Company:	San Diego Gas & Electric Company (U902M) Southern California Gas Company (U904G)
Proceeding:	2016 General Rate Case
Application:	A.14-11-003/004 (cons.)
Exhibits:	SDG&E-220 SCG-219

SDG&E AND SOCALGAS

REBUTTAL TESTIMONY OF HANNAH L. DEVINE

(CORPORATE CENTER – GENERAL ADMINISTRATION)

June 2015

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

SDGE
A Sempra Energy utility®

Southern California Gas Company
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SDG&E AND SOCALGAS REBUTTAL TESTIMONY OF HANNAH L. DEVINE
(CORPORATE CENTER – GENERAL ADMINISTRATION)

I. SUMMARY OF DIFFERENCES

SDG&E	Constant 2013 ($000)			
	Base Year 2013	Change	Test Year 2016	TY Variance to SDG&E
SDG&E	**68,422**	**(6,292)**	**62,130**	
ORA	**67,897**	**(8,249)**	**59,648**	**(2,482)**
TURN	**68,422**	**(7,517)**	**60,905**	**(1,225)**

SoCalGas	Constant 2013 ($000)			
	Base Year 2013	Change	Test Year 2016	TY Variance to SoCalGas
SCG	**48,629**	**606**	**49,235**	
ORA	**48,399**	**(1,132)**	**47,267**	**(1,968)**
TURN	**48,629**	**653**	**49,282**	**47**

II. INTRODUCTION

My testimony adopts the direct testimony and associated workpapers of Peter Wall[1] and responds to the following positions raised in ORA's and TURN's testimony reports.

A. ORA

Office of Ratepayer Advocates (ORA) issued its report on Corporate Center Shared Services on April 24, 2015.[2] The following is a summary of ORA's position(s):

- ORA does not oppose the total Corporate Center cost forecast for Test Year (TY) 2016, and also does not oppose the cost allocation methodologies used for SDG&E and SoCalGas.
- Notwithstanding, ORA recommends using a historical 2012-2014 average of overall utility allocations as the basis for TY 2016 costs allocated from the forecast total.
- ORA observes that overall utility allocations, as a percentage of the Corporate Center total, have trended downward over the past five years, except for 2014.
- ORA's recommendation would reduce TY 2016 allocations to SDG&E by $2.5 million and SoCalGas for $2.0 million, for no specific cost area.

[1] SDG&E-20 and SCG-19 (Wall, adopted by Devine); Workpapers SDG&E-20-WP and SCG-19-WP (Wall, adopted by Devine).
[2] Exhibit ORA-16, Report on the Results of Operations for San Diego Gas & Electric Company and Southern California Gas Company, Test Year 2016 General Rate Case, Corporate Center Shared Services & Shared Assets (ORA-16), pages 5-13.

B. TURN

The Utility Reform Network (TURN) submitted testimony on May 15, 2015.[3] The following is a summary of TURN's position(s):

- Multi-Factor Basic allocation rates should not be trended, but should be averaged from the most recent data, including 2014.
- The Multi-Factor Basic formula should exclude any consolidated impact from Variable Interest Entities (VIE), specifically the Otay Mesa power plant owned by Calpine.
- For the Government Programs & Corporate Responsibility department at Sempra, TURN would maintain 2013 allocation rates, rather than use Sempra's revised formula for 2014-2016 which allocates more costs to SDG&E ($164,000) and SoCalGas ($154,000).
- Because of the multiple dimensions of the allocation process, including benefit overheads, TURN is unable to precisely determine the impact of their Multi-Factor proposals. This response will analyze the cost differences as calculated by Sempra's allocation planning system.

