Company: San Diego Gas & Electric Company (U902M)
Proceeding: 2016 General Rate Case
Application: A.14-11-___
Exhibit: SDG&E-16

SDG&E

DIRECT TESTIMONY OF CARMEN L. HERRERA

FLEET SERVICES

November 2014

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

SDGE
A Sempra Energy utility®

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SUMMARY

FLEET SERVICES			
Shown in Thousands of 2013 Dollars	**2013 Adjusted-Recorded**	**TY2016 Estimated**	**Change**
Total Non-Shared	30,655	41,085	10,430
Total Shared Services (Incurred)	0	0	0
Total O&M	**30,655**	**41,085**	**10,430**

Summary of Requests

- San Diego Gas & Electric's ("SDG&E" or "Company") total Test Year ("TY") 2016 estimated Operations and Maintenance ("O&M") expenses request for Fleet Services is $41.085 million. The increase from base year is driven primarily by the standard replacement of vehicles, Alternative Fuel Vehicles ("AFV") required by the Energy Policy Act ("EPAct"), retrofit and replacement of units to comply with the Airborne Toxic Control Measures ("ATCM"), and the additional vehicles needed to support gas distribution, transmission, and customer field services.

- SDG&E requests $20.875 million in Maintenance Operations costs to maintain and fuel a Fleet of over 2,200 vehicles and power-operated equipment. SDG&E's request is broken down into two components: 1) Vehicle Servicing & Repairs, and 2) Automotive Fuels--both components are forecasted using the 3-year historical average. Also included in SDG&E's request are costs for additional activities to comply with ATCM and San Diego City code requirements for mobile fueling operations.

SDG&E DIRECT TESTIMONY OF CARMEN L. HERRERA
FLEET SERVICES

I. INTRODUCTION

A. Summary of Costs

In this testimony, I sponsor SDG&E's Fleet Services Non-Shared costs. For TY 2016, Fleet Services requests $41.085 million. Table CLH-1 below summarizes SDG&E's total O&M costs for Fleet Services.

TABLE CLH-1
TY 2016 Summary of Total Costs

FLEET SERVICES			
Shown in Thousands of 2013 Dollars	**2013 Adjusted-Recorded**	**TY2016 Estimated**	**Change**
Total Non-Shared	30,655	41,085	10,430
Total Shared Services (Incurred)	0	0	0
Total O&M	**30,655**	**41,085**	**10,430**

B. Summary of Activities

SDG&E's Fleet Services acquires, maintains, repairs and salvages vehicles and related equipment to support the reliable delivery of gas and electricity to SDG&E customers. SDG&E Fleet Services manages a mix of vehicles consisting of over-the-road ("OTR") vehicles such as automobiles, light duty, medium and heavy duty trucks, and non-over-the road ("Non-OTR") such as power operated equipment including trailers and forklifts. Fleet Services provides daily support critical to the gas and electricity distribution and transmission operating crews, customer services field operations, and the capital construction program.

The key activities of Fleet Services include the following:

a) Provide the necessary quantity, type and configuration of vehicles and equipment required daily by gas and electric operations to meet new business demands, respond to gas and electric service outages and service requests, support infrastructure replacement, and conduct the corrective maintenance programs central to maintaining reliable service.

b) Maintain vehicles and equipment to reliably meet daily availability requirements. The increasing age of SDG&E's gas and electric system as well as new business demands requires that vehicles be available for use 24 hours a day 7 days a week.

c) Manage the vehicle and equipment asset portfolio through the design, acquisition, financing, and replacement of vehicles.

d) Implement fleet systems and processes to minimize the costs and optimize operations.

e) Comply with Federal, State, and Local statutes and agency regulations pertaining to air quality, waste, hazardous materials, natural resources, safety, and alternative-fueled vehicles. Of particular impact on the Fleet Services organization and costs are the following:

