

Company: San Diego Gas & Electric Company (U902M)
Proceeding: 2016 General Rate Case
Application: A.14-11-____
Exhibit: SDG&E-25

SDG&E

DIRECT TESTIMONY OF KENNETH J. DEREMER

**(REGULATORY AFFAIRS, CONTROLLER, FINANCE, LEGAL AND EXTERNAL
RELATIONS)**

November 2014

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



A  Sempra Energy utility®

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1 **SDG&E DIRECT TESTIMONY OF KENNETH J. DEREMER**
2 **(REGULATORY AFFAIRS, CONTROLLER, FINANCE, LEGAL**
3 **AND EXTERNAL RELATIONS)**

4 **I. INTRODUCTION**

5 **A. Purpose**

6 I sponsor the Test Year (“TY”) 2016 forecasts for operations and maintenance (“O&M”) costs for both non-shared and shared services for the forecast years 2014, 2015, and TY 2016, associated with the Regulatory Affairs, Controller, Finance, Legal and External Relations areas for San Diego Gas & Electric Company (“SDG&E”). The Administrative and General (“A&G”) costs for these five departments primarily consist of labor costs driven by Full-Time Equivalent/Employees (“FTEs”). My testimony will show that the TY 2016 forecasted A&G resources are needed to perform the required accounting, financial planning, regulatory support and analysis, case management, financial analysis, legal, media and employee communications and community relations functions. These functions are necessary in order to serve our customers, meet accounting, regulatory and legal requirements, maintain internal controls and support internal clients and external stakeholders.

17 The tables that follow within this testimony include both the shared and non-shared services costs to avoid confusion of the total costs that are incurred in these groups. Elements of these organizations have a shared service function that provides services to/from Southern California Gas Company (“SCG”), Sempra Energy Corporate Center (“SECC”), and Affiliated companies. Generally, cost centers in the same department use the same allocation methodology; however in some cases the allocation methodologies between cost centers in the same department may differ. The allocation methodologies for each cost center can be found in my work papers. I am sponsoring the forecasts on a total incurred basis, as well as the shared services allocation percentages related to those costs. Those percentages are presented in my shared services work papers. See Ex. SDG&E-25-WP. The costs that are sponsored in this testimony include all costs prior to the allocation to/from SCG, SECC and Affiliates. The dollar amounts allocated to affiliates are presented in SDG&E’s Shared Services Policy and Procedures testimony. See Ex. SDG&E-26 (Mark Diancin witness).

B. Summary of Requests

Table KD-1

Test Year 2016 Summary of Total Costs

(\$2013 in thousands)

	Base Year 2013			Forecast 2016			2013-2016 Inc (Dec)		
	Non-Shd	Shd	Total	Non-Shd	Shd	Total	Non-Shd	Shd	Total
Regulatory Affairs	3,098	5,122	8,220	3,487	5,399	8,886	389	277	666
Controller	5,511	4,805	10,316	5,818	5,060	10,878	307	255	562
Finance	742	-	742	865	-	865	123	-	123
Legal	8,656	-	8,656	8,336	-	8,336	(320)	-	(320)
External Relations	572	2,680	3,252	413	3,123	3,536	(159)	443	284
Subtotal	18,579	12,607	31,186	18,919	13,582	32,501	340	975	1,315
Claims	2,172	-	2,172	4,323	-	4,323	2,151	-	2,151
Total	20,751	12,607	33,358	23,242	13,582	36,824	2,491	975	3,466

Where possible, a five-year average (2009-2013) forecasting method was utilized as the basis for the departments except in those areas where five-year history was not available due to re-organizations that occurred in 2010. For the areas that do not have an appropriate five-year history, a three-year (2011-2013) history is used.

The five-year average is appropriate, as available, since it best captures the cost stream of typical business cycles for the long-standing organizations that provide essential compliance, governance, oversight and other supporting functions to SDG&E and SCG. The costs for the organizations I am sponsoring experience some year-to-year variability driven by accounting and other regulatory mandates, timing of regulatory and legal proceedings, and other unusual or non-recurring initiatives. The use of multi-year averaging is generally recognized as a reasonable and valid methodology where costs fluctuate from year to year, as it balances the timing of workload fluctuations and filling of vacant positions over time. Averaging the costs over a longer-term period, represented as five years where possible, best reflects a reasonable estimate of annual costs to be incurred in the future, and has been consistently favored for these types of costs in prior general rate cases (“GRC”) proceedings.¹

For example, significant regulatory proceedings, such as the GRC and Cost of Capital, have historically occurred every 3 to 5 years, requiring heavy resources in the Regulatory Affairs, Law and Controller Departments to analyze, process and administer such cases over a

¹ The five-year average methodology was adopted extensively in the 2012 GRC in forecasting the applicable A&G expenses to which I sponsor, including the Controller and Regulatory Affairs Departments.

1 multiple year period. This will cause fluctuations in the costs from one year to the next
2 depending on the timing and length of the proceedings. In addition, new regulatory proceedings
3 or rulemakings are established periodically, such as electric rate reform, net energy metering,
4 real-time pricing, gas pipeline safety, etc., which can cause cost variability in given years. It is
5 expected that the number of these types of proceedings will increase over the next 5 years with
6 more focus in California on electric and gas system safety, integrating renewable energy and
7 offering enhanced rate options and services to customers. In the Controller area, new accounting
8 rules and regulations, such as Sarbanes Oxley (“SOX”) a few years ago, need to be initiated, and
9 require major resources and additional costs to be implemented in the initial years. In the future,
10 it is expected that other new rules governing the accounting for renewable energy, greenhouse
11 gas (“GHG”), and technology investments will cause additional cost increases in certain years.
12 While I believe these activities will put upward pressure on costs in the A&G areas, SDG&E has
13 been managing its A&G costs effectively over the past several years, and therefore, utilizing the
14 overall five-year average as a basis for my forecast should be sufficient to address the upward
15 pressures in most cases.

16 In the area of Claims liability payments, as described below, these costs are the most
17 difficult to predict as they reflect costs relating to incidents unforeseen and unknown at the time
18 the GRC is prepared. In this case, a five-year forecast is most appropriate, since it covers a
19 sufficient amount of historical data.

20 Accordingly, the forecasting methodology and corresponding TY forecasts contained in
21 my testimony are reasonable as they reflect a sufficient level of recent historic data, while
22 adjusting for the periodic fluctuations that occur within these areas over time. The resulting five
23 or three-year average amounts reflect the forecasts for TY 2016, with only one adjustment for
24 expected incremental costs in Regulatory Affairs, as described further in my testimony.

25 The total TY 2016 forecast proposed in my testimony is \$36.82 million as compared to
26 2013 adjusted recorded of \$33.36 million. The increase of \$3.46 million (or 10.4%) is due to the
27 higher forecast of Claims payments compared to 2013 due to the unusually low amount of
28 recorded claims in 2013 and higher costs in Rates Analysis reflecting the increase in analysis and
29 evaluation needed to support new regulatory and customer rate initiatives. These cost drivers are
30 described in further detail in my testimony below.

31

1 **II. REGULATORY AFFAIRS DEPARTMENT**

2 **A. Introduction**

3 The Regulatory Affairs Department provides, case management, oversight, policy
4 formulation, legislative analysis, regulatory strategy, rates analysis, demand forecasting,
5 economic analysis, tariff administration, and compliance services to the organization. More
6 specifically, Regulatory Affairs provides policy, case management, regulatory analysis, and
7 advocacy before various government and regulatory agencies, including the California Public
8 Utilities Commission (“CPUC”), Federal Energy Regulatory Commission (“FERC”), California
9 Independent System Operator (“CAISO”), and the California Energy Commission (“CEC”).