III. REBUTTAL TO PARTIES' O&M PROPOSALS

A. Non-Shared Services O&M

SDG&E	Constant 2013 ($000)			
	Base Year 2013	Change	Test Year 2016	TY Variance to SDG&E
SDG&E	**68,422**	**(6,292)**	**62,130**	
ORA	**67,897**	**(8,249)**	**59,648**	**(2,482)**
TURN	**68,422**	**(7,517)**	**60,905**	**(1,225)**

SoCalGas	Constant 2013 ($000)			
	Base Year 2013	Change	Test Year 2016	TY Variance to SoCalGas
SCG	**48,629**	**606**	**49,235**	
ORA	**48,399**	**(1,132)**	**47,267**	**(1,968)**
TURN	**48,629**	**653**	**49,282**	**47**

1. Corporate Center Overall Allocations

a. ORA

ORA does not take issue with any Test Year O&M forecast or cost allocation methodology from Corporate Center. In fact, ORA's report states:

[3] Testimony of William B. Marcus on behalf of The Utility Reform Network Concerning Sempra's Revenue Requirement Proposals for San Diego Gas & Electric and SoCalGas (TURN/Marcus), pp. 6-12.

- "ORA does not oppose the total Shared General Administration cost from the Corporate Center forecast of $228.940 million (in 2013 dollars) for TY 2016."
- "ORA does not oppose the cost allocation methodologies used."[4]

Given that ORA does not disagree with Corporate Center's cost allocation methodology and forecasts, it is perplexing that ORA still proposes reductions of $2,482,000 for SDG&E and $1,968,000 for SoCalGas. ORA determined the reduction by applying an average percentage of overall utility charges from 2012-2014 to Corporate Center's TY 2016 forecast total.[5] ORA states that utility allocations, as a percentage of the Corporate Center total, appear to be trending lower over the past five years.[6]

SDG&E and SoCalGas disagree with ORA's approach, which would result in a "black box" reduction to Corporate Center allocation percentages that is not attributable to any specific costs, trends, methodologies, or issues. Corporate Center presented detailed testimony and workpapers for dozens of shared essential functions, each carefully budgeted and analyzed and individually allocated by the most appropriate methodology, including direct charges. Increases and reductions were explained in workpapers. ORA's methodology would instead combine all allocations and direct charges together as a numerator against a Corporate Center denominator that would unfairly include nonrecurring direct costs for Sempra affiliates unrelated to any shared service allocations for the utilities. This result would be arbitrary and inconsistent with ORA's acceptance of the Corporate Center cost allocation methodologies and the total Shared General Administration cost from the Corporate Center forecast of $228.940 million (in 2013 dollars) for TY 2016.

2. Multi-Factor Allocation

a. ORA

ORA did not oppose any of the Corporate Center allocation methodologies, including the Multi-Factor trend forecast.

b. TURN

For the most part, TURN does not oppose the Multi-Factor methodology and calculation, but for this GRC it does object to Corporate Center's use of a trend formula to forecast the Test

[4] ORA-16 (Oh), p. 1.
[5] ORA-16 (Oh), pp. 7-8.
[6] ORA-16 (Oh), p. 9.

Year percentages.[7] TURN objects to Corporate Center's use of three historical years (2011-2013) as data points for the forecast, claiming that the results are not statistically sound.[8] TURN argues that there is no real trend in the Multi-Factor percentages using the last five years, and also that Corporate Center's previous GRC trend forecasts have been "radically wrong." TURN recommends recalculating the Test Year percentages based on a two-year average of the actual multifactor percentages used in 2014 and 2015 (even though the 2014 data for the 2015 Multi-Factor would not have been available at the time of the Application).[9] The result lowers the Test Year rate for SDG&E from 38.9% to 37.3% and increases it for SoCalGas from 39.0% to 39.2%.[10]

Although TURN recognizes that past GRC decisions have upheld Corporate Center's definitions of the components of the Multi-Factor, it does propose one further adjustment – to exclude the impact of a VIE reported within SDG&E's financial data, primarily the Asset value of the Calpine-owned Otay Mesa power plant (OMEC).[11] TURN calculates that excluding the values would further lower SDG&E's Test Year rate by .3% to 37.0%, and raise SoCal Gas' rate by .2% to 39.4%.[12]

