Ex. ORA-14, Chia at page 62.

² Ex. SCG-16, p. JCS-1, lines 19-20.

³ *Id.* p. JCS-4, lines 4-5.

⁴ Ex. SCG-16-WP. p. 13 et. seq.

1 on the GCT contract terms, as opposed to an average. Accordingly, SoCalGas recommends
2 authorization of its full forecast of \$16.423 million for Real Estate shared services expense.

3 **b. TURN**

4 TURN does not address the Microwave Tower Rents, but does make a recommendation
5 for the GCT rents. TURN recommends an authorization for GCT rents of \$10.040 million⁵, made
6 up of ORA's recommended three-year averaging of Operating Expenses and Property Tax at
7 \$6.813 million, added to an authorization of \$3.225 million for the GCT Base Rent, which is
8 \$4.473 million less than the \$7.698 million SoCalGas is requesting for the GCT base rent.

9 TURN makes this recommendation for the GCT base rent on the basis that SCG did not account
10 for the scheduled rent concessions including reduced base rent and operating expenses in its
11 2015 or 2016 forecasts, and presumably did not account for it in the 2014 forecast either. Adding
12 the \$10.004 million recommended by TURN for the GCT Rents (\$3.225 million Base Rent plus
13 ORA's recommended \$6.813 million for Operating Expenses and Property Tax) to the
14 uncontested \$1.421 million for Microwave Tower Rents yields TURN's recommended total of
15 \$11.459 for Real Estate Shared Service expenses, which is \$3.050 million less than SoCalGas'
16 base year 2013 expenses.

17 Contrary to TURN's statements, SoCalGas did identify those adjustments in its
18 workpapers that accompanied the original filing. Adjustments were made to historical and
19 forecasted costs to reflect these credits (shown in my workpapers at page 15).⁶ Those credits and
20 adjustments are identified in in the workpapers as: "Adjustment to reflect Landlord credit
21 received during 2013 through 2016 over the lease term," "Forecast reflects 2014 [or 2015 or
22 2016] expenses based on rent schedule," "Transfer 2009 [or 2010, 2011, 2012 or 2013] SCG
23 employee parking deductions for Gas Company Tower," and "GCT lease payment adjusted for
24 15 year lease agreement."⁷ Additionally, in those same workpapers, SoCalGas estimated the as-
25 yet unknown credit to be received for operating expenses under the term "Placeholder –
26 Adjustment to reflect Landlord Operating Expense credit."⁸ Accordingly, and contrary to
27 TURN's arguments, SoCalGas did appropriately incorporate these credits into its forecast.

28 Because the 15 year lease contract stipulates credits back to the utility in differing

⁵ Ex. TURN/Jones, p. 15.

⁶ Ex. SCG-16-WP, pp. 15-20.

⁷ *Id.*

⁸ Ex. SCG-16-WP, p. 15.

1 amounts over different years, SoCalGas uses a levelizing method for accounting and forecasting
2 that normalizes the large swings in net monthly rent payments. This is the reference to a “rent
3 schedule” found in my workpapers.⁹

4 This creates a significant variation in the monthly cash outlays required under the lease.
5 Thus, SoCalGas adopted a cycle-based, levelized forecasting methodology on the Gas Tower
6 lease payments that attempts to spread those credits throughout the lease. This method
7 normalizes these rent expenses in a way that is similar to what TURN suggests.¹⁰

8 A confidential summary of the lease contract was provided to TURN in Data Request
9 TURN-SCG-09 Q1e which requests:

10 Q1e: For each year from 2009-2013, inclusive, please identify and briefly explain each of
11 the five factors that most contributed to the decrease in expenses over that period

12 SoCalGas Response: There are not five or more distinct factors contributing to the
13 decrease over the period. There were also lower expenses that occurred due to lease
14 renegotiations based on reorganization of space on the floors of the GCT.

15 As shown above, SoCalGas made no attempt to disguise the fact that it received
16 concession in the form of reduced rent and operating expenses since they are called out not only
17 in the workpapers but are also shown in the discovery response and the accompanying lease
18 contract summary which was provided, even though it was not directly requested. SoCalGas also
19 disagrees with TURN’s recommendation that adopts ORA’s three-year averaging for the
20 remaining Operating Expenses and Property Taxes in this category for the same reasons
21 discussed above in the rebuttal to ORA. SoCalGas recommends the authorization of its full
22 request of \$15.002 million for Gas Company Tower Rents. When added to the uncontested
23 \$1.421 Microwave Tower Rents, SoCalGas recommends authorization of its request for \$16.423
24 million of shared service expenses.

⁹ Ex. SCG-16-WP, p. 15 et. seq.

¹⁰ Ex. TURN/Jones, p. 12, line 3 and p. 15, line 5.

1 **IV. CONCLUSION**

2 Considering the discussion above, SoCalGas requests the Commission to disregard both
3 ORA's and TURN's recommendations regarding the rent expense for the Gas Company Tower
4 and other non-shared expenses and approve my requested funding of \$18.613 million for Real
5 Estate shared and non-shared expenses for 2016.

6 This concludes my prepared rebuttal testimony.