10 Regulatory Affairs is a shared service function between SDG&E and SCG. The shared
11 service structure, where utilized, allows for standardization of policies and practices, and
12 eliminates redundant positions and activities across both utilities. The Regulatory Affairs
13 Department consists of the following areas, which will be described in greater detail below:

- 14 • Senior Vice President – Finance, Regulatory, and Legislative Analysis
- 15 • Regulatory Affairs and Legislative Analysis
- 16 • California Case Management
- 17 • GRC, Revenue Requirements & Rates and Analysis
- 18 • FERC, CAISO and Compliance

19 The following table provides historical incurred costs for the SDG&E Regulatory Affairs
20 Department along with the test year 2016 forecast of costs for the Department as a whole:

21 **Table KD-2**
22 **2009-2013 Regulatory Affairs Incurred Costs**
23 **(\$2013 in thousands)**

	2009	2010	2011	2012	2013	2016 Forecast
Shared	5,005	5,317	5,302	5,272	5,122	5,399
Non-Shared	3,480	2,433	2,519	3,405	3,098	3,487
Total Regulatory Affairs Division	8,485	7,750	7,821	8,677	8,220	8,886

1 **B. Summary of Regulatory Affairs Request between Shared/Non-Shared Costs**

2 **Table KD-3**

3 **Regulatory Affairs Request by Department**

4 **(\$2013 in thousands)**

	Base Year 2013			Forecast 2016			2013-2016 Inc (Dec)		
	Non-Shd	Shd	Total	Non-Shd	Shd	Total	Non-Shd	Shd	Total
SVP	-	789	789	-	673	673	-	(116)	(116)
Reg Affairs & Leg Analysis	-	1,434	1,434	-	1,616	1,616	-	182	182
California Case Management	-	1,837	1,837	-	1,822	1,822	-	(15)	(15)
GRC, Rev Req, & Rates and Analysis	3,098	421	3,519	3,487	578	4,065	389	157	546
FERC, CAISO, and Compliance	-	641	641	-	710	710	-	69	69
Total	3,098	5,122	8,220	3,487	5,399	8,886	389	277	666

5
6 The Regulatory Affairs Department primarily uses a five-year historical average of 2009-
7 2013 costs to forecast the TY 2016, except for those areas where five-year history was not
8 available due to re-organizations in 2010 within the Regulatory Affairs & Legislative Analysis
9 area.² The historical five-year period represents a reasonable business cycle in Regulatory
10 Affairs because it captures the peaks in Regulatory Affairs costs related primarily to the GRC
11 and the valleys in non-GRC years. Below is a description of each of the departments within the
12 Regulatory Affairs Department.

13 **C. Senior Vice President (2100-3161)**

14 The Senior Vice President (“SVP”) of Finance, Regulatory & Legislative Analysis
15 provides leadership and oversight to the Regulatory Affairs, Controller, and Finance
16 Departments at both SDG&E and SCG. The Senior Vice President has overall leadership
17 responsibilities for these organizations, but the specific costs incurred by the SVP are captured in
18 this Regulatory section of my testimony. The costs of the Controller and Finance organizations
19 are reflected in Sections III, and IV, respectively.
20

² In April 2010, these functions were transferred from SECC to SDG&E. Prior to 2010, these organizations were not directly charged at SDG&E, but were rather charged from SECC to SDG&E through the SECC corporate center allocations.

Table KD-4
Senior Vice President Forecast

(\$2013 in thousands)

	Base Year 2013			Forecast 2016			2013-2016 Inc (Dec)		
	Non-Shd	Shd	Total	Non-Shd	Shd	Total	Non-Shd	Shd	Total
Senior Vice President	-	789	789	-	673	673	-	(116)	(116)

Consistent with the overall forecasting methodology for the Regulatory Affairs Department, TY 2016 costs were forecasted using the five-year average methodology because it captures the cost fluctuations from year to year.

D. Regulatory Affairs & Legislative Analysis (2100-3162, 2100-4005, 2100-4006)

Regulatory Affairs is the primary point of contact between SDG&E/SCG and the CPUC’s Commissioners, advisors and key staff, as well as other key California regulatory agencies, such as the CEC. The department is responsible for serving as the main liaison between the utilities and the Commission, participating in case development; executing regulatory strategies; gathering and evaluating information relating to CPUC policies, proceedings and procedures; analyzing and developing policy positions; and reporting and making recommendations to management of SDG&E and SCG.

Legislative Analysis examines California and federal legislative issues and recommends actions that permit the utilities to provide safe and reliable service, while balancing the various needs of customers and the State’s policy objectives. The functions performed include reviewing proposed legislation, identifying operational and policy issues, consulting with subject matter experts, recommending positions and responses, and developing recommended future legislative actions and policies. Additionally, Legislative Analysis provides the business units advice on compliance with recently passed laws and follow-up activity on regulations implementing new laws. This would include support for issues affecting the Utilities as it relates to environmental, safety or other energy-related legislation.

In addition to these two departments, SDG&E also has a separate department, State Governmental Affairs, which is responsible for providing an external advocacy function for the utilities, meaning this department participates in what would be considered lobbying type activity. The majority of costs associated with the State Governmental Affairs group, which represent the portion that is involved in lobbying activities, are not being sought for recovery as

1 part of this General Rate Case. SDG&E is seeking recovery for one position, a State Agency
 2 Affairs Manager (cost center 2100-4005), who performs high-level monitoring and reporting
 3 functions for State environmental, safety and energy issues affecting the utilities.³

4 **Table KD-5**
 5 **Regulatory Affairs & Legislative Analysis Forecast**
 6 **(\$2013 in thousands)**

	Base Year 2013			Forecast 2016			2013-2016 Inc (Dec)		
	Non-Shd	Shd	Total	Non-Shd	Shd	Total	Non-Shd	Shd	Total
Reg Affairs & Leg Analysis	-	1,434	1,434	-	1,616	1,616	-	182	182

7
 8 Consistent with the overall forecasting methodology for the Regulatory Affairs
 9 Department, and to capture the fluctuations in costs year to year, TY 2016 costs were forecasted
 10 using the five-year historical average methodology. However, cost centers 2100-4005 and 2100-
 11 4006, which include activities that were part of the 2010 reorganization, use a three-year
 12 historical average methodology.

13 **E. California Case Management (2100-3427, 2100-3430)**

14 The California Case Management Group has overall responsibility for: (1) coordinating
 15 SDG&E's and SCG's participation in all regulatory proceedings and related activities before the
 16 CPUC, including rate and non-rate applications, CPUC-initiated investigations and rulemakings,
 17 and related legislative activities; (2) managing all regulatory filings with the CPUC and CEC; (3)
 18 facilitating compliance with all CPUC directives and requirements; (4) maintaining the
 19 appropriate retention of all regulatory records and related information as part of the Utilities'
 20 Regulatory Central Files; and (5) maintaining effective working relationships with the CPUC,
 21 CEC and staff and being responsive to their requests for information or assistance.

22
³ The State Agency Affairs manager is the primary point of contact between SDG&E/SCG and various state agencies in Sacramento, and unlike the rest of State Governmental Affairs, does not lobby elected officials.

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Table KD-6
California Case Management Forecast
(\$2013 in thousands)

	Base Year 2013			Forecast 2016			2013-2016 Inc (Dec)		
	Non-Shd	Shd	Total	Non-Shd	Shd	Total	Non-Shd	Shd	Total
California Case Management	-	1,837	1,837	-	1,822	1,822	-	(15)	(15)

Consistent with the overall forecasting methodology for the Regulatory Affairs Department, TY 2016 costs were forecasted using the five-year historical average methodology, which reflects the costs variations from year to year.

F. GRC, Revenue Requirements and Rates/Analysis (1AG007, 2100-3602)

The GRC and Revenue Requirements section of this organization is responsible for the management and coordination of SDG&E and SCG’s GRC proceedings before the CPUC. This is a significant undertaking due to the proceedings’ considerable size, scope, and duration. Beyond procedural management of the case itself, the GRC Group; (1) oversees and coordinates internal business units’ data collection and forecasting efforts, as well as the development of witness testimony; (2) develops and maintains GRC database software; (3) responds to numerous intervener and CPUC inquiries and (4) provides detailed analysis of utility revenues, expenses, and investments in plant and equipment, in order to appropriately establish revenue requirements for the Utilities.

The Rates and Analysis Department provides economic analysis, demographics, customer forecasts; alternate fuel price and energy price forecasts; demand forecasts and analysis; rate designs and cost allocation; and policy, analyses, and coordination for use in business development and regulatory proceedings. These activities are used in the development of customer cost allocations and customer rate designs for CPUC-required filings, proceedings and ad hoc requests, as well as CEC proceedings and requests.

The Tariff group is responsible for: (1) filing advice letters and responding to protests and draft resolutions; (2) maintaining, interpreting and revising tariff schedules and developing new tariffs; (3) providing guidance to both SDG&E and SCG on regulatory compliance with tariffs; and (4) responding to CPUC staff inquiries. Additionally, the Tariff group provides case management support for certain CPUC Investigation and CPUC Rulemaking proceedings relating to the tariff schedules or the CPUC’s general orders, and provide tariff support to Case

1 Management in other major proceedings. Finally, the group oversees regulatory compliance
 2 requirements for SDG&E. Over the course of a typical year, there is approximately 240 advice
 3 letters filed revising upwards of 2,400 tariff sheets at the Utilities.

4 **Table KD-7**
 5 **GRC, Revenue Requirement, & Rates and Analysis Forecast**
 6 **(\$2013 in thousands)**

	Base Year 2013			Forecast 2016			2013-2016 Inc (Dec)		
	Non-Shd	Shd	Total	Non-Shd	Shd	Total	Non-Shd	Shd	Total
GRC, Rev Req, & Rates and Analysis	3,098	421	3,519	3,487	578	4,065	389	157	546

7
 8 Consistent with the overall forecasting methodology for the Regulatory Affairs
 9 Department, GRC, Revenue Requirements, and Rates & Analysis TY 2016 costs were forecasted
 10 using the five-year historical average methodology. The five-year historical average captures a
 11 representative business cycle for the department which includes the significant resources needed
 12 to manage the four year GRC application cycle. In addition, the five-year average was adjusted
 13 to reflect seven additional economic/rates analysts that have been added or will be added to
 14 address the incremental work load relating to implementing, analyzing and maintaining one new
 15 customer initiatives mandated by CPUC, including smart pricing, electric rate reform, Net
 16 Energy Metering (“NEM”) and other new customer programs. These programs increase the need
 17 for analysis of rates, customer usage patterns and bill analytics, utilizing the previously
 18 implemented smart meter program to provide customers greater information and analytics to help
 19 manage and reduce energy consumption.