The Multi-Factor methodology, as TURN notes, is used for a number of functions at Corporate Center and for some Insurance allocations, and it is also a component in Causal-Beneficial allocation methodologies, including averages applied to officer functions. Changing the percentages can create a shift in overall allocations from nearly every Corporate Center function. The complex layers of direct charges and allocation settlements is processed by SDG&E's SAP accounting system, so it would not be possible for TURN to accurately determine the total impact of its proposed percentage changes, although TURN provides an estimate in its report. Corporate Center uses a database system to model forecasts that mirror the same allocation rules as SAP. Entering TURN's proposed percentages into the database system results in a TY2016 impact of $(1.018 million) lower allocations to SDG&E and $268,000

[7] TURN (Marcus), pp. 6-7.
[8] TURN (Marcus), p. 6.
[9] TURN (Marcus), pp. 7-8, citing TURN Data Request 3, Question 1 (provided herein as "Attachment A").
[10] TURN (Marcus), p. 8, Table 2.
[11] TURN (Marcus), p. 8.
[12] TURN (Marcus), p. 8, Table 2.

higher allocations to SoCalGas, compared to TURN's estimates of $(497,000) and $136,000, respectively.[13]

TURN's recommendation appears to seek some level of allocation reduction for the utilities, and has focused on the Multi-Factor forecast as its quick solution. Per Sempra's policy, the Multi-Factor Basic is calculated annually, using the prior year's financial data as the basis for the following year's allocations. For a GRC submittal, in order to forecast three years out to the Test Year, Corporate Center used three years of past financial data. We agree that using the past five years would not be appropriate due to the 2011 consolidation of Sempra's South American assets, although five years of data points have successfully been used in past GRC forecasts. What seems contradictory, however, is that TURN would think a two-year average has more statistical merit than a three-year trend. The three-year trend results in slightly rising Multi-Factor percentages for the utilities, which is a reasonable trend reflecting SDG&E's capital program and SoCalGas' workforce growth.

It takes a significant level of activity to move the Multi-Factor percentages year over year, but a few events in Sempra's history, such as the divestiture of Sempra's Commodities business, or the acquisition of South American utilities, did create a larger spike or drop in percentages compared to the Multi-Factor adopted for the prevailing GRC cycle. We disagree with TURN that such events gave shareholders a "ratepayer-funded windfall."[14] Using the table from TURN's testimony,[15] we added the GRC-adopted Multi-Factor percentage (for SDG&E and SoCalGas combined) for each year, and the variance from actual:

[13] Derived from data in TURN (Marcus), p. 12, Table 6 (A&G Except P&B) and calculations below in II.A.3.(b).
[14] TURN (Marcus), p. 7.
[15] TURN (Marcus), p. 7, Table 1, citing TURN Data Request 3, Question 1 (Attachment A).

Year Used	SDG&E	SCG	Total SEU	Combined GRC Rates	Variance	
2005	34.7%	42.1%	76.8%	72.2%	-4.6%	
2006	34.4%	42.6%	77.0%	72.2%	-4.8%	
2007	35.0%	41.3%	76.3%	72.2%	-4.1%	
2008	39.3%	45.7%	85.0%	75.4%	-9.6%	
2009	38.4%	43.5%	81.9%	75.4%	-6.5%	
2010	40.2%	41.4%	81.6%	75.4%	-6.2%	
Q1 2011	39.8%	42.5%	82.3%	75.4%	-1.7%	*pro-rated*
Q2-4 2011	36.3%	38.4%	74.7%	75.4%	2.1%	*pro-rated*
2012	37.2%	38.3%	75.5%	83.0%	7.5%	
2013	38.5%	37.5%	76.0%	83.0%	7.0%	
2014	37.5%	38.9%	76.4%	83.0%	6.6%	
2015	36.9%	39.5%	76.4%	83.0%	6.6%	
					-7.7%	**11-Yr Total**
					-0.7%	**Average**
2016	**GRC Request**			**77.9%**		

While the trend method cannot foresee significant events, it does work both ways, and since 2005 has tended to favor the ratepayers, not the shareholders. It should also be noted that the TY 2016 requested rate of 77.9% (for SDG&E and SoCalGas combined) is much lower than the approved 83.0% from the 2012 GRC, effectively lowering or maintaining most Corporate Center allocations overall, despite escalation.

