

Company: San Diego Gas & Electric Company (U902M)
Proceeding: 2016 General Rate Case
Application: A.14-11-003
Exhibit: SDG&E-215

SDG&E

**REBUTTAL TESTIMONY OF SYDNEY L. FURBUSH
SUPPLY MANAGEMENT & SUPPLIER DIVERSITY**

June 2015

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



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1 **SDG&E REBUTTAL TESTIMONY OF SYDNEY L. FURBUSH**
2 **SUPPLY MANAGEMENT & SUPPLIER DIVERSITY**

3 **I. SUMMARY OF DIFFERENCES**

4 **TABLE SLF-1**

TOTAL O&M - Constant 2013 (\$000)			
	Base Year 2013	Test Year 2016	Change
SDG&E	13,802	15,587	1,785
ORA	13,802	14,521	719

5 **II. INTRODUCTION**

6 **A. ORA**

7 Office of Ratepayer Advocates (ORA) issued its report on Supply Management &
8 Supplier Diversity on April 24, 2015.¹ The following is a summary of ORA's position(s):

- 9 • ORA recommends \$10.923 million for Non-Shared O&M expenses for Supply
10 Management & Supplier Diversity which is \$792,000 less than SDG&E's
11 forecast.
- 12 • ORA recommends \$3.599 million for Shared O&M expenses for Supply
13 Management & Supplier Diversity which is \$273,000 less than SDG&E's
14 forecast.
- 15 • ORA recommends adopting a 3-year average using 2011-2013 as 'fairly stable'
16 and recent.

17 **B. SDCAN**

18 San Diego Consumers' Action Network (SDCAN) recommends disallowance of 50% of
19 SDG&E's travel expenses.

20 **C. Joint Minority Parties**

21 The Joint Minority Parties proposes the following:

- 22 • Additional funding for Technical Assistance, from \$750,000 to \$2,250,000, with
23 further criteria that half of that funding be to women, minority and disabled
24 veteran businesses, with 50% of the increases shared equally between ratepayers
25 and shareholders.
- 26 • Increasing SDG&E's Supplier Diversity General Order (GO) 156 goals be
27 increased from 40% to 50% by 2018, with the minority-owned fraction of that
28 goal to be 35%.

¹ ORA-14, Chia, Report on the Results of Operations for San Diego Gas & Electric Company Southern California Gas Company Test Year 2016 General Rate Case, Supply Management & Supplier Diversity, Fleet Services, Real Estate, Land Services & Facilities, and Environmental Services

- Disaggregating of Asian American supplier data by major ethnic subgroups

III. REBUTTAL TO PARTIES' O&M PROPOSALS

A. Non-Shared Services O&M

TABLE SLF-2

NON-SHARED O&M - Constant 2013 (\$000)			
	Base Year 2013	Test Year 2016	Change
SDG&E	10,454	11,715	1,261
ORA	10,454	10,923	469

1. Disputed Cost

a. ORA

ORA is recommending \$10.923 million for TY 2016, which is an increase of \$469,000 or 4.5 percent above the 2013 recorded Non-Shared O&M expenses for Supply Management and Supplier Diversity. ORA recommends using a three-year historical average (2011 to 2013) to forecast TY 2016 Non-Shared O&M expenses for Supply Management and Supplier Diversity. ORA takes issue with SDG&E's use of a 5-year historical average (2009 to 2013) to forecast TY 2016 Supply Management and Supplier Diversity costs. ORA claims that a 3-year historical average (2011 to 2013) should be used because "the total recorded Non-Shared O&M expenses were fairly stable during 2011 to 2013" and a three-year historical average provides a more recent level of SDG&E's Supply Management and Supplier Diversity operations to forecast the TY2016 Non-Shared O&M expenses.² ORA's arguments should be rejected.