20 **G. FERC, CAISO, and Compliance (2100-3428)**

21 The FERC and CAISO Regulatory Affairs organization (1) develops and implements
 22 regulatory initiatives at the FERC and CAISO jurisdictions; (2) manages regulatory filings
 23 before the FERC, including the transmission revenue requirement and the annual filing of the
 24 company’s formulaic ratemaking at FERC; (3) participates and manages company involvement
 25 in stakeholder initiatives before the CAISO; (4) determines the financial and operating impacts
 26 of proposed and implemented regulatory initiatives; (5) coordinates between CPUC resource
 27 adequacy and long-term procurement proceedings and the related issues at the CAISO; and (6)
 28 maintains effective working relationships with FERC and CAISO staff, industry stakeholders,
 29 and other regulatory agencies.

The majority of these costs are allocated to the electric transmission segment and accordingly recovered through electric transmission rates regulated by the FERC. The portion requested in my testimony reflects those costs not recovered through FERC-regulated rates, but that relate to electric generation and overall reliability of the distribution system and recovered through CPUC jurisdictional rates. North American Electric Reliability Corporation (“NERC”) Reliability Standards costs associated with transmission are excluded from this filing and recoverable through FERC transmission rates.

NERC Reliability Standards compliance related to non-transmission groups such as generation and electric & fuel procurement are included in the TY 2016 forecast. These costs are related to ensuring compliance with the NERC Reliability Standards for the reliability of the Bulk Electric System and are mandated by federal law.

In addition, the FERC and CAISO Regulatory group is responsible for non-NERC regulatory compliance oversight for additional federal regulations. In this role, the group takes on a broader role supporting overall FERC electric and natural gas regulation, including the regulatory policy and strategy relative to federal regulation such as Dodd-Frank legislation, commodities trading regulation and other energy regulatory/policy issues at the FERC for both utilities.

Table KD-8
FERC, CAISO and Compliance Forecast
(\$2013 in thousands)

	Base Year 2013			Forecast 2016			2013-2016 Inc (Dec)		
	Non-Shd	Shd	Total	Non-Shd	Shd	Total	Non-Shd	Shd	Total
FERC, CAISO & Compliance	-	641	641	-	710	710	-	69	69

Consistent with the overall forecasting methodology for the Regulatory Affairs Department, TY 2016 costs are forecasted using the five-year historical average methodology, which reflects variations in costs from year to year.

III. CONTROLLER’S DEPARTMENT

A. Introduction

The Controller Department consists of the following areas, which will be described in greater detail below:

- Vice President – CFO and Controller

- Utility Accounting
- Accounting Operations
- Financial Systems and Business Controls
- Financial Planning and Regulatory Accounts

Over the past five years 2009-2013 the Controller Department has experienced some degree of fluctuating costs associated with the services it provides. The cyclical nature of the historical five-year period is representative of a typical business cycle for the Controller Department. As such, the five-year average of 2009-2013 costs is utilized to forecast TY 2016 costs. This approach of forecasting the Controller Department costs is consistent with SDG&E management's intent to manage the Department's responsibilities and workforce in aggregate to meet the needs of the utilities. Therefore, instead of forecasting each individual cost center separately, the Controller Department is using a five-year average across the entire Department, with the exception of the Bank Reconciliation and Escheatment ("BRE") Group, whose costs are forecasted using the three-year average. Due to the 2010 reorganization, BRE was transferred from SECC in 2010 and therefore only has three years of applicable history as direct costs to SDG&E. The five years of costs from 2009 to 2013 is fairly representative of the swings in costs and workforce needed to provide the Controller Department functions. As a result, individual departments and cost centers will see variances compared to prior years, but it is the overall request for the Controller Department that should be the focus. Though the Controller Department expects to see upward cost pressures in the future to implement and manage more rigorous accounting procedures and standards when confronting the increasing accounting complexities for GHG, renewable energy contracts, technology investments, and other accounting initiatives issued by the SEC, FERC and the other prominent accounting governing bodies, SDG&E is not seeking incremental dollars above the five-year average forecast, as SDG&E's management believes it can manage upward pressures through the historical levels of funding. The five-year historical average (three-year historical average for BRE) for 2009-2013 of \$10.9 million is presented below.

Table KD-9
2009-2013 Controller Department Incurred Costs
(\$2013 in thousands)

	2009	2010	2011	2012	2013	2016 Forecast
Shared	4,700	4,723	5,120	4,944	4,805	5,060
Non-Shared	5,689	5,849	5,956	6,085	5,511	5,818
Total Controller Division	10,389	10,572	11,076	11,029	10,316	10,878

B. Summary of Controller Department Request between Shared/Non-Shared Costs

Table KD-10
Controller Department Request by Department
(\$2013 in thousands)

	Base Year 2013			Forecast 2016			2013-2016 Inc (Dec)		
	Non-Shd	Shd	Total	Non-Shd	Shd	Total	Non-Shd	Shd	Total
VP, CFO & Controller	-	480	480	-	454	454	-	(26)	(26)
Utility Accounting	-	2,300	2,300	-	2,560	2,560	-	260	260
Accounting Operations	2,782	1,013	3,795	2,878	1,016	3,894	96	3	99
Financial Systems & Busines Controls	779	1,012	1,791	810	1,030	1,840	31	18	49
Planning & Regulatory Accounts	1,950	-	1,950	2,130	-	2,130	180	-	180
Total	5,511	4,805	10,316	5,818	5,060	10,878	307	255	562

The Controller Department incurred costs as forecasted for TY 2016 is \$10.9 million, compared to \$10.3 million for the base year 2013. This is an increase of \$0.6 million or 5.8%. The five-year average forecast methodology (three-year average for BRE) as discussed above is requested with no incremental adjustments. Below is a description of each of the departments within the Controller Department.

C. Vice President – CFO and Controller (2100-0657)

The Vice President – CFO and Controller function provides executive oversight and guidance related to the financial and accounting services at both SDG&E and SCG. The VP – CFO and Controller oversees the Utilities’ compliance process with all relevant accounting, financial and regulatory rules and regulations, including those mandated by the Securities and Exchange Commission (“SEC”), FERC and CPUC. The VP – CFO and Controller maintains the integrity of the financial statements and reports submitted both internally and externally and that the Utilities’ internal controls are adequately maintained. This cost center includes administrative support for the Vice President.

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Table KD-11
Vice President – CFO and Controller Forecast
(\$2013 in thousands)

	Base Year 2013			Forecast 2016			2013-2016 Inc (Dec)		
	Non-Shd	Shd	Total	Non-Shd	Shd	Total	Non-Shd	Shd	Total
VP, CFO & Controller	-	480	480	-	454	454	-	(26)	(26)

As explained above, the five-year historical average methodology is used for each of the departments in the Controller Department including the VP – CFO and Controller for the Utilities. Both positions were shared services for SDG&E and SCG.

D. Utility Accounting (2100-3050, 2100-3051, 2100-3052, 2100-3798)

The Utility Accounting Department provides accounting services to provide that SDG&E and SCG policies, procedures, and transactional activities are accounted for and presented in conformity with SEC regulations, Generally Accepted Accounting Principles (“GAAP”), and the FERC and CPUC regulatory reporting mandates. Transactional activities include the monthly closing of the general ledger and financial reporting, which includes the preparation of financial statements for SDG&E and SCG. Employees perform shared services for both SDG&E and SCG. More specifically, the group provides:

1. Accuracy and integrity of utility-recorded financial data;
2. Accounting information and analysis for utility related filings and public disclosures;
3. Review and evaluation of internal control measures;
4. Guidance in the appropriate accounting treatment of various operating activities such as assessment of prospective variable interest entity consolidation evolving from electric power supply contracts and investments;
5. Technical and analytical support for various statutory, regulatory, and tax compliance proceedings; and
6. Coordination of independent audit processes associated with financial and regulatory reporting.

The department is also responsible for recording customer revenues, maintaining and reporting regulatory accounting activity, assessing the adequacy of accounting accruals, and reconciling general ledger activity. Staff is directly engaged in the compilation of GAAP and

1 regulatory stand-alone financial statements/supplementary disclosures, implementation of new
 2 accounting standards, and ongoing management accounting and regulatory business cycle
 3 control activity coordination, testing, and execution designed to ensure authenticity of financial
 4 information as prescribed by Sarbanes Oxley (“SOX”) regulation. The BRE Group reviews and
 5 reconciles approximately 74 bank accounts and escheats to the State authorities approximately
 6 36,000 unclaimed checks annually.