- EPAct requirements regarding the federally mandated procurement of alternative-fueled vehicles. As an Alternative Fuel Provider Fleet, 90% of the SDG&E's annual light duty vehicle purchases are required under the EPAct to be approved alternative-fueled vehicles.[1] To achieve the 90% annual requirement, SDG&E plans to buy alternative fueled vehicles at a premium. If SDG&E cannot achieve the 90% annual requirement, SDG&E may purchase EPAct credits.
- California Air Resources Board ("CARB") regulations requiring the reduction of diesel emissions by retrofitting or replacing diesel vehicles and off-road equipment.
- U.S. Environmental Protection Agency ("EPA") and CARB regulations requiring diesel engines to reduce oxides of nitrogen and particulate matter emissions.
- California Highway Patrol mandated inspections, training and other regulations applicable to heavy-duty fleet vehicles and equipment.
- Occupational Safety and Health Administration "OSHA" and Cal OSHA mandated inspections, training, and other regulations applicable to fleet operations and equipment acquisition.
- Other Environmental Protection Agency requirements governing air quality, water quality, waste, hazardous materials, safety and natural resources, including mandated inspections, and repairs applicable to underground storage tanks, aboveground storage tanks, fuel island components, mobile fueling, and hazardous waste stream management.

[1] U.S. Department of Energy; EPAct Fleet Information & Regulations.

f) Manage nine mobile fuel tankers to supply gasoline and diesel to support field operations.

g) Ensure proper training of Fleet Maintenance Technicians regarding hazardous waste disposal requirements of fleet materials.

h) Evaluate changes in technology, regulation, and operational trends to ensure they are properly incorporated into all fleet-related plans and activities.

In addition to this testimony, please also refer to my workpapers, Ex. SDG&E-16-WP for additional information on the activities described herein.

C. Support for Fleet Services Request

SDG&E's forecast of expenses for Fleet Services is needed to support SDG&E's commitment to providing quality, safe, and reliable customer services. The request supports the safety and reliability of SDG&E's system and service by providing appropriate vehicles and work equipment to supervision and work crews that provide gas, electricity, and supporting services while ensuring vehicles are complying with environmental, legal, and regulatory requirements.

The design of fleet vehicles and equipment, while enabling productive work, is also fundamental to the safety of our work crews permitting them to restore service, provide services to new customers, and perform routine inspection and maintenance as part of our obligation and commitment to public and employee safety.

Included in the Vehicle Servicing & Repair section of this testimony are costs for retrofitting the SDG&E fleet of over-the-road vehicles with backup cameras and backup sensors to try to help prevent the number of backup incidents. The cost is spread from 2014 through 2016 to bring the fleet in compliance with (early adoption of) the National Highway Traffic Safety Administration ("NHTSA") standard requiring manufacturers to install rear-view visibility systems in light duty vehicles by 2018.[2]

II. NON-SHARED COSTS

A. Introduction

Non-shared costs for Fleet Services include vehicle acquisition and disposition, maintenance and repair, fuel management, and technical services of more than 2,000 vehicles to

[2] 49 CFR Part 571 (2014).

SDG&E and, on a limited basis, to the parent company Sempra Energy Corporate Center ("Corporate Center"), and other affiliate companies of Sempra Energy.

For TY 2016, Fleet Services requests $41.085 million, an increase of $10.430 million above 2013 adjusted-recorded costs. Table CLH-2 below provides a summary of the request.

TABLE CLH-2
Non-Shared O&M Summary of Costs

FLEET SERVICES			
Shown in Thousands of 2013 Dollars			
Categories of Management	**2013 Adjusted-Recorded**	**TY2016 Estimated**	**Change**
A. Ownership Costs	10,149	18,249	8,100
B. Maintenance Operations	18,624	20,875	2,251
C. Fleet Management	1,882	1,961	79
Total	**30,655**	**41,085**	**10,430**

B. Ownership Costs

Fleet Services ownership costs are separated into four categories: Amortization, Interest, Salvage, and License Fees, which are summarized in Table CLH-3 below and in the description of costs and underlying activities.