First, ORA's admission that total recorded Non-Shared O&M expenses were stable during 2011 to 2013 undermines ORA's arguments that a 3-year historical average is more appropriate than a 5-year historical average, which reflects cost fluctuations. Second, ORA is correct that a 3-year historical average, using 2011 to 2013 expenses, provides more recent data regarding SDG&E's Supply Management and Supplier Diversity operations. However, recent costs are not indicative of future costs. Third, a 5-year historical average using 2009 – 2013 data is more appropriate because it captures, on a longer term basis, the cost variances due to changes in work activities, which impact staffing levels, and purchased services cost as experienced in prior years. By contrast, use of a 3-year average using 2011 to 2013 data does not

² Exhibit ORA-14, Chia at pages 8-9.

1 accurately reflect estimated TY 2016 costs and activities for Supply Management and Supplier
2 Diversity.

3 If adopted, ORA's proposed three-year historical average (2011 to 2013) forecast would
4 reduce SDG&E's request for two non-shared departments: Strategy & Sustainability and
5 Supplier Diversity. Based on ORA's proposed 3-year forecast methodology, the Strategy &
6 Sustainability department's request would be reduced by 22% or \$305k less, and the Supplier
7 Diversity department's request would be reduced by 24%, or \$320k, as shown below.

8 **TABLE SLF-3**

	5 Yr Avg SDGE	3 Yr Avg ORA	Variance
Strategy & Sustainability	1,393	1,088	(305)
Supplier Diversity	1,346	1,026	(320)
Total	2,739	2,114	(625)

9 **b. Strategy & Sustainability Department**

10 As stated in the Supply Management and Supplier Diversity direct testimony³, SDG&E's
11 Strategy & Sustainability Department requests a total of \$1.39 million, which is an increase of
12 \$457,000 above 2013 adjusted-recorded costs. The incremental increase above 2013 costs is
13 needed to expand SDG&E's efforts to further "green" our supply chain. The "greening of the
14 supply chain" includes evaluating sustainability criteria in our RFPs in order to gain insight into
15 the "green" potential of our suppliers. Supply Management plans to collaborate with the internal
16 business units and suppliers to implement designs and processes that are less harmful to the
17 environment either in manufacturing, use, and/or disposal.

18 The remaining TY2016 funding request is needed for the recovery, collection, removal
19 and sale of all surplus, scrap or unneeded assets in the most cost-effective and environmentally
20 safe manner. This includes continuous improvements to identify new markets and buyers;
21 employ best practices and negotiate agreements for the best prices for scrap or surplus materials;
22 and compile reports on all investment recovery activities.

23 ORA's proposal should be disregarded because it does not reflect the planned increased
24 activity levels and subsequent costs for the Strategy & Sustainability Department for TY 2016.

³ Ex. SDG&E-15

1 ORA's recommendation does not appear to recognize how SDG&E's supply chain plays a key
2 role in the overall reduction of the utility's environmental footprint and thus this unfamiliarity
3 may have led to ORA's position. ORA's recommendation would also inhibit the improvement of
4 social and environmental impacts that sustainable business practices have on the communities
5 SDG&E serves. SDG&E believes supply chain sustainability provides the ability to meet our
6 current needs without undermining the ability of future generations to meet their own needs.

7 SDG&E recommends the Commission disregard ORA's recommendation and adopt
8 SDG&E's forecast of the five-year historical average (2009 to 2013) to allow SDG&E to "green"
9 the supplier chain, manage investment recovery and develop systems to measure the
10 performance, quality and safety of suppliers.

11 c. Supplier Diversity Department

12 ORA is recommending \$1.026 million for TY 2016, which is a decrease of \$320k below
13 SDG&E's request of \$1.346 million for Non-Shared O&M expenses for Supplier Diversity.⁴
14 Besides claims that a 3-year historical average is more appropriate, ORA fails to provide any
15 justification for reducing SDG&E's Supplier Diversity department funding request. ORA does
16 not provide any analysis contesting the reasonableness of SDG&E's request to increase Supplier
17 Diversity funding. ORA's recommendations lack support and should be rejected.