7 **Table KD-12**
 8 **Utility Accounting Forecast**
 9 **(\$2013 in thousands)**

	Base Year 2013			Forecast 2016			2013-2016 Inc (Dec)		
	Non-Shd	Shd	Total	Non-Shd	Shd	Total	Non-Shd	Shd	Total
Utility Accounting	-	2,300	2,300	-	2,560	2,560	-	260	260

10
 11 The Utility Accounting Group uses a five-year historical average for all cost centers,
 12 except for the BRE Group, which uses a three-year historical average as described above.
 13 Consistent with all of the Controller Department, the five-year historical forecast methodology
 14 provides for the most appropriate amount of costs by picking up fluctuations over the five-year
 15 period.

16 **E. Accounting Operations (1AG002, 1AG003, 2100-3058)**

17 Accounting Operations consist of primarily three areas: Asset and Project Accounting,
 18 Sundry Services, and Accounts Payable. Asset and Project Accounting is responsible for rate
 19 base accounting, operating cost accounting, new business accounting, fixed asset management,
 20 billable project accounting, and generation accounting. The Cost Accounting Group maintains a
 21 CPUC rate base of over \$5 billion for SDG&E. This work requires issuing, monitoring and
 22 accounting for work orders; transferring construction work in progress (“CWIP”) into rate base;
 23 analyzing and developing asset classes; preparing depreciation life studies; calculating
 24 depreciation expense; plant forecasting; accounting for plant retirements; and developing and
 25 monitoring capitalization policies and internal control procedures with the objective of
 26 safeguarding company assets.

27 Cost Accounting also handles numerous accounting and regulatory issues including;
 28 determining proper accounting treatment for individual work order expenditures (including
 29 application of overhead rates, accounting classification, and FERC account assignments);
 30 analysis and reconciliation of general ledger accounts; SOX 404 business controls testing; and

1 special projects (such as accounting for and testifying on accounting and cost recovery of capital-
 2 related costs in various regulatory proceedings and publishing capitalization guidelines). In
 3 addition, Cost Accounting provides technical expertise/guidance, information, analytical support
 4 and data responses for various regulatory and tax filings.

5 Sundry Services is responsible for the provision of products and services (i.e., sundry
 6 services) other than commodity, transportation and delivery costs. Sundry Services Policy &
 7 Compliance is responsible for supporting the affiliate compliance group with CPUC compliance,
 8 policies and procedures related to non-tariff products and services. This group conducts annual
 9 training of the business managers for sundry activities to ensure compliance with policy and
 10 GAAP. It creates monthly reports for the business managers to aid in the management of
 11 activities and provides analysis of miscellaneous revenues. Sundry Services also coordinates and
 12 reviews the Sundry Revenues and expense report for each business area in preparation for the
 13 Non-Tariff Products & Services (“NTP&S”) annual report to the CPUC and participates in the
 14 periodic internal and/or external audit of NTP&S. In addition, Sundry Services issues invoices
 15 requested by various business areas to third parties for the sale of products or services that result
 16 in revenues, reductions to expense/capital, or deposits other than metered sales. Lastly, Sundry
 17 Services coordinates and supervises the SOX activities related to sundry services, including
 18 testing.

19 The Accounts Payable Section is responsible for timely and accurate payment and
 20 accruals of all service and material invoices and contract obligations for the SDG&E and SECC.
 21 This section provides that all payments are appropriately authorized prior to disbursement,
 22 assists in resolving payment disputes, and maintains the vendor master information consistent
 23 with SOX processes and controls. Accounts Payable also processes travel and expense
 24 reimbursement requests for SDG&E and SECC. In addition, Accounts Payable provides 1099
 25 Internal Revenue Service (“IRS”) filing and reporting. Approximately 320,000 invoices totaling
 26 \$4.5 billion are processed each year.

27 **Table KD-13**
 28 **Accounting Operations Forecast**
 29 **(\$2013 in thousands)**

	Base Year 2013			Forecast 2016			2013-2016 Inc (Dec)		
	Non-Shd	Shd	Total	Non-Shd	Shd	Total	Non-Shd	Shd	Total
Accounting Operations	2,782	1,013	3,795	2,878	1,016	3,894	96	3	99

1 Consistent with the methodology used for the entire Controller Department (excluding
2 BRE), the TY 2016 forecast is derived using the five-year average methodology of recorded
3 costs from 2009-2013.

4 **F. Financial Systems and Business Controls (1AG006, 2100-0274, 2100-3555)**

5 The Financial Systems and Business Controls Department consists of four distinct
6 sections: (1) Business Controls; (2) Financial Systems; (3) Affiliate Billing and Costing; and (4)
7 Affiliate Compliance.

8 The Business Controls Department is responsible for organizing, coordinating, and
9 managing several of the Utilities' compliance processes as they develop and expand under
10 evolving state and federal guidelines. The Business Controls department provides shared
11 services to SDG&E and SCG and works with their SECC and affiliate counterparts to maintain
12 consistency across Sempra Energy. Business Controls is responsible for: (1) policy
13 management; (2) SOX compliance; (3) accounting research for GAAP and IFRS; (4) records
14 management; and (5) forensic accounting and business controls.

15 Financial Systems provides shared services for SDG&E and SCG. The department
16 provides technical support to accounting, budget systems and other operational users to obtain
17 information, as well as assists in maintaining these systems so that the required financial
18 information can be obtained efficiently and effectively. Financial Systems is involved in making
19 business process or system improvements to the recording and reporting of operating costs and
20 capital expenditures. Financial Systems is responsible for providing data assistance for
21 regulatory filings and validations of data loads to operational data stores for analytics. Financial
22 Systems provides training and assistance to the financial system users so they can effectively use
23 the system to gather data and monitor their costs in a timely manner. The goal is to provide the
24 financial tools to utility leadership and other personnel to effectively manage their operations
25 while providing accounting interpretation of their business requirements.

26 Affiliate Billing & Costing ("ABC") is responsible for managing the cost allocation
27 process, setting overhead rates and administering the cost allocations and overhead distribution
28 processes to provide that overhead costs are properly allocated to O&M, capital and utility third
29 party billings to Affiliates for shared service activities performed at each of the Utilities. This
30 group administers the Utilities' Shared Service Policy and guidelines. This group also works
31 closely with Affiliate Compliance and Internal Audit to maintain utility compliance with all

1 regulatory decisions affecting inter-company transactions and SOX 404 requirements. As the
2 subject matter experts in overheads, cost allocations and the shared service processes, ABC
3 provides analytical, forecasting and reporting support for internal management and performance
4 monitoring, regulatory filings and compliance reporting.

5 The Affiliate Compliance department is responsible for facilitating and maintaining
6 compliance with state and federal affiliate transaction and intercompany transaction rules, such
7 as the CPUC's longstanding Affiliate Transaction Rules and the FERC Standards of Conduct. In
8 particular, Affiliate Compliance (1) provides training, monitoring, support, and compliance
9 guidance on affiliate policies and guidelines and related inter-company billings; (2) completes a
10 variety of CPUC annual reports related to affiliate compliance; and (3) participates in state-wide
11 rulemakings and implementation efforts related to affiliate transactions.

12 The Affiliate Compliance department is also responsible for implementing, maintaining
13 and overseeing SDG&E's compliance with the FERC Standards of Conduct. The FERC
14 Standards of Conduct are based upon the requirements that gas and electric transmission
15 providers ("TP") must treat all customers in a nondiscriminatory manner. The SDG&E Affiliate
16 Compliance Department ("ACD") ensures compliance with the FERC Standards of Conduct by
17 separating employees engaged in transmission services from those engaged in its marketing
18 services and requiring that all transmission customers, affiliated and non-affiliated, be treated on
19 a non-discriminatory basis. These FERC rules also govern how SDG&E's operating functions
20 involved with the generation, procurement and transmission of energy can interact with one
21 another to ensure that the federal rules governing wholesale energy markets are adhered to.

22 It is important to emphasize that the Affiliate Compliance department provides an
23 essential activity on behalf of Utility customers, who have benefited over the years by SDG&E's
24 transactions with affiliates. The Affiliate Transaction Rules ("ATRs") were put in place over a
25 decade ago to provide that such transactions with affiliates are fair and do not create cross
26 subsidies. The Affiliate Compliance Group plays a key role in this compliance process, including
27 utility-specific oversight to maintain compliance and the development and submittal of required
28 reporting to the Commission on a periodic basis. One exception to this is the exclusion of the
29 affiliate compliance audit costs from my request since these costs have been borne by Utility
30 shareholders on a historical basis.

31

Table KD-14
Financial Systems and Business Controls Forecast
(\$2013 in thousands)

	Base Year 2013			Forecast 2016			2013-2016 Inc (Dec)		
	Non-Shd	Shd	Total	Non-Shd	Shd	Total	Non-Shd	Shd	Total
Financial Systems & Busines Controls	779	1,012	1,791	810	1,030	1,840	31	18	49

Consistent with the methodology used for the entire Controller’s Department (excluding BRE), the TY 2016 forecast is derived using the five-year historical average of recorded costs from 2009-2013.