TABLE CLH-3
Forecast for Ownership Costs

FLEET SERVICES			
Shown in Thousands of 2013 Dollars			
A. Ownership Costs	**2013 Adjusted-Recorded**	**TY2016 Estimated**	**Change**
1. Amortization	9,255	14,823	5,568
2. Interest	808	2,598	1,790
3. Salvage	-953	-700	253
4. License Fees	1,039	1,528	489
Total	**10,149**	**18,249**	**8,100**

1. Description of Costs and Underlying Activities

Fleet Services acquires, maintains, repairs, and salvages vehicles and related equipment to support the reliable delivery of gas & electricity to SDG&E customers. Fleet Services Operations provides daily support critical to the gas & electric distribution and transmission operating crews, customer services field operations, and the capital construction program.

SDG&E lease finances its vehicles and incurs annual repayment of principal and interest (amortization) for each vehicle over the term of each lease. Replacement scheduling is based on

targeted useful lives of vehicles by various classes, and ownership costs for each year are forecasted using a cash-flow model.

Amortization - Annual repayment of principal for the fleet leases is composed of active lease obligations for vehicles in the fleet at year-end 2013 and new lease obligations for replacements or additions to the fleet for business needs. Replacement scheduling is based on targeted useful lives of vehicles by various classes and amortization costs for each year are forecasted for 2014-2016. Fleet Services projected the pay-down of active lease obligations and applied specified lease duration terms and associated interest to new fleet assets scheduled to be placed in service during each forecast year. See Ex. SDG&E-16-WP Amortization and supplemental for further detail.

44.67% or $6.622 million of the 2016 amortization forecast total is for committed financing of existing vehicles and replacements currently under purchase order. 46.0% or $6.822 million of the 2016 amortization forecast total is for replacements scheduled to be purchased in the 2014-2016 time period. 3.63% or $0.54 million is for incremental Alternative-Fuel Vehicles. 3.2% or $0.474 million is for incremental vehicle additions requested by operating departments; and 2.5% or $0.364 million is needed for completion of State mandated Diesel Particulate Filter Airborne Toxic Control Measures ("ATCM") retrofits or replacements.

California's landmark climate change law, the Global Warming Solutions Act (AB 32), set the state on an aggressive path toward significantly reducing greenhouse gas ("GHG") emissions and improving the environment. The transportation sector accounts for 36% of GHG emissions in California.[3] In order to capture the benefits of reducing emissions from the millions of cars and trucks on California's roads today, the state has taken steps to enable widespread and accelerated adoption of Alternative Fuel Vehicles and the infrastructure to support them.

In line with the goals set forth in the Governor's Zero Emission Vehicle ("ZEV") Action plan, which quantified the transportation sector's contribution toward meeting California's GHG goals and set a key target of putting 1.5 million zero-emission vehicles on California roads by 2025, and California state initiatives and regional and multi-agency efforts seeking ozone reductions in the range of 70% to 80% in all sectors, SDG&E is supporting these initiatives to

[3] First Update to the Climate Change Scoping Plan, California Air Resources Board, May 2014, p. 46, http://www.arb.ca.gov/cc/scopingplan/2013_update/first_update_climate_change_scoping_plan.pdf.

grow its electric and natural gas fleet by replacing and/or retrofitting traditional gas and diesel vehicles. SDG&E expects to reduce approximately 20,000 metric tonnes of greenhouse gases over 5 years which is the approximate annual output for the entire fleet. See Ex. SDG&E-16-WP Amortization and supplemental for further detail.

Interest – All replacement and incremental vehicle additions are forecasted to be financed under an operating lease with floating interest rates.

Salvage - Vehicles are sold for salvage at the end of their useful life. Any net proceeds are credited back to Fleet Services offsetting any incremental acquisition costs for replacement vehicles.

License Fees - License fees payable to the State of California each year are a function of the age and composition of the fleet during that year, and consist of several components based on vehicle weight, capacities, age, purchase price, and location.

2. Forecast Method

For TY2016, I forecasted $18.249 million for non-shared Fleet Services costs. My forecasted amount is mostly due to committed financing of existing vehicles and replacement vehicles. Additionally, there is an associated increase in the costs to satisfy CARB environmental requirements related to retrofitting vehicles.[4] These estimates for the ownership cost categories are derived using a zero-based method, as explained below.