Sempra starts the annual Multi-Factor calculation with GAAP-based financial data, and does make a few limited exclusions, but only for the purpose of smoothing gaps that might materially misrepresent each affiliate's business activity and mass in proportion to others. TURN's position that the elements should exclude OMEC would break out an embedded value that would only create a net .1% change in overall utility Multi-Factor results. This change would not be considered material for a streamlined calculation.

Sempra's requested Multi-Factor percentages for TY 2016 are well-supported and reasonable, and TURN's proposal to revise the rates should not be adopted.

3. Allocation of Governmental Programs & Corporate Responsibility

a. ORA

ORA did not oppose any of the allocation methodologies used by Sempra.

b. TURN

TURN singled out one causal-beneficial method that had a sharp increase in the percentages attributed to SDG&E and SoCalGas for the Governmental Programs & Corporate Responsibility (D-2.6) department between 2013 and the TY 2016 request.[16] TURN proposes to reduce the allocation rates back to the 2013 percentages, which would lower the SDG&E request by $(164,000) and SoCalGas by $(154,000)[17] – although TURN slightly miscalculated the reduction, applying allocation rates to the department total without first deducting direct assignments. These amounts include an estimated further reduction from the division Vice President, whose allocation percentages are a weighted average of External Affairs departments.[18] The database-calculated reduction impact which includes P&B is $(207,000) and ($221,000) for SDG&E and SoCalGas, respectively.

Although allocation rates get updated each year, they tend to be fairly stable unless cost center organizational changes are made that spur a broader revision of the methodology. The Corporate Center workpapers provided a reconciliation for each cost center and division that summarized how much of its 2013-2016 increase or decrease was attributable to the change in allocation percentages, including the Governmental Programs and Corporate Responsibility cost center.[19] This cost center supports SDG&E and SoCalGas in their efforts to drive sustainability throughout utility operations, embed best practices, and reduce impacts on the environment. The Corporate Responsibility Report tracks the CPUC's Sustainable Utilities En Banc session that defined corporate sustainability as the integration of economic, environmental, and social considerations into corporate strategy.[20] Allocation rates for the Corporate Responsibility team reflects more actual time spent supporting SDG&E and SoCalGas in the above-mentioned areas, compared to non-allocable political activities. This would cause a revision of their annual time study and allocation percentages, as reflected in workpapers.[21] TURN did not seek discovery regarding this cost center.

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[16] TURN (Marcus), pp. 10-11.
[17] TURN (Marcus), p. 11, Tables 4 and 5.
[18] TURN (Marcus), p. 11, Table 5.
[19] SDG&E-20-WP/SCG-19-WP at 262.
[20] Information about the CPUC's Sustainable Utilities En Banc Session is available at http://www.cpuc.ca.gov/PUC/energy/Climate+Change/CPUC_Sustainable_Utilities_En_Banc.htm.
[21] SDG&E-20-WP/SCG-19-WP at 435.

IV. CONCLUSION

Both ORA and TURN propose adjustments to Corporate Center allocations that are inconsistent with the careful Commission-approved allocation process that has evolved in response to the initial Merger Decision (D.98-03-073) and has been consistently affirmed in multiple rate case decisions. The Merger Decision stipulated the hierarchy of direct charges, causal-beneficial allocation, and the Multi-Factor in tiers that require a complex system but result in rational allocation results. The Commission should reaffirm adoption of this reasonable and time-tested process.

This concludes my prepared rebuttal testimony.

V. WITNESS QUALIFICATIONS

My name is Hannah L. Devine, and my business address is 101 Ash Street, San Diego, California 92101.