G. Financial Planning and Regulatory Accounts (1AG004)

The Financial Planning and Regulatory Accounts Department consists of: (1) Financial Planning and Budgets; (2) Regulatory Accounts; and (3) Financial Services.

The Financial Planning and Budgets Group is responsible for developing, measuring and reporting the financial performance targets and results of SDG&E to management and internal and external stakeholders. Responsibilities include compiling various inputs to develop financial plans for one to five years, implement and maintain annual operating capital and O&M budgets, and develop internal and external reports and presentations to communicate financial targets to management and external stakeholders. These targets are measured against actual results on a monthly basis

The Regulatory Accounts Group is responsible for the development, implementation and analysis of regulatory balancing and memorandum accounts and other cost recovery/ratemaking mechanisms. This includes the oversight of over 100 regulatory accounts approved in current tariffs. The Regulatory Accounts group serves as a liaison with the regulatory agencies as well as the Utility Accounting group to maintain regulatory accounting compliance with Commission directives and financial accounting standards. The group also supports regulatory proceedings (often as expert witnesses) where cost recovery issues are addressed.

The Financial Services Group formulates, analyzes and implements strategies to optimize the nature, timing and sizing of debt issuances, dividend payments and equity infusions. This includes the forecast and analysis of short and long-term cash flows and the assessment of market conditions to minimize the cost of financing to support utility capital expenditures. This function supports the utility in maintaining adequate liquidity and is able to finance its operating and capital needs at the lowest rates possible for customers. The Financial Services Group is

1 actively involved in supporting the Cost of Capital, Debt Financing, and GRC proceedings. This
 2 group also performs a number of compliance functions in support of debt and dividend
 3 issuances, including preparation of the responses to satisfy underwriter and legal due diligence
 4 questions at the time of debt issuances.

5 **Table KD-15**
 6 **Financial Planning and Regulatory Accounts Forecast**
 7 **(\$2013 in thousands)**

	Base Year 2013			Forecast 2016			2013-2016 Inc (Dec)		
	Non-Shd	Shd	Total	Non-Shd	Shd	Total	Non-Shd	Shd	Total
Planning & Regulatory Accounts	1,950	-	1,950	2,130	-	2,130	180	-	180

8
 9 Consistent with the methodology used for the entire Controller's Department (excluding
 10 BRE), the TY 2016 forecast is derived using the five-year historical average of recorded costs
 11 from 2009-2013.

12 **IV. FINANCE DEPARTMENT**

13 **A. Introduction**

14 The Finance Department reports to the Senior Vice President of Finance, Regulatory and
 15 Legislative Analysis and is primarily responsible for financial analysis for major projects and
 16 strategic initiatives for SDG&E.

17 **Table KD-16**
 18 **2009-2013 Finance Incurred Costs**
 19 **(\$2013 in thousands)**

	2009	2010	2011	2012	2013	2016 Forecast
Shared	-	-	-	-	-	-
Non-Shared	1,094	903	787	797	742	865
Total Finance Division	1,094	903	787	797	742	865

B. Summary of Finance Department Request between Shared/Non-Shared Costs

Table KD-17

**Finance Department Forecast
(\$2013 in thousands)**

	Base Year 2013			Forecast 2016			2013-2016 Inc (Dec)		
	Non-Shd	Shd	Total	Non-Shd	Shd	Total	Non-Shd	Shd	Total
Finance Division	742	-	742	865	-	865	123	-	123

This forecast is derived by using a five-year historical average applied throughout the Finance Department. The five-year historical average is appropriate as it takes into account the cyclical nature of expenses.

C. Financial and Strategic Analysis (1AG005)

The Finance and Strategic Analysis Department (“Finance”) performs a wide variety of financial and strategic analysis functions, including project evaluation, the development, analysis and implementation of revenue requirements and ratemaking mechanisms in support of regulatory filings and large-scale major projects. In addition, the department supports and facilitates the implementation of strategies intended to deliver the best value for customers and financial stability on a sustainable basis.

Finance develops and analyzes the calculations of revenue requirements in support of significant regulatory filings. This includes testifying before the CPUC and FERC on the financial viability of capital projects and the derivation of the supporting revenue requirements. The group performs financial analysis on other large utility projects and conducts economic analysis of SDG&E investment opportunities. It maintains the financial evaluation models that are utilized company-wide for evaluating the economics of capital projects and provides strategic, operational and administrative guidance, control and validation for SDG&E on financial and economic project evaluations. This involves short and long term financial analysis, business model creation and validation of business cases developed by others while supplying consistent economic assumptions to the utility. The level of scrutiny this group provides for SDG&E’s proposed major investments facilitates effective financial decision-making. The group also performs financial due diligence on all executive level proposals and regulatory filings, as well as technical review of purchase power and other large contracts.

1 In supporting Company strategies that optimize customer value, the Finance department
2 analyzes the availability and economics associated with new technologies, as well as the demand
3 for new products and services for both our electric and natural gas businesses. This group
4 partners with other departments to assess new investment opportunities.

5 **V. LAW DEPARTMENT**

6 **A. Introduction**

7 SDG&E's Law Department provides a wide variety of complex, high value legal and
8 business services to the Company⁴. SDG&E's Law Department is headed by a Senior Vice
9 President ("SVP") and General Counsel ("GC"), who is supported by four Assistant General
10 Counsel ("AGC") in four distinct areas of law, and one Special Counsel focusing on key
11 regulatory policy directives. The AGCs oversee the practicing attorneys who are assigned to the
12 Regulatory section, Litigation section, Commercial section, or Environmental section. In
13 addition, SDG&E's Law Department has a staff of legal research attorneys, paralegals, and
14 administrative assistants, who provide support to the attorneys.

15 SDG&E's in-house attorneys and staff provide the bulk of legal services to SDG&E.
16 SDG&E also shares legal resources with SCG where it is efficient to do so. The sharing of legal
17 services with SCG is primarily limited to the co-staffing of matters where both utilities are
18 parties and their interests are aligned (e.g., the Commission's Low Income Assistance Program
19 proceeding), or where a particular legal expertise needed by one utility resides at the other
20 Utility's Law Department. In addition, some of the attorneys in SECC Law Department provide
21 important legal and management services, as well as non-labor resources (e.g., legal research
22 tools) to SDG&E in those areas where it is most efficient and practical to do so. Moreover,
23 Sempra Energy's General Counsel provides corporate governance for business unit law
24 departments. Ex. SDG&E-20 (witness Peter Wall) discusses the activities and associated costs
25 that the Utility Law Departments receive from SECC.⁵

26 Almost all of the incurred costs forecasted for TY2016 (\$12.7 million) in my testimony
27 reflects dedicated legal services at SDG&E, which are described below. SDG&E and SCG

⁴ Before the Sempra Energy Utility 2010 reorganization, the legal function was performed by a consolidated law department which resided at Sempra Energy, and which provided legal service to all the subsidiaries of the parent, including SCG and SDG&E.

⁵ Those costs are presented or sponsored in the testimony of Peter Wall (Ex. SDG&E-20).

1 expect to bill costs to/from SDG&E related to the limited sharing of attorneys on an as-needed
 2 basis.

3 **Table KD-18**
 4 **2009-2013 SVP/GC & Legal Incurred Costs**
 5 **(\$2013 in thousands)**

	2009	2010	2011	2012	2013	2016 Forecast
Shared	-	-	-	-	-	-
Non-Shared	674	1,931	7,864	8,549	8,656	8,336
Total Legal	674	1,931	7,864	8,549	8,656	8,336

6
 7
 8 **Table KD-19**
 9 **2009-2013 Claims Payments Incurred Costs**
 10 **(\$2013 in thousands)**

	2009	2010	2011	2012	2013	2016 Forecast
Shared	-	-	-	-	-	-
Non-Shared	6,901	6,133	3,196	3,214	2,172	4,323
Total Claims Payments	6,901	6,133	3,196	3,214	2,172	4,323

11
 12 **B. Summary of Law Department Request between Shared/Non-Shared Costs**

13 **Table KD-20**
 14 **Law Department Request by Department**
 15 **(\$2013 in thousands)**

	Base Year 2013			Forecast 2016			2013-2016 Inc (Dec)		
	Non-Shd	Shd	Total	Non-Shd	Shd	Total	Non-Shd	Shd	Total
SVP/GC	429		429	519	-	519	90	-	90
Legal	8,227	-	8,227	7,817	-	7,817	(410)	-	(410)
Claim Payments	<u>2,172</u>	<u>-</u>	<u>2,172</u>	<u>4,323</u>	<u>-</u>	<u>4,323</u>	<u>2,151</u>	<u>-</u>	<u>2,151</u>
Total Legal Division	<u>10,828</u>	<u>-</u>	<u>10,828</u>	<u>12,659</u>	<u>-</u>	<u>12,659</u>	<u>1,831</u>	<u>-</u>	<u>1,831</u>

16
 17 A three-year historical average methodology is used to forecast TY 2016 costs for the
 18 Law Department, excluding the Claims Department. This forecast is used due to the transfer of
 19 the Law Department to SDG&E in 2010 and therefore only three years of directly-charged cost
 20 data is available. The Claims Department, along with the Claims Payments and Recoveries use a

1 five-year average methodology forecast, as these costs were directly charged at SDG&E prior to
 2 2010 and therefore, have a full five-year history of costs available⁶.