Amortization – A zero-based forecast is appropriate because costs vary according to lease amortization schedules for units currently in the fleet or new units added. Therefore, historical trends or averages will not properly represent the costs. Costs are actually determined based on each vehicle lease schedule. The cost associated with lease amortization for 2014 through 2016 is based on year-end 2013 actual vehicles under lease financing plus the planned replacement vehicles scheduled each year and requested incremental vehicle additions each year. The increase in amortization costs in 2016 is due primarily to increasing lease balances of replacement vehicles following the required replacement lifecycles and the requests for incremental vehicles required by other SDG&E business units.

I did not use an alternate forecast method(s) or other historical data because neither is appropriate since amortization expenses involve debt retirement and escalation, which are included in the price estimates for new vehicle acquisition.

[4] *See* discussion related to the retrofitting on CLH-6.

Interest - A zero-based forecast is appropriate because interest costs vary according to lease amortization balances for units currently in the fleet or new units added. Therefore, historical trends or averages will not properly represent the costs. Costs are actually determined based on each vehicle lease balance. This method is most appropriate because interest costs in each forecast year are based on monthly outstanding balances multiplied by the London Interbank Offered Rate ("LIBOR") contained in the Global Insight Forecast for the payment month, then summed for the year.

Use of alternate forecast method(s) or certain historical data is not appropriate because interest calculations are tied to the forecasted outstanding balances, and these balances vary year-to-year depending on the number and value of leases.

Salvage - A zero-based forecast is appropriate because estimates of salvage proceeds for each forecast year are determined by multiplying the number of vehicles expected to be replaced during the year by the salvage received based on the 3-year average per-unit salvage amount.

Use of alternate forecast method(s) or certain historical data is not appropriate because the value of the salvage proceeds is directly related to the forecasted number of vehicle replacements.

License Fees- Historical trends or averages will not properly represent the costs. A zero-based forecast, where the base year ratio of license fees to amortization is used to determine the license fee costs is the most reasonable forecasting method. This methodology is considered reasonable as the calculation to replicate the California Department of Motor Vehicles ("DMV") formulae[5] for SDG&E fleet, which is comprised of more than two thousand fleet vehicles, is complex. This estimating method has proven a reasonable approximation. More information is included in my workpaper. See Ex. SDG&E- 16-WP License Fees and supplemental.

3. Cost Drivers

The cost drivers behind this forecast are attributed to the cost and timing of replacement vehicles, future interest rate increases, and environmental and regulatory compliance-related costs associated with the purchase and maintenance of vehicles and equipment. These drivers are supported by the workpapers and supplemental documentation detailing the replacement of vehicles and incremental request for ATCM diesel particulate filter replacements of 68 heavy

[5] https://www.dmv.ca.gov/pubs/brochures/fast_facts/ffvr34.htm#reg.

duty vehicles. See Workpaper Ex. SDG&E-16-WP Amortization and supplemental for further detail.

Additionally, as an Alternative Fuel Provider Fleet, 90% of the SDG&E annual light duty vehicle purchases are required under the EPAct to be approved alternative-fueled vehicles.[6] To achieve the 90% annual requirement, SDG&E plans to buy alternative fueled vehicles at a premium. If SDG&E cannot achieve the 90% annual requirement, SDG&E may purchase EPAct credits.

C. Maintenance Operations

Maintenance Operations include: 1) safety inspections and routine maintenance of fleet vehicles; 2) management of automotive fuel inventory (gasoline and diesel) to ensure the availability of fuel to meet operating needs; 3) repair of vehicle damage and replacement of worn and defective parts; and 4) compliance with all applicable Federal, State, and local environmental, safety, and emissions regulations. The Automotive Fuels function of Maintenance Operations involves the management of automotive fuel inventory to ensure the availability of gasoline and diesel to meet operating needs.

SDG&E's fleet consists of over 2,000 vehicles and equipment. The fleet is divided into over 125 individual vehicle classifications, which can be summarized into the following major types shown in Table CLH-4:

TABLE CLH-4
SDG&E Vehicle Types
(Year-End 2013)

VEHICLE TYPES	**No. of Units**
Automobiles	105
Compact Trucks and Vans	453
Light Duty Trucks and Vans	717
Medium Duty Trucks and Vans	371
Heavy Duty Trucks and Vans	234
Subtotal over-the-road (OTR)	**1,880**
Trailers	241
Construction Equipment	101
Subtotal non-over-the-road (Non-OTR)	**342**
TOTAL	**2,222**

[6] U.S. Department of Energy; EPAct Fleet Information & Regulations.