I have been the Corporate Budgets & Reporting Manager for Sempra Energy for the last eleven years, after holding various other positions with SDG&E and Sempra Energy since 1993. My current role includes coordinating the annual plan process with all Corporate Center departments, periodic outlook updates, and regular internal performance reporting. I am responsible for the fair and objective allocation of Corporate Center's costs to all Sempra affiliates, ensuring compliance through our planning and accounting systems. I have also provided draft materials and witness support in the 2004 Cost of Service, and the 2008, 2012, and 2016 General Rate Cases, though this is my first time testifying before the Commission.

I hold a Bachelor of Science degree in Accounting from San Diego State University, and am a Certified Public Accountant (CPA) in California. Prior to joining SDG&E, I served four years at West, Turnquist & Schmitt, a CPA firm in San Diego.

ATTACHMENT A

TURN DATA REQUEST-03
SDG&E-SOCALGAS 2016 GRC – A.14-11-003-004
SDG&E_SOCALGAS RESPONSE
DATE RECEIVED: MARCH 20, 2015
DATE RESPONDED: APRIL 3, 2015

1. Exhibit SCG-19, page PRW-6 lines 26-28 states "The four factors are compiled each year, using prior years' data as the basis for the following year's actual allocations."
   a. When in the normal course of business are these factors compiled?
   b. Are accounting memoranda or documentation prepared internally by Sempra Energy at the corporate level and/or by either of the Sempra Energy Utilities in the normal course of business showing the multi-factor allocations for each year? If so, please provide all such internal documentation from 2005-2014 (and 2015 if available), including any calculations made as part of those materials.

Utility Response 1:

a) Each year, Sempra analyzes and updates the Multi-Factor and its variations, along with all Causal-Beneficial methods to be used in the following year. The Corporate Planning group completes this process and communicates the final allocation rates to shared-service and affiliate accounting managers during January so that new percentages are in place in time for the first monthly closing of each fiscal year. Because year-end financials are not yet available to be used for the early-January calculation, Sempra's practice is to base the annual Multi-Factor update on November YTD data. For that reason, the internal percentages used may differ slightly from those used in the GRC trend forecast, as determined from final year-end audited financials.
b) The table below shows the internal actual Multi-Factor percentages used in each year 2005-2015. Internal workpapers supporting the calculation of the percentages are attached (Please see "Attachment TURN_SEU_DR-03_Q1.xlsx").

Year Used	SDG&E	SCG	Total SEU	Non-Reg	Total
2005	34.7%	42.1%	76.8%	23.2%	100.0%
2006	34.4%	42.6%	77.0%	23.0%	100.0%
2007	35.0%	41.3%	76.3%	23.7%	100.0%
2008	39.3%	45.7%	85.0%	15.0%	100.0%
2009	38.4%	43.5%	81.9%	18.1%	100.0%
2010	40.2%	41.4%	81.6%	18.4%	100.0%
Q1 2011	39.8%	42.5%	82.3%	17.7%	100.0%
Q2-4 2011	36.3%	38.4%	74.7%	25.3%	100.0%
2012	37.2%	38.3%	75.5%	24.5%	100.0%
2013	38.5%	37.5%	76.0%	24.0%	100.0%
2014	37.5%	38.9%	76.4%	23.6%	100.0%
2015	36.9%	39.5%	76.4%	23.6%	100.0%

Note on 2011: Sempra's policy is to maintain the Multi-Factor percentages for the full calendar year, unless a significant business change occurs. In mid-2011 Sempra completed the full acquisition and consolidation of its South America investments, and revised the Multi-Factor for the remainder of the year.

Note on 2006 and 2007: For these years Sempra utilized the trended 2008 GRC forecast percentages rather than the internal one-year look-back, due to various business dispositions during those years that would have put pressure on the utility share compared to the concurrent GRC request. The 2008 GRC Multi-Factor workpaper is included in the attachment.