3 **C. Senior Vice-President and General Counsel (1AG009)**

4 The SVP & GC oversees the entire legal operations at SDG&E, and serves as the
 5 Company’s chief legal advisor and officer. The GC advises the CEO, Chairman and Board of
 6 Directors on all legal matters, issues and risks impacting the Company. In addition, the GC
 7 provides dedicated services to, and legal counsel on behalf of, SDG&E and its specific needs and
 8 interests. Table KD-21 below shows the TY2016 forecast for total O&M costs contained in the
 9 cost center for the SVP and the GC. The SVP and GC cost centers are a Non-Shared Service
 10 cost center, because it only supports SDG&E and no other entities. Further details of these costs
 11 (labor, non-labor split) are contained in my work papers (Ex. SDG&E-25-WP).

12 **Table KD-21**
 13 **Senior Vice-President and General Counsel Forecast**
 14 **(\$2013 in thousands)**

	Base Year 2013			Forecast 2016			2013-2016 Inc (Dec)		
	Non-Shd	Shd	Total	Non-Shd	Shd	Total	Non-Shd	Shd	Total
SVP/GC	429	-	429	519		519	90	-	90

15
 16 Consistent with the methodology used for the entire Law Department (excluding Claims), the TY
 17 2016 forecast is derived using the three-year historical average of recorded costs from 2011-
 18 2013.

19 **D. Law Department Activities (1AG011, 1AG012)**

20 **1. Regulatory Section**

21 The Regulatory Section consists of an AGC and 11-12 regulatory attorneys, depending
 22 on the timing or retirements and new hires. This section represents SDG&E in regulatory
 23 proceedings at the CPUC, FERC, and CFTC and advises management and operational groups,
 24 from a legal perspective, on new and existing rules, regulations, tariffs, rate issues, initiatives,
 25 and investigations at the CPUC, FERC, CFTC, California Energy Commission, and the
 26 California Air Resources Board. Regulatory attorneys also often work on other legal matters
 27 (e.g., litigation and commercial), when those matters have a regulatory basis or implication.

⁶ The Claims costs have been directly charged to SDG&E. Prior to 2010, the Claims group was located within the Controller Department.

1 Further, regulatory attorneys frequently review and advise on legislation where regulatory
2 ramifications may exist.

3 SDG&E's regulatory workload continues to be extensive with increasing complexity and
4 regulatory scrutiny over the past three years and is expected to continue in that trend through the
5 TY2016 cycle. The volume and complexity of regulatory work have been impacted by new
6 regulatory requirements and the expansion of proceedings requiring legal staffing. In addition to
7 the traditional, recurring proceedings such as GRCs, cost of capital applications, electric and gas
8 commodity filings, and cost allocation/rate design proceedings, SDG&E's regulatory attorneys
9 are involved with new Commission initiatives, requirements, and emerging policies (e.g., electric
10 vehicles, market structures and rate-design issues, fire prevention and other safety measures,⁷
11 and customer billing and collection issues⁸). In addition, there are a significant number of
12 matters related to changes in SDG&E's infrastructure and service and pipeline safety and
13 integrity, which require legal support.

14 SDG&E also has a Regulatory Special Counsel & Director of Strategic Projects who
15 handles a number of rate and rate-design proceedings, involving, for instance, Net Energy
16 Metering, Time of Use rates, tier-rate-structures and other key rate-design issues.

17 **2. Litigation Section**

18 The Litigation section consists of an AGC and two attorneys. The Litigation section
19 principally represents SDG&E in civil litigation proceedings, ranging from the defense of
20 personal injury and property damage lawsuits to more complex commercial, environmental, and
21 business litigation.

22 Most Company litigation matters are handled in-house, from initial filing to trial, using
23 outside counsel only when in-house resources are insufficient. The ongoing third-party litigation
24 regarding the San Onofre Nuclear Generating Station ("SONGS") outage and subsequent plant
25 closure is expected to increase the litigation workload as more internal SDG&E resources must
26 be expended to litigate issues stemming from SONGS steam generator issues. Additionally,
27 more aggressive litigation tactics, including expanding theories of liability, and increased
28 monetary demands and punitive damages claims, are making litigation practice more demanding
29 and increasing the section's caseload.

⁷ See e.g., testimony of David Geier and Douglas Schneider (Ex. SDG&E-03).

⁸ See e.g., testimony of Brad Baugh (Ex. SDG&E-14).

1 In addition, litigation attorneys provide advice to support the Company's emphasis on
2 loss prevention as well as public and employee safety. The Litigation section is also increasingly
3 being called upon to provide advice on a broad spectrum of Company operations and
4 undertakings, including review and revision of SDG&E's policies and procedures, standards, and
5 tariff rules; preparation of safety communications and public awareness programs; regulatory
6 compliance; conducting training programs for safety and for incident response; pre-litigation
7 investigation of significant incidents; and legislative analysis.

8 **3. Commercial Section**

9 The Commercial section consists of an AGC and four attorneys. SDG&E also receives
10 services from SECC Law Department and SCG attorneys with specific environmental expertise
11 to assist in the areas of hazardous materials and substances, air and water quality regulation,
12 federal and state environmental litigation, environmental legislation and compliance strategy.

13 SDG&E's Commercial section provides legal counsel and support on business-related
14 matters involving the Company or SDG&E. Commercial attorneys handle commercial
15 transactions of all types, including contracts for physical and financial commodity transactions,
16 storage and hub transactions; interstate pipeline capacity; utility system interconnections, general
17 services and operations procurement; maintenance and new construction; licensing, intellectual
18 property and technology contracts; municipal franchises, permitting, right-of-way acquisition
19 and land use matters; new business structuring; research and development investment; energy
20 efficiency program contracts, rebates and incentives, federal and state government contracts,
21 customer services agreements; and tariff-based contracts. SDG&E commercial attorneys review
22 legal paperwork, particularly contracts and draft business documents. In addition, they research,
23 write and edit commercial documents, as well as provide commercially-focused legal advice.

24 The Company's ability to handle the volume and diversity of commercial matters is
25 currently constrained. This is due in part to the fact that anticipated capital improvements, such
26 as the Pipeline Safety Enhancement Program, will necessitate the involvement of the
27 Commercial Law Section. To manage the demands of the increasing commercial law workload,
28 SDG&E expects to add a Senior Commercial Attorney.

29 **4. Environmental Section**

30 SDG&E's Environmental section consists of an AGC and three attorneys. SDG&E's
31 Environmental section manages and represents the Company in the areas of environmental

1 compliance, litigation, enforcement, and permitting. The environmental attorneys represent the
2 Company in matters before governmental agencies overseeing air, water quality, species
3 protection, land use, and environmental review. In addition, they provide guidance and
4 representation in regulatory proceedings where environmental review is mandated by the
5 Commission or another federal, state or local agency. Furthermore, SDG&E's Environmental
6 section represents the Company in instances where administrative or governmental permits are
7 required for a regulatory-approved capital project, pipeline integrity project, or routine
8 operations and maintenance activities, particularly in environmentally sensitive areas where the
9 Company has facilities, such as wetlands, the Coastal Zone, the California desert and other
10 sensitive habitats and ecosystems.

11 **5. Special Counsel Section**

12 SDG&E's Law Department includes a Special Counsel and Director of Strategic Projects.
13 The Special Counsel and Director of Strategic Projects focuses on proceedings and regulatory
14 issues of strategic significance to the utility and its customers such as rate design reform, Net
15 Energy Metering and related issues, Smart Grid, bifurcation of Demand Response into supply
16 and load modifying resources, and integration of increased levels of renewables into the utility
17 grid in ways that are fair to all customers and allow for sustainable future growth in these
18 markets. In addition to providing legal support in regulatory proceedings, the Special Counsel
19 and Director of Strategic Projects advises management and reviews legislative proposals on
20 issues of strategic importance to the Company.

21 **6. Administrative Staff Section**

22 SDG&E's Law Department currently has legal research attorneys, paralegals, and
23 administrative assistants. Legal research attorneys are licensed practitioners who support all four
24 practice areas on an array of matters, provide legal research and writing, and provide litigation
25 support (e.g., depositions, court appearances, etc.). Paralegals perform tasks in support of
26 SDG&E attorneys. Paralegal tasks include case planning, development, and management;
27 researching legal and factual issues; conducting interviews; fact gathering and information
28 retrieval; drafting and analyzing legal documents; and reviewing and proofreading various filings
29 prior to submittal. The administrative assistants provide general administrative support as well
30 as specialized support depending on practice areas. The Law Department's Administrative Staff
31 are required to be knowledgeable and proficient in civil and regulatory rules, practice, and

1 procedures, and to constantly enhance their skills as technologies and the business practices
2 change.