In 2013, SDG&E vehicles were serviced at 11 fleet maintenance garages, including satellite facilities. SDG&E maintains a wide variety of vehicles to meet new construction requirements for customer growth, as well as gas and electricity distribution and transmission and customer service maintenance activities.

TABLE CLH-5
Forecast for Maintenance Operations

FLEET SERVICES			
Shown in Thousands of 2013 Dollars			
Maintenance Operations	**2013 Adjusted-Recorded**	**TY2016 Estimated**	**Change**
Vehicle Servicing & Repairs	**11,931**	**13,673**	**1,742**
Automotive Fuels	**6,693**	**7,202**	**509**
Total	**18,624**	**20,875**	**2,251**

1. Description of Costs and Underlying Activities

For TY 2016, Fleet Services' Maintainence Operations requests $20.875 million, an increase of $2.251 million above 2013 adjusted-recorded costs, as summarized in Table CLH-5 above.

Vehicle Servicing & Repairs - Vehicle servicing and repair activities are carried out in 11 garage locations disbursed throughout SDG&E's service territory. Primary cost drivers include costs to replace three units to comply with the Portable Diesel Engines Airborne Toxic Control Measures ("ATCM"), one full-time employee ("FTE") to support SDG&E's compliance with San Diego City fire code requirements for qualified operators of mobile fueling operations, and one full-time employee to support technician training. Details can be found in Ex. SDG&E - 16-WP Vehicle Servicing & Repairs and supplemental.

Automotive Fuels – The cost of fuel is a function of both price and quantity consumed. SDG&E attempts to reduce the financial impact of increasing prices through ongoing hedging activities. While improved fuel economy units will likely have a beneficial impact on fuel costs, the price will remain the dominant factor.

2. Forecast Method

Vehicle Servicing & Repairs - I have forecasted vehicle maintenance costs and fleet services maintenance and operations based on a 3-year historical average. The use of multi-year averaging is generally recognized as a reasonable and valid methodology where costs fluctuate

from year to year. Costs in this area are prone to fluctuations because of the volatility in commodity prices. SDG&E cannot predict the changes in commodity prices, and must therefore rely on averaging to arrive at a reasonable cost estimate. SDG&E did not use a five-year historical average because the year 2009 was an anomaly as the nation recovered from a recession.[7] More information is included in my workpaper. See Ex. SDG&E-16-WP Vehicle Servicing & Repairs and supplemental.

Automotive Fuels - I have forecasted automotive fuel using the 3-year average. The use of multi-year averaging is generally recognized as a reasonable and valid methodology where costs fluctuate from year to year. Costs in this area are prone to fluctuations because of the volatility of fuel prices due to political, social, and economic concerns. The use of alternate forecast method(s) is not applicable because of the fluctuations in the price of fuel. Such volatility makes predicting the cost of fuel over an extended historical time difficult. As a result, SDG&E must rely on averaging to arrive at a reasonable estimate. More information is included in my workpaper. See Ex. SDG&E-16-WP Automotive Fuels.

3. Cost Drivers

The cost drivers behind this forecast are primarily due to the environmental, regulatory, and safety requirements. In particular, there are costs are related to CARB's Portable Diesel Engines Airborne Toxic Control Measures to ensure portable engines meet the stringent emissions standards in 2017.[8] The specifics of the environmental regulatory policy for the ATCM is discussed in the testimony of SDG&E witness Mr. R. Scott Pearson (Ex. SDG&E-18). Additionally, the costs to retrofit backup camera and sensor safety devices on over-the-road vehicles in the fleet are included in this forecast.

In addition to incremental vehicles which also impact the cost of fuel, the cost of fuel has been volatile due to global issues which impact fuel sources.[9] For example, the cost of diesel has increased 58% in the last five years and reformulated gasoline increased by 45%[10]. These cost drivers are further described in in my workpaper, Ex. SDG&E-16-WP Automotive Fuels.