18 In 2013, SDG&E had a record-setting year for supplier diversity spend, achieving nearly
19 44.9 percent or more than \$453 million of its total procurement, up from 36.1 percent or \$435
20 million in 2012. This spending surpassed the 21.5 percent goal set by the California Public
21 Utilities Commission (CPUC), despite an increase in base spending dollars. This is a true
22 testament to the rock-solid commitment of every department at SDG&E and to the depth of its
23 Supplier Diversity strategy. To continue at this aspirational level of performance, SDG&E will
24 need to expand the level of technical assistance, training, mentoring and partnership with
25 community based organizations to support their member's capacity building efforts.

26 Additionally, ORA's recommendation, if adopted, will constrain SDG&E's ability to
27 manage its outreach efforts since costs to include Lesbian, Gay, Bisexual and Transgender-
28 owned businesses (LGBTBE), which are now part of the Supplier Diversity program, are not
29 reflected in historical expenses. In September 2014, Governor Brown signed into law Assembly

⁴ Exhibit ORA-14, Chia at page 8.

1 Bill 1678⁵, which modified GO 156 to include LGBTBEs. Since passage of the legislation was
2 uncertain at the time of preparing forecasts for this GRC, SDG&E did not plan an expanded
3 outreach program to include this new group of suppliers. In addition to funding expanded
4 outreach efforts to include LGBTBE, SDG&E's funding request would also provide resources to
5 expand the technical assistance programs, provide support for mentoring new suppliers while
6 helping the existing diverse suppliers with capacity building.

7 For these reasons, SDG&E requests the Commission to find its request for additional
8 funding of its Supplier Diversity efforts reasonable and authorize SDG&E the requested funding.

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

10 **TABLE SLF-4**

SHARED O&M - Constant 2013 (\$000)			
	Base Year 2013	Test Year 2016	Change
SDG&E	3,348	3,872	524
ORA	3,348	3,599	251

11 **1. Disputed Cost**

12 **a. ORA**

13 ORA is recommending \$3.599 million for TY 2016, which is an increase of \$251,000 or
14 7.5 percent above the 2013 recorded Shared O&M expenses for Supply Management and
15 Supplier Diversity. ORA again recommends using a three-year historical average (2011 to 2013)
16 to forecast TY 2016 Shared O&M expenses for Supply Management and Supplier Diversity,
17 based on the claim that the three-year historical average provides a more recent level of
18 SDG&E's Supply Management and Supplier Diversity operations to forecast the TY 2016
19 Shared O&M expenses. For the reasons stated above, ORA's use of a three-year historical
20 average (2011 to 2013) should be rejected because it does not reflect future costs and activities.

21 ORA's recommendation provides SDG&E with a 7.5 percent increase above 2013
22 recorded Shared O&M expenses for Supply Management and Supplier Diversity.

23 Office Services

24 ORA's recommendation for the Office Services department reflects an 11% reduction
25 from SDG&E's forecast, or \$229k less than the \$1.99 million requested. SDG&E uses a 5-year

⁵ http://leginfo.legislature.ca.gov/faces/billNavClient.xhtml?bill_id=201320140AB1678.

1 average based on 2009 – 2013 costs to support the cost variations due to changes in work
 2 activities, which impacts staffing levels and purchased services cost experienced in prior years.

3 **TABLE SLF-5**

	Recorded						5 Yr Avg SDGE	3 Yr Avg ORA	Variance
	2009	2010	2011	2012	2013	2014			
Office Services	2,436	2,246	1,903	1,805	1,303	2,103	1,999	1,770	(229)

4
 5 SDG&E’s request for an increase in funding is primarily driven by contractual office
 6 supply services to maintain the group’s operational functions. Specifically, the Office Services
 7 Portfolio group provides all sourcing/contract support for third party business support and
 8 professional services. The ORA TY 2016 recommendation would not adequately fund the
 9 contractual third-party contracts along with maintaining the service level agreements that are
 10 currently experienced in 2014. ORA’s recommendation for the Office Services department is
 11 not based on any real analysis of SDG&E’s projected TY 2016 activities. Rather ORA’s
 12 recommendation is based on ORA’s uncompromising and inappropriate reliance on 3-year
 13 historical average (2011 to 2013). Accordingly, ORA’s recommendations should be rejected
 14 because ORA failed to provide any analysis or discussion regarding the reasonableness of
 15 SDG&E’s funding request for Office Services.