3 **7. Outside Counsel Section**

4 SDG&E uses outside counsel for certain matters that require special skills, or in instances
5 which the needs of a particular case require additional resources. The SECC Law Department
6 coordinates retention and oversight of outside firms on behalf of the Utilities, as described in Ex.
7 SDG&E-20 (witness Peter Wall). The request for the outside legal charges is contained in the
8 testimony of SDG&E witness Peter Wall. My testimony is seeking recovery of the in-house
9 labor costs that administer the outside legal firms.

10 **8. Claims Section**

11 The Claims Section is responsible for the investigation, processing and recovery of and
12 payment for all third party property damage and bodily injury claims for SDG&E, and
13 occasionally SECC and Affiliates. Responsibilities include conducting investigations,
14 documenting facts into the claims information database, determining company liability, and
15 settlement and collection of claims from the responsible party in the case of a recovery claim.
16 The department also conducts loss control/prevention activities designed to prevent and reduce
17 accidents, which mitigate utility operational expenses, reduce customer costs, and promote
18 public safety. The A&G costs of the Claims group for managing these responsibilities are
19 included in the Law Department's costs while the actual claims payments made to third parties
20 and recovery expenses are addressed separately in the Claim Payments and Recovery Costs
21 section that follows below.

22 **Table KD-22**
23 **Legal Group Forecast**
24 **(\$2013 in thousands)**

	Base Year 2013			Forecast 2016			2013-2016 Inc (Dec)		
	Non-Shd	Shd	Total	Non-Shd	Shd	Total	Non-Shd	Shd	Total
Legal	8,227	-	8,227	7,817	-	7,817	(410)	-	(410)

25
26 Consistent with the methodology used for the entire Law Department (excluding Claims),
27 the TY 2016 forecast is derived using the three-year average of recorded costs from 2011-2013.
28

1 **E. Claims Payments and Recovery Costs (1AG015)**

2 The Claims Payments and Recovery Costs Section process claims paid to third parties,
3 which primarily relate to property damage and bodily injury claims. Below is a forecast of the
4 claims expenses to be paid to third parties and recovery expenses above the purchased insurance
5 coverage. Most claims paid to third parties primarily relate to property damage and bodily injury
6 claims. During the last five years SDG&E has experienced increased litigation and claims
7 exposure from new theories of liability and a concerted effort by skillful plaintiff advocates to
8 expand the “duty owed” and the foreseeability as applied to public utilities. Significant claims
9 have been defended and settled, including cases involving: allegations of inverse condemnation
10 (new claim category arising over past few years); natural gas odor fade on the customer’s house
11 line; third party injuries at or near company-owned or operated facilities; a helicopter line strike
12 into an electric transmission tower that a jury verdict determined was a foreseeable accident; and
13 several cases involving gas facilities that were struck by a vehicle eight feet or more off the
14 roadway, but a jury determined that these accidents were foreseeable and consequently, the jury
15 held the utility comparatively negligent for not installing adequate protection. In addition, in
16 2010, the Self Insurance Retention (“SIR”) related to SDG&E was changed to \$4 million from
17 the historical level of \$1 million. The SIR increase significantly increases SDG&E’s exposure to
18 higher claims payments since SDG&E would be required to pay out of pocket up to \$4 million
19 for any single large dollar claim.

20 Forecasting the amount of Claims payments for TY 2016 is a difficult task, given the
21 unpredictability and volatility of events that could occur to cause SDG&E to incur such a cost.
22 Historically, SDG&E has seen the Claims expense vary significantly from one year to the next,
23 as evidenced by the significantly high expense in 2009 (\$6.2 million) due to multiple large
24 incidents compared to an unusually low amount of Claims expense in 2013 (\$2.1 million) due to
25 only moderate events. While SDG&E manages its operations to mitigate the impact of third-
26 party Claims as much as possible, the exposure to Claims will always be a genuine risk to the
27 Company given its large presence of property, assets and resources throughout a wide
28 geographic region. As such, it is important that any forecast of claims captures a period that is
29 long enough to reflect the highs and lows of activity that cannot be easily predicted or controlled.
30 Therefore, it is appropriate to use a five-year average to capture a reasonable cycle of Claims
31 activity over the GRC period.

Table KD-23
Claims Payments and Recovery Forecast
(\$2013 in thousands)

	Base Year 2013			Forecast 2016			2013-2016 Inc (Dec)		
	Non-Shd	Shd	Total	Non-Shd	Shd	Total	Non-Shd	Shd	Total
Claim Payments	2,172	-	2,172	4,323	-	4,323	2,151	-	2,151

As a result of the continued litigation and claims exposure, SDG&E is using a five-year historical average (2009-2013) to forecast TY 2016 claims payments and recovery expenses to reflect the current realities of third-party claims as discussed above.

VI. EXTERNAL RELATIONS DEPARTMENT

A. Introduction

The External Relations Department is comprised of these four distinct groups:

- VP External Relations
- Media and Employee Communications
- Community Relations
- Regional Public Affairs

This testimony does not address the Regional Public Affairs or present the costs for that group because the activities performed by SDG&E’s Regional Public Affairs group primarily support the Electric Distribution function. As such, those costs are sponsored by SDG&E’s Electric Distribution – O&M witness Jonathan Woldemariam (Ex. SDG&E-10).

Table KD-24
External Relations Department Incurred Costs
(\$2013 in thousands)

	2011	2012	2013	2016 Forecast
Shared	3,203	3,487	2,680	3,123
Non-Shared	84	584	572	413
Total External Relations	3,287	4,071	3,252	3,536

B. Summary of External Relations Request between Shared/Non-Shared Costs

Table KD-25

**External Relations Department Request by Department
(\$2013 in thousands)**

	Base Year 2013			Forecast 2016			2013-2016 Inc (Dec)		
	Non-Shd	Shd	Total	Non-Shd	Shd	Total	Non-Shd	Shd	Total
VP External Relations	-	677	677	-	1,179	1,179	-	502	502
Media Communications	-	1,128	1,128	-	1,098	1,098	-	(30)	(30)
Community Relations	572	875	1,447	413	846	1,259	(159)	(29)	(188)
Total	572	2,680	3,252	413	3,123	3,536	(159)	443	284

Consistent with the methodology used for the entire External Relations Department, the TY 2016 forecast is derived using the three-year historical average of recorded costs from 2011-2013 due to the re-organization and transfer to SDG&E in 2010.

C. VP External Relations (2100-3791)

The VP of External Relations (supported by an executive assistant) oversees SDG&E's External Relations activities, including Regional Public Affairs (See Ex. SDG&E-05, witness Jonathan Woldemariam). The VP provides the executive oversight, strategic guidance and internal/external liaison for the activities performed by these groups that are targeted to company, service territory, and community specific needs and issues.

Table KD-26

**Vice-President of External Relations Forecast
(\$2013 in thousands)**

	Base Year 2013			Forecast 2016			2013-2016 Inc (Dec)		
	Non-Shd	Shd	Total	Non-Shd	Shd	Total	Non-Shd	Shd	Total
VP External Relations	-	677	677	-	1,179	1,179	-	502	502

As previously described, given the reorganization in 2010, a three-year historical average is appropriate to forecast TY 2016. The increase in TY 2016 as compared to adjusted recorded 2013 reflects the retirement of the previous Vice President of External Relations is mid-2013, to which the vacant position was not filled at the time of this filing. SDG&E expects this position to be filled before TY 2016.

1 **D. Media and Employee Communications (2100-4008)**

2 The role of the Media and Employee Communications Group is to communicate issues of
3 interest and importance to the public, by reaching the multiple and diverse audiences including
4 residential, business, low-income customers, and community leaders served by the Utility.

5 Media and Employee Communications manages and coordinates external communications with
6 the media and internal communications with employees on the vast array of topics that involve
7 the Company and are of interest and importance to ratepayers, community and employees.

8 Media and Employee Communications also disseminates information to SDG&E’s employees
9 about energy industry topics, utility issues, programs, services and safety. The Media Relations
10 Group is responsible for news media and employee communications on gas and electric outages
11 and restoration times, load curtailment, electric and gas safety response and prevention, natural
12 disaster response, fire preparedness, utility infrastructure projects, current energy market
13 conditions, energy efficiency, winter and summer preparedness, and customer assistance
14 programs. This group provides proactive communications to audiences in preparation for
15 changes in bills, weather impacts, new customer service channels and programs, and other
16 appropriate topics.

