

Company: Southern California Gas Company (U 904 G)  
Proceeding: 2016 General Rate Case  
Application: A.14-11-XXX  
Exhibit: SCG-38

**SOCALGAS**  
**DIRECT TESTIMONY OF JEFF STEIN**  
**(REASSIGNMENT RATES)**

**November 2014**

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





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1 Instructions in the Code of Federal Regulations.<sup>1</sup> These reassigned costs become part of SCG’s  
2 rate base.

3 In this GRC, the TY2016 O&M costs are forecasted by cost center. This was ordered by  
4 the California Public Utilities Commission (“CPUC”) in the 2008 GRC Decision (“D.”) 08-07-  
5 046 by Ordering Paragraph 22. In order to utilize the reassignment rates, which are prepared by  
6 FERC account, the 2013 recorded O&M cost center data was mapped to FERC accounts. The  
7 Results of Operations Model (“RO Model”) applies the reassignment factors proposed in this  
8 testimony to the costs associated with the FERC accounts. For a detailed discussion about the  
9 mapping process, please see the testimony and Appendix B of Summary of Earnings witness  
10 Khai Nguyen (Ex. SCG-34).

11 For TY2016, the O&M reassignment for non-labor overheads, labor overheads and A&G  
12 costs to capital for expenses that are being transferred to construction projects is approximately  
13 \$98,365,000. The calculation and derivation of the various reassignment rates for each category  
14 are discussed below.

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

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

18 **TABLE SCG-JS-1**

19 **Summary of Reassignments % to Capital**

<b>Category</b>	<b>Reassignment %</b>
Labor Overheads	20.2%
A&G Costs	5.5%
Warehousing	82.9%
Purchasing	51.5%
Fleet	17.2%
Shop	12.0%
Exempt Material	86.3%
Small Tools	12.1%
Pipe Fittings	49.6%

20 The summary of Capital Reassignment Rates is shown in Appendix 1.

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<sup>1</sup> 18 CFR § 201 (Uniform System of Accounts Prescribed for Natural Gas Companies Subject to the Provisions of the Natural Gas Act).

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

2                   **1.     Labor Overheads**

3           Labor Overheads subject to capitalization are: variable pay costs<sup>2</sup> (FERC account 920.4),  
4 public liability and property damage (“PLPD”) costs (FERC account 925.0), workers’  
5 compensation costs (FERC account 925.1), and pension and benefits (“P&B”) costs (FERC  
6 account 926). These are considered indirect costs related to company labor and accumulated  
7 each month in individual Clearing Accounts. These costs are then dispersed through overhead  
8 loading rates that are applied on company labor.

9           In deriving the percentage of labor overheads that should be reassigned to capital, labor  
10 cost data from 2013 base year was used from SCG’s 2013 FERC Form 2, Distribution of  
11 Salaries & Wages (Ex. SCG-38-WP-6). The total labor charged to gas plant and to plant  
12 removal is divided by the total salaries and wages as retrieved from the Distribution of Salaries  
13 & Wages resulting in a reassignment rate of 20.2%. For the derivation of the rates pertaining to  
14 these accounts, see Exhibit SCG-38-WP-2.

15                   **2.     A&G Costs**

16           A percentage of A&G direct costs in FERC Accounts 920 - A&G Salaries and 921 -  
17 Office Supplies & Expenses and shared service costs in FERC Account 923 - Outside Services  
18 Employed are reassigned to construction each year in accordance with the Gas Plant  
19 Instructions in Part 201 of the Code of Federal Regulations. In SCG’s previous GRCs, the  
20 reassignment rate to construction projects was determined by an A&G effort study.<sup>3</sup> In the  
21 A&G effort studies, various A&G cost center managers were surveyed to provide an allocation  
22 percentage for their work that should be applied to construction jobs.

23           In this GRC, SCG proposes to derive the A&G reassignment rate by utilizing the actual  
24 2013 A&G costs assigned to capital instead of the A&G effort study. To use this method, the  
25 applicable A&G costs are mapped from Cost Centers to FERC Accounts 920, 921, and 923.  
26 Utilizing the subset of A&G FERC Accounts, the capital reassignment rate of 5.5% was  
27 calculated by taking the actual 2013 A&G costs assigned to capital projects and dividing it by  
28 actual 2013 total A&G costs.

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<sup>2</sup> Variable pay plans are commonly referred to as the Incentive Compensation Plan (“ICP”).

<sup>3</sup> See, e.g., A.10-12-006 (TY2012 GRC) at Ex. SCG-36-R (SCG Re-Assignment Rates witness Rajan Agarwal).