16 Other Parties

17 Both SDCAN and Joint Minority Parties made recommendations without identifying
 18 specific revenue requirement values in their testimony.

19 **SDCAN**

20 SDCAN is recommending that the CPUC disallow 50% of SDG&E’s requested travel
 21 expenses, claiming “Utility employees have racked up over \$53 million in credit card travel
 22 usage in just four years.”⁶ SDCAN’s recommendation should be rejected for the following
 23 reasons. First, SDCAN’s recommendation is based on a misimpression regarding the extent of
 24 SDG&E employee travel expenses. In a data request (DR) - SDCAN-SDG&E-DR-01, question
 25 # 46 and 47⁷, SDCAN requested that SDG&E “Please identify the number of employees during
 26 each year during the January 2010 through December 2014 time period who have been issued a
 27 company credit card with which they can charge travel or entertainment expenditures”, and

⁶ Ex. SDCAN-Shames, “SDCAN Evaluation of San Diego Gas and Electric Company's Customer Service and External Affairs Activities” at p. 32.

⁷ See the Appendix to this rebuttal for a copy of SDCAN-SDG&E-DR-01 Q46

1 “Please provide an annual sum for each year during the January 2010 through December 2014
2 time period of the costs charged to company credit cards.” In response, SDG&E inadvertently
3 provided to SDCAN the expenses, and total number of American Express cards issued to *all*
4 SDG&E employees, SoCalGas employees, Sempra Energy Corporate employees, and Sempra
5 Energy Affiliate employees.⁸ And while the question requested data for company credit cards
6 “with which they can charge travel or entertainment expenditures”, the question was not phrased
7 in such a way to limit the data exclusively to travel and entertainment expenses only; thus travel
8 and entertainment are a subset of the charges made to these cards, other charges including such
9 things as office supplies, services and products necessary in the ordinary course of business
10 obtained directly when needed.

11 **TABLE SLF-6**
12 **Expenses and Total Number of American Express Cards Issued To All SDG&E Employees,**
13 **SoCalGas Employees, Sempra Energy Corporate Employees, And Sempra Energy Affiliate**
14 **Employees**
15

AMEX Card Data	# of Cards	Charge Volume
2014	701	\$ 13,215,783
2013	650	\$ 11,492,813
2012	663	\$ 11,187,879
2011	666	\$ 9,098,675
2010	655	\$ 8,012,819
Total	3,335	\$ 53,007,969

16 Table SLF-6 above is the table SDG&E provided to SDCAN, and the data SDCAN reproduced
17 on page 33 of Ex. SDCAN-Shames. Based on this data, SDCAN assumed that from 2010-2014,
18 3,335 SDG&E employees spent over \$53 million in travel expenses. Using this data, SDCAN
19 also supposed that “on a per card basis, the charges on [SDG&E’s] travel cards averaged
20 \$18,571 per card in 2014 compared to \$6,100 in 2009 and \$12,213 in 2010.”⁹ In both instances,
21 SDCAN is incorrect.

⁸ After receiving SDCAN’s testimony, SDG&E subsequently amended the data response to SDCAN, and provided the corrected information, which is reflected in Table SLF-7. See the Appendix to this rebuttal for a copy of SDCAN-SDG&E-DR-01 Q46-47 AMENDED

⁹ Ex. SDCAN-Shames, “SDCAN Evaluation of San Diego Gas and Electric Company’s Customer Service and External Affairs Activities” at p. 32.

As shown in Table SLF-7 below, 1,024 SDG&E employees spent approximately \$7.2 million for travel expenses from 2010 to 2014. In addition, on a per card basis, the charges on SDG&E's American Express cards averaged \$7,432 per card in 2014 compared to \$6,100 in 2009 and \$12,213 in 2010. The corrected data demonstrates that SDG&E's employee travel expenses have not skyrocketed as purported by SDCAN, and in some years SDG&E's employee travel expenses decreased.