17 Additionally, to help customers save money on their bills, SDG&E relies on various
18 forms of media to promote and educate its customers about beneficial programs such as energy-
19 efficiency, sustainable communities, and customer assistance programs. The unique local media
20 environment in the San Diego region combined with the complex issues surrounding a gas and
21 electric utility, create significant challenges for the Media Relations group in providing expanded
22 media response to news outlets, As one of the largest employers in San Diego and a Company
23 that provides essential energy services heavily relied on by both residential and business
24 customers, SDG&E receives and responds to multiple media inquiries during any given day.
25 This exceptionally high level of outside interest and requests for information drives the resource
26 requirement needed to maintain the daily demands to provide timely and accurate information.
27 SDG&E anticipates that the number, frequency and diversity of media inquiries will continue to
28 increase in the coming years as the industry continues to evolve.

29 The forecast for the Media and Internal Communication Department are as follows:
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Table KD-27
Media and Employee Communications Forecast
(\$2013 in thousands)

	Base Year 2013			Forecast 2016			2013-2016 Inc (Dec)		
	Non-Shd	Shd	Total	Non-Shd	Shd	Total	Non-Shd	Shd	Total
Media Communications	-	1,128	1,128	-	1,098	1,098	-	(30)	(30)

Consistent with the methodology used for the entire External Affairs Department, the TY 2016 forecast is derived using the three-year historical average of recorded costs from 2011-2013 due to the re-organization and transfer to SDG&E in 2010.

E. Community Relations (1AG013, 2100-3845, 2100-4009)

As the primary liaison between SDG&E, non-profit community-based organizations, faith-based organizations, and local communities, the Community Relations develops partnerships with these groups to facilitate the promotion of SDG&E’s customer programs and services. The group also provides financial and logistical support to the Company and third-party programs that benefit ratepayers. The Community Relations Group also coordinates and manages all community involvement, employee engagement/volunteerism, and directs the charitable contributions for SDG&E. Community Relations provides information on key Company programs to underserved and hard-to-reach communities, and those in need of financial assistance, by partnering with community-based organizations to provide information on programs available to ratepayers.

For example, through community partnerships with groups like rural Fire Safe Councils, 2-1-1 San Diego, the American Red Cross, the Burn Institute, police and fire agencies, Deaf Community Services, the Inter Tribal Long term Recovery Foundation, and Community Emergency Response Teams (“CERTS”), SDG&E is able to improve emergency preparedness and safety across many communities, while also educating customers on SDG&E’s Vegetation Management programs, “Call Before you Dig” service, and Electric and Gas Safety programs. These are some examples of key partnerships that the Community Relations group has fostered for the benefit of our customers and community as a whole.

The Community Relations Group also manages employee engagement and volunteerism in the community, utility charitable contributions, memberships in business organizations, and support for diverse, low-income and hard to reach communities. This charitable activity requires

1 the coordination, accounting, and tracking of all grants in a centralized grant tracking system to
 2 maintain compliance with state and federal laws and tax requirements.

3 Lastly, Community Relations hosts several Community Spotlight meetings that showcase
 4 Company programs and provide customers with direct access to Company staff, who
 5 administers these programs (i.e. safety, vegetation management, supplier diversity, operations,
 6 renewable energy, energy efficiency, low-income programs). Community Relations hosts these
 7 Spotlights meetings in different parts of its service territory. Approximately, 150 to 300 business
 8 and community leaders participate in each Spotlight meeting.

9 The forecast for the Community Relations Department are as follows:

10 **Table KD-28**
 11 **Community Relations Forecast**
 12 **(\$2013 in thousands)**

	Base Year 2013			Forecast 2016			2013-2016 Inc (Dec)		
	Non-Shd	Shd	Total	Non-Shd	Shd	Total	Non-Shd	Shd	Total
Community Relations	572	875	1,447	413	846	1,259	(159)	(29)	(188)

13
 14 A three-year historical average forecast method is used for External Relations because
 15 External Relations was re-organized and transferred to SDG&E in 2010. Therefore, the relevant
 16 direct cost history available is 2011 to 2013.

17 **V. CONCLUSION**

18 SDG&E requests that the Commission adopt the O&M TY 2016 forecasts presented in
 19 this testimony. SDG&E's TY 2016 A&G forecasts were carefully developed and scrutinized to
 20 reflect a prudent level of funding needed for the critical functions and activities to take place
 21 during this GRC term. The amounts requested for A&G are necessary to meet the needs of
 22 utility operations and customer service.

23 Within my testimony, I have shown the five-year average, where available, is necessary
 24 and appropriate to continue to provide the necessary services to our customers, meet accounting,
 25 regulatory and legal requirements, maintain internal controls and support internal clients and
 26 external stakeholders. SDG&E has been effective in managing its A&G costs, and believes that
 27 utilizing the five-year average will allow these organizations to continue to manage their
 28 activities and also to address the new cost pressures I describe throughout my testimony,
 29 including the introduction of new legislative and regulatory requirements and increased scrutiny

1 to implement and manage more rigorous accounting, regulatory and legal procedures and
2 standards as described in my testimony.

3 Despite the cost pressures described in my testimony, SDG&E only seeks incremental
4 funding above the multi-year average forecasts in the area of Rates Analysis driven by new
5 Commission policy directives for electric rate reform and dynamic pricing initiatives.

6 The overall increase in the TY 2016 forecast compared to 2013 adjusted recorded is
7 primarily driven by a higher forecast of liability claims due to an unusually low amount of
8 recorded claims in 2013 when compared with recorded amounts in previous years. As explained
9 in my testimony, the exposure to claims continues to be a significant and unpredictable risk, and
10 as such, it is essential that a forecast of claims expense captures a multi period that is long
11 enough to reflect the highs and lows of activity that is difficult to control. Therefore, a five-year
12 averaging of historic costs in forecasting 2016 TY claims expense is appropriate.

13 This concludes my prepared direct testimony.

1 **VI. WITNESS QUALIFICATIONS**

2 My name is Kenneth J. Deremer and my business address is 8330 Century Park Court,
3 San Diego, California 92123. I am currently employed by SDG&E as the Director of Financial
4 Planning and Regulatory Accounts. My current responsibilities include the development,
5 implementation and analysis of SDG&E's annual and multi-year financial planning process and
6 regulatory account and cost recovery mechanisms. I assumed my current position in May 2011.
7 Prior to this, I served as the Director of Financial Analysis since January 2009, where my
8 responsibilities included overseeing the financial evaluation of major projects, the development
9 and implementation of financing strategies and the oversight of regulatory account and cost
10 recovery mechanisms for SDG&E and Southern California Gas Company (SCG). Previously, I
11 was the Director of Tariffs and Regulatory Accounts since May 2007, where my responsibilities
12 included the implementation and oversight of the utilities' tariffs and regulatory compliance
13 process. Prior to May 2007, I served as the Regulatory Accounts Manager since April 2002. In
14 that position, I managed the process for implementing and maintaining regulatory accounts.

15 Over the past 10 years, I have served testimony in several regulatory proceedings,
16 including the General Rate Case, Cost of Capital and Electric Commodity Cost Recovery (i.e.
17 ERRA).

18 I have been employed by SDG&E and Sempra Energy since 1991. In addition to my
19 work experience described above, I worked from 1999 through 2002 as a Regulatory Tariff
20 Administrator and held various positions in the Financial Reporting Department.

21 I received a Bachelor's of Science in Business Administration from the University of
22 California, Riverside in June 1987. I also received a Master's in Business Administration, with
23 an emphasis in Finance, from the University of California, Riverside in December 1989.

24 I have previously testified before this Commission.

APPENDIX A
Glossary of Terms

A&G: administrative and general
ABC: Affiliate Billing & Costing
ACD: Affiliate Compliance Department
AGC: Assistant General Counsels
AMI: advanced metering infrastructure
ATR: Affiliate Transaction Rules
BRE: Bank Reconciliation and Escheatment Group
CAISO: California Independent System Operator
CEC: California Energy Commission
CEO: Chief Executive Officer
CERTS: Community Emergency Response Teams
CFO: Chief Financial Officer
CFR: Code of Federal Regulations
CIAC: contribution in aid of construction
CPI: Consumer Price Index
CPUC: California Public Utilities Commission
CWIP: construction work in progress
ERRA: Energy Resource Recovery Account
FERC: Federal Energy Regulatory Commission
FTEs: full time equivalents
GAAP: Generally Accepted Accounting Practices
GC: General Counsel
GHG: greenhouse gas
GRC: general rate case
IRS: Internal Revenue Service
IT: information technology
NERC: North American Electric Reliability Corporation
NTP&S: Non-Tariff Products & Services

O&M: operations and maintenance
PG&E: Pacific Gas and Electric Company
RPS: Renewable Portfolio Standard
SCE: Southern California Edison Company
SDG&E: San Diego Gas & Electric Company
SEC: Securities and Exchange Commission
SECC: Sempra Energy Corporate Center
Sempra: Sempra Energy
SCG: Southern California Gas Company
SIR: self-insurance retention
SOX: Sarbanes Oxley
SVP: Senior Vice President
TP: transmission providers
TY: Test Year
VP: Vice President