1 Adopting the use of actual costs reassigned to capital to derive the reassignment rate to  
2 capital would provide consistency with other categories (i.e., Warehousing, Purchasing, Shop,  
3 Exempt Materials, and Small Tools) discussed in my testimony because those categories also use  
4 actual costs for the derivation of the reassignment to capital. This actual cost method is a more  
5 inclusive and complete method of reassignment rate derivation in comparison to the former  
6 A&G effort study method as it is predicated on actual recorded amounts rather than estimates.  
7 SDG&E is also proposing this approach to ensure consistency between both utilities (see the  
8 testimony of SDG&E Segmentation and Allocation witness Jeff Stein, Ex. SDGE-41). For the  
9 derivation of the rates pertaining to these accounts, see Exhibit SCG-38-WP-3.

### 10 **3. Warehousing**

11 Warehousing costs are charged to a Clearing Account that is mapped from the cost center  
12 to FERC account 163.1 (see Appendix B to testimony of Summary of Earnings witness Khai  
13 Nguyen, Ex. SCG-34). These costs are allocated as an overhead loading applied on warehouse  
14 issuances. The capital reassignment rate of 82.9% was calculated by taking the actual 2013  
15 warehouse issuance costs assigned to capital projects and dividing it by actual 2013 total  
16 warehouse issuance costs. For the derivation of the rate pertaining to this account, see Exhibit  
17 SCG-38-WP-4.

### 18 **4. Purchasing**

19 Purchasing costs are also charged to a Clearing Account that is mapped from the cost  
20 center to FERC account 163.2 (see Appendix B to testimony of Summary of Earnings witness  
21 Khai Nguyen, Ex. SCG-34). These costs are dispersed as an overhead loading applied on all  
22 material and services costs. The capital reassignment rate of 51.5% was calculated by taking  
23 the actual 2013 purchasing overheads assigned to capital projects and dividing it by actual 2013  
24 total purchasing overheads. For the derivation of the rate pertaining to this account, see Exhibit  
25 SCG-38-WP-4.

### 26 **5. Fleet**

27 Fleet expenditures are posted to a Clearing Account by specific vehicle class based on  
28 vehicle type. Fleet expenditures are mapped from the cost centers to FERC account 184.2 (see  
29 Appendix B to testimony of Summary of Earnings witness Khai Nguyen, Ex. SCG-34). The  
30 costs in the Clearing Account are subsequently allocated based on an hourly utilization rate

1 recorded against each vehicle in the fleet system. Vehicle utilization can be recorded based on  
2 hourly usage or a 100% assignment. The utilization is charged to various O&M accounts and  
3 capital jobs. The capital reassignment rate for TY2016 in this GRC is 17.2%, and was  
4 calculated by taking the actual 2013 fleet overheads assigned to capital projects and dividing it  
5 by actual 2013 total fleet overheads. For the derivation of the rate pertaining to this account,  
6 see Exhibit SCG-38-WP-4.

#### 7 **6. Shop**

8 Shop costs are charged to a Clearing Account and dispersed as an overhead loading  
9 applied on union labor costs. Shop costs are mapped from the Cost Centers to FERC account  
10 184.3 (see Appendix B to testimony of Summary of Earnings witness Khai Nguyen, Ex. SCG-  
11 34). The capital reassignment rate of 12.0% was calculated by taking the actual 2013 shop  
12 overheads assigned to capital projects and dividing it by actual 2013 total shop overheads. For  
13 the derivation of the rate pertaining to this account, see Exhibit SCG-38-WP-4.

#### 14 **7. Exempt Material**

15 Exempt Material costs are also charged to a Clearing Account. These costs are for bulk  
16 type materials, such as nuts and bolts, that are not individually inventoried or managed by the  
17 warehouses and are restocked onto service trucks as needed. Exempt Material costs are  
18 dispersed as an overhead loading applied to warehouse issuances. Exempt Materials costs are  
19 mapped from the Cost Centers to FERC account 184.6 (see Appendix B to testimony of  
20 Summary of Earnings witness Khai Nguyen, Ex. SCG-34). The capital reassignment rate of  
21 86.3% was calculated by taking the actual 2013 exempt material costs assigned to capital  
22 projects and dividing it by actual 2013 total exempt material costs. For the derivation of the rate  
23 pertaining to this account, see Exhibit SCG-38-WP-4.