TABLE SLF -7
Expenses and Total Number of American Express Cards Issued to SDG&E Employees

AMEX Card Data	# of Cards	Charge Volume	Average Annual Charge
2014	175	\$ 1,300,528	\$7,432
2013	190	\$ 1,469,113	\$7,732
2012	205	\$ 1,555,617	\$7,588
2011	232	\$ 1,519,307	\$6,549
2010	222	\$ 1,364,543	\$6,146
Total	1,024	\$ 7,209,108	

Second, it is reasonable for SDG&E to request recovery of valid business related expenses incurred in the ongoing operation of its business. SDG&E occasionally requires employees to travel to locations outside the area of their normal office, sometimes for extended periods. For example, employees working in Regulatory Affairs are at times required, by the nature of their job responsibilities and often at the commission's request, to travel to the CPUC in San Francisco. In many cases, this generates a reimbursable meal expense as the result of extended work hours or the requirement for an overnight stay. This same requirement also applies to many of SDG&E operational and administrative employees that are required to travel as part of their job responsibilities for offsite meetings, training, and other business-related activities.

C. Joint Minority Parties

The Joint Minority Parties proposes the following:

- Additional funding for Technical Assistance, to increase to 300% (to triple) from 3 to 5 years, from \$750,000 to \$2,250,000, with further criteria that half of that funding be to women, minority and disabled veteran businesses, with 50% of the increases shared equally between ratepayers and shareholders.
- Increasing SDG&E's Supplier Diversity GO156 goals from 40% to 50% by 2018, with the minority-owned fraction of that goal to be 35%.

- JMP further proposes disaggregation of Asian American data by major ethnic subgroups

SDG&E urges the Commission to reject all of these recommendations for several reasons. First, in D.13-05-010, Section 13.4.3, the Commission noted that such recommendations concerning SDG&E's relationships with diverse business enterprises are issues that should have been brought up in R.09-07-027, which addressed changes to GO156 or in future proceeding addressing changes to GO156. For that reason, the Commission rejected the JMP's similar recommendations stating, "Since the changes the Joint Parties seek affect specific provisions addressed in GO156, we refrain in this decision from making the changes the Joint Parties have recommended and do not adopt the Joint Parties' recommendations concerning diverse business enterprises."¹⁰ SDG&E does not believe these recommendations vary materially from those proposed in that proceeding and the Commission should maintain this position. Moreover, previous agreements between SDG&E and the JMP have resulted in the current Technical Assistance funding, which exceeds prior funding levels and any amounts contemplated by GO156. SDG&E's GO156 performance metrics are in excess of current CPUC targets, and any additional expense to ratepayers would be superfluous to the reasonable objectives of that General Order.

In addition, SDG&E's GO156 performance metrics have consistently and significantly exceeded GO156 targets for many years. Both increasing those targets and creating sub-targets of differing fractions sets up unequal access to business opportunities among those parties and creates monitoring and reporting requirements beyond those envisioned by the Commission in its GO156 targets.

Finally, the Commission should reject the Joint Parties recommendation that SDG&E disaggregate Asian American data by major ethnic subgroups. Similar to the creation of unequal fractions for GO156 targets, the further subdivision of Asian ethnic groups for this purpose sets up the possibility of increased access by one at the expense of the other, and creates additional monitoring and reporting expenses not contemplated by the CPUC in its oversight of GO156.

¹⁰ D.13-05-010 at page 682

1 **IV. CONCLUSION**

2 For the reasons stated in this rebuttal, SDG&E respectfully requests that ORA's,
3 SDCAN's and Joint Minority Parties' recommendations be disregarded in favor of SDG&E's
4 forecasts and practices as contained in Exhibit SDG&E-15 and this rebuttal.