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[7] The National Bureau of Economic Research reported that the recession ended in June 2009. http://www.nber.org/cycles/sept2010.html.

[8] http://www.arb.ca.gov/portable/portable.htm.

[9] http://www.eia.gov/dnav/pet/pet_pri_gnd_dcus_r50_a.htm.

[10] *Id.*

D. Fleet Management

For TY2016, the Fleet Management request is $1.961 million, an increase of $0.079 million above 2013 adjusted-recorded costs, as summarized on Table CLH-6 below.

TABLE CLH-6

Forecast for Maintenance Operations

FLEET SERVICES			
Shown in Thousands of 2013 Dollars			
Fleet Management	**2013 Adjusted-Recorded**	**TY2016 Estimated**	**Change**
Fleet Management	1,882	1,961	79
Total	**1,882**	**1,961**	**79**

1. Description of Costs and Underlying Activities

Fleet Management consists of all the Fleet management staff as well as management and technology systems that support the full life-cycle management of the Fleet assets. This includes the acquisition; vehicle design specification and up-fitting; quality assurance inspection services; vehicle replacement management; garage management and associated compliance; parts and inventory control; training for Fleet technicians; Fleet management systems and applications;financial management and controls; and customer service. Fleet management also collects employee commutation fees to help offset incremental Fleet costs for take home Fleet vehicles.

2. Forecast Method

A 3-year historical average was selected as the basis for our TY 2016 forecast. The 3-year historical average is most appropriate because recorded costs for this activity have fluctuated in the past three years. In addition, this methodology accurately reflects the current and future staffing levels and the recent economic trends.

3. Cost Drivers

The cost drivers behind this forecast are primarily due to labor resources (and associated non-labor costs) required to effectively manage Fleet Services operations. See my workpapers Ex. SDG&E-16-WP.

III. CONCLUSION

Fleet Services provides the underlying tools and support necessary to field crews who not only maintain the reliability and safety of our gas and electric system, but also are often the first

contact between the customer and the Company. The quality of our fleet maintenance & equipment, while enabling productive work, is also fundamental to the safety of our work crews permitting them to restore service, provide services to new customers, and perform routine inspection and maintenance. My requested forecast for Fleet Services is essential to the continuation of our efforts and commitment to public and employee safety.

SDG&E requests that the Commission adopt the O&M forecasts presented in this testimony. The forecasts were carefully developed and represent a prudent level of funding for the critical activities to take place in this GRC term. The amounts requested for TY 2016 for Fleet Services are necessary to meet the needs of utility operations and customer service. They are based on an evaluation of 2009-2013 cost trends adjusted for known incremental increases and decreases, and then forecasted for the 2014 through 2016 period.

This concludes my prepared direct testimony.

IV. WITNESS QUALIFICATIONS

My name is Carmen L. Herrera. My business address is 8101 S. Rosemead Blvd., Pico Rivera, CA 90660. I am employed by Southern California Gas Company ("SCG"), as the Director of Support Services responsible for overseeing Fleet Services for SoCalGas and SDG&E, and Facility Operations and Capital Programs for SoCalGas. I have been in this position since 2011.

I received a Bachelor's of Science in Business Administration from the University of Southern California and hold an inactive Certified Public Accountant license. I have been employed by SCG, SDG&E, and/or Sempra Energy in various positions and responsibilities since 2001. My experience is in numerous areas including Financial Planning, Supplier Diversity, Facilities Maintenance, Construction, and Land management services.

I have not previously testified before the California Public Utilities Commission.

APPENDIX A - GLOSSARY OF ACRONYMS

AFV	Alternative Fuel Vehicle
ATCM	Airborne Toxic Control Measure
CARB	California Air Resources Board
EPA	United States Environmental Policy Agency
EPAct	Energy Policy Act of 1992
FTEs	Full Time Equivalents
NGV	Natural Gas Vehicle
NHTSA	National Highway Traffic Safety Administration
Non-OTR	Non-over-the-road vehicles such as trailers and forklifts
O&M	Operations and Maintenance
OSHA	Occupational Safety and Health Administration
OTR	Over-the-Road vehicles such as automobiles and trucks