#### 24 **8. Small Tools**

25 Small Tools costs are charged to a Clearing Account and dispersed as an overhead  
26 loading applied on union labor costs because the primary users of the small tools are union  
27 employees. Small Tools costs are mapped from the Cost Centers to FERC account 184.7 (see  
28 Appendix B to testimony of Summary of Earnings witness Khai Nguyen, Ex. SCG-34). The  
29 capital reassignment rate of 12.1% was calculated by taking the actual 2013 small tools



1 overheads assigned to capital projects and dividing it by actual 2013 total small tools overheads.  
2 For the derivation of the rate pertaining to this account, see Exhibit SCG-38-WP-4.

### 3 **9. Pipe Fittings**

4 Like the other reassignment categories, Pipe Fitting costs are initially charged to an O&M  
5 account. Pipe fittings are used primarily in capital projects, such as new business and  
6 replacement work, and maintenance on services and meter set assemblies. They include items  
7 such as caps, couplings, ells, nipples, plugs, and stockpock valves, among others. Pipe Fitting  
8 costs are mapped from the Cost Centers to FERC account 892.4 (see Appendix B to testimony  
9 of Summary of Earnings witness Khai Nguyen, Ex. SCG-34). The capital reassignment rate of  
10 49.6% was derived by the Gas Distribution organization based on a 5-year average of O&M and  
11 capital activities. For the derivation of the rate pertaining to this account, see Exhibit SCG-38-  
12 WP-5.

### 13 **III. CONCLUSION**

14 The processes and derivation of the reassignment rates are based on 2013 base year data.  
15 The reassignments of labor and non-labor overheads and O&M have been accepted by the  
16 Commission in the past GRCs, as demonstrated by D.13-05-010. The reassignment of these  
17 costs is also consistent with the FERC guidelines. SCG believes that the methods used and  
18 rates computed are reasonable, and therefore should be adopted by the Commission to  
19 determine the SCG TY2016 revenue requirement.

20 This concludes my prepared direct testimony.

1 **IV. WITNESS QUALIFICATIONS**

2 My name is Jeff Stein and I am currently employed by SDG&E as the Transmission  
3 Revenue Manager and I am responsible for the oversight of the annual FERC transmission  
4 revenue filings. My business address is 8315 Century Park Ct., San Diego, CA 92123.

5 I received a Bachelor of Science degree in Business Administration with an emphasis in  
6 Accounting from San Diego State University. Upon receiving my Bachelor's degree, I was  
7 employed by KPMG, advisory services firm, as an auditor. After two years of public  
8 accounting, I joined Sempra Energy in 2006 and have held various positions of increasing  
9 responsibilities in Sempra Energy's Internal Audit Department, SDG&E's Business Controls  
10 Department, and SDG&E Plant Accounting. I am a Certified Public Accountant in the state of  
11 California and I continue to maintain an active status license with practice rights by fulfilling the  
12 continuing professional education requirements. I have not previously testified before the  
13 Commission.

**APPENDIX I**

**TABLE SCG-JS-2**

**2016 General Rate Case  
Southern California Gas Company  
Capital Reassignment Rates  
Based on January - December 2013 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	82.9%
3	163.2	Purchasing	51.5%
4	184.2	Fleet	17.2%
5	184.3	Shop Order	12.0%
6	184.6	Exempt Materials	86.3%
7	184.7	Small Tools	12.1%
8			
9	<b>Gas Distribution:</b>		
10	892.4	Pipe Fittings	49.6%
11			
12	<b>A&amp;G:</b>		
13	920.0	Admin & General Salaries - Non-Sr. Management	5.5%
14	920.1	Admin & General Salaries - Sr. Management	5.5%
15	920.2	Administrative & General - HR	5.5%
16	920.4	Administrative & General - ICP	20.2%
17	920.5	Admin & General Salaries - RPA	5.5%
18	921.0	Office Supplies & Exp - Non-Sr. Management	5.5%
19	921.2	Administrative & General - HR	5.5%
20	921.5	Admin Expenses Transferred - Credit	5.5%
21	921.6	Admin & General - Facilities	5.5%
22	923.0	Outside Services Employed - Outside Vendors	5.5%
23	923.1	Outside Services Employed - SECC	5.5%
24	923.2	Outside Services Employed - BUCU's	5.5%
25	925.0	Injuries & Damages PLPD Claims	20.2%
26	925.1	Injuries & Damages - Workers Comp	20.2%
27	926.0	Employee Pensions & Benefits - Other	20.2%
28	926.1	Employee Pensions & Benefits - Pension	20.2%
29	926.2	Employee Pensions & Benefits - PBOPs	20.2%
30	926.3	Employee Pensions & Benefits -Medical	20.2%
31	926.4	Employee Pensions & Benefits - Retirement Savings	20.2%
32	926.5	Employee Pensions & Benefits - Benefit Fees, Educ, Transport, Etc.	20.2%