5 This concludes my prepared rebuttal testimony.

Appendix

SDCAN-SDG&E-DR-01 Q46-47

SDCAN-SDG&E-DR-01 Q46-47 AMENDED

SDCAN DATA REQUEST
SDCAN-SDG&E-DR-01
SDG&E 2016 GRC – A.14-11-003
SDG&E RESPONSE
DATE RECEIVED: FEBRUARY 5, 2015
DATE RESPONDED: FEBRUARY 20, 2015

46. Please identify the number of employees during each year during the January 2010 through December 2014 time period who have been issued a company credit card with which they can charge travel or entertainment expenditures.

SDG&E Response:

The table shown below has the number of cards issued for the years requested.

AMEX Card Data		
Year	# of Cards	Charge Volume
2014	701	\$ 13,215,783.00
2013	650	\$ 11,492,813.00
2012	663	\$ 11,187,879.00
2011	666	\$ 9,098,675.00
2010	655	\$ 8,012,819.00
Total	3335	\$ 53,007,969.00

SDCAN DATA REQUEST
SDCAN-SDG&E-DR-01
SDG&E 2016 GRC – A.14-11-003
SDG&E RESPONSE
DATE RECEIVED: FEBRUARY 5, 2015
DATE RESPONDED: FEBRUARY 20, 2015

47. Please provide an annual sum for each year during the January 2010 through December 2014 time period of the costs charged to company credit cards.

SDG&E Response:

The table shown below has the costs charged to company credit cards issued for the years requested.

AMEX Card Data		
Year	# of Cards	Charge Volume
2014	701	\$ 13,215,783.00
2013	650	\$ 11,492,813.00
2012	663	\$ 11,187,879.00
2011	666	\$ 9,098,675.00
2010	655	\$ 8,012,819.00
Total	3335	\$ 53,007,969.00

**SDCAN DATA REQUEST
SDCAN-SDG&E-DR-01
SDG&E 2016 GRC – A.14-11-003
SDG&E RESPONSE - AMENDED
DATE RECEIVED: FEBRUARY 5, 2015
DATE RESPONDED: JUNE 9, 2015**

46. Please identify the number of employees during each year during the January 2010 through December 2014 time period who have been issued a company credit card with which they can charge travel or entertainment expenditures.

SDG&E Response:

The table shown below has the number of cards issued for the years requested.

In the original response to this data request, SDG&E inadvertently provided the expenses and total number of American Express cards issued to *all* SDG&E employees, SoCalGas employees, Sempra Energy Corporate employees, and Sempra Energy Affiliate employees. This table below corrects that response and includes only SDG&E employees.

Expenses and Total Number of American Express Cards Issued to SDG&E Employees

AMEX Card Data	# of Cards
2014	175
2013	190
2012	205
2011	232
2010	222
Total	1,024

**SDCAN DATA REQUEST
SDCAN-SDG&E-DR-01
SDG&E 2016 GRC – A.14-11-003
SDG&E RESPONSE - AMENDED
DATE RECEIVED: FEBRUARY 5, 2015
DATE RESPONDED: JUNE 9, 2015**

47. Please provide an annual sum for each year during the January 2010 through December 2014 time period of the costs charged to company credit cards.

SDG&E Response:

The table shown below has the number of cards issued for the years requested.

In the original response to this data request, SDG&E inadvertently provided the expenses and total number of American Express cards issued to *all* SDG&E employees, SoCalGas employees, Sempra Energy Corporate employees, and Sempra Energy Affiliate employees. This table below corrects that response and includes only SDG&E employees and to the best of our ability contains only travel and entertainment expenses.

Expenses and Total Number of American Express Cards Issued to SDG&E Employees

AMEX Card Data	# of Cards	Charge Volume	Average Annual Charge
2014	175	\$ 1,300,528	\$7,432
2013	190	\$ 1,469,113	\$7,732
2012	205	\$ 1,555,617	\$7,588
2011	232	\$ 1,519,307	\$6,549
2010	222	\$ 1,364,543	\$6,146
Total	1,024	\$ 7,209,108	