| | |
|---|---|
| Company: | San Diego Gas & Electric Company (U 902 M)<br>Southern California Gas Company (U 904 G) |
| Proceeding: | 2016 General Rate Case |
| Application: | A.14-11-003/004 (cons.) |
| Exhibit: | SDG&E-222<br>SoCalGas-221 |

# SDG&E AND SOCALGAS

# REBUTTAL TESTIMONY OF DEBBIE S. ROBINSON

# COMPENSATION AND BENEFITS

June 2015

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

Doc#297752

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**SDG&E AND SOCALGAS REBUTTAL TESTIMONY OF DEBBIE S. ROBINSON**

**COMPENSATION AND BENEFITS**

# I. INTRODUCTION AND SUMMARY OF DIFFERENCES

My rebuttal testimony discusses the compensation and benefits program at San Diego Gas & Electric Company (SDG&E) and Southern California Gas Company (SoCalGas) and responds to the following testimony:

- Office of Ratepayer Advocates (ORA), Exhibit ORA-17 (Hunter) dated April 24, 2015
- Office of Ratepayer Advocates (ORA), Exhibit ORA-23 (Tang) dated April 24, 2015
- The Utility Reform Network (TURN), Testimony of John E. Sugar dated May 15, 2015
- The Utility Reform Network (TURN), Testimony of Garrick F. Jones dated May 15, 2015
- The Utility Consumer's Action Network (UCAN), Testimony of Laura Norin dated May 15, 2015
- Joint Minority Parties (JMP), Testimony of Faith Bautista, Mark Whitlock, and Gilbert Vasquez dated May 15, 2015

The parties submitted testimony related to the following areas:

**Table 1**

| Party | Issues |
|---|---|
| ORA - Stacey Hunter | Total Compensation Study, Compensation and Benefits (All Components) |
| ORA - Clayton Tang | Post-Test Year Medical Escalation |
| TURN - John E. Sugar | Variable Pay (ICP), Long-Term Incentive Plan, Nonqualified Savings Plan and Supplemental Pension |
| TURN - Garrick F. Jones | Other Benefit Programs and Fees |
| UCAN - Laura Norin | Post-Test Year Medical Escalation |
| Joint Minority Parties | Executive Compensation |

The differences between the amounts requested by SDG&E and SoCalGas and the amounts proposed by ORA and TURN are summarized below in Table 2 (for SDG&E) and Table 3 (for SoCalGas). TURN submitted testimony covering many elements of compensation and benefits costs and it is assumed that TURN does not take issue with the remaining components of compensation and benefits that are not discussed in TURN's testimony.

**Table 2**

| Compensation and Benefits Programs | Thousands of 2013 $ | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | SDG&E | | ORA | | ORA vs. SDG&E | | TURN | |
| | 2013 Recorded | 2016 | ORA as Submitted | ORA w/Health & Welfare Corrections | ORA as Submitted vs. SDG&E | ORA w/H&W Corrections vs. SDG&E | TURN | TURN vs. SDG&E |
| **Compensation:** | | | | | | | | |
| Variable Pay | $50,977 | $50,351 | $17,244 | $17,244 | ($33,107) | ($33,107) | $20,486 | ($29,865) |
| Long-Term Incentive Plan (LTIP) | $9,143 | $10,265 | $0 | $0 | ($10,265) | ($10,265) | $0 | ($10,265) |
| Spot Cash program | $1,200 | $1,423 | $1,423 | $1,423 | $0 | $0 | $1,423 | $0 |
| Employee Recognition program | $121 | $366 | $366 | $366 | $0 | $0 | $366 | $0 |
| *Subtotal* | *$61,441* | *$62,405* | *$19,033* | *$19,033* | *($43,372)* | *($43,372)* | *$22,275* | *($40,130)* |
| **Health Benefits:** | | | | | | | | |
| Medical | $47,929 | $50,179 | $47,238 | $51,216 | ($2,941) | $1,037 | $50,179 | $0 |
| Dental | $3,236 | $4,094 | $3,815 | $3,973 | ($279) | ($121) | $4,094 | $0 |
| Vision | $322 | $350 | $326 | $331 | ($24) | ($19) | $350 | $0 |
| Wellness | $535 | $1,169 | $758 | $771 | ($411) | ($398) | $1,169 | $0 |
| EAP | $322 | $335 | $321 | $326 | ($14) | ($9) | $335 | $0 |
| Mental Health | $1,198 | $1,579 | $1,361 | $1,385 | ($218) | ($194) | $1,579 | $0 |
| *Subtotal* | *$53,542* | *$57,706* | *$53,819* | *$58,002* | *($3,887)* | *$296* | *$57,706* | *$0* |
| **Welfare Benefits:** | | | | | | | | |
| AD&D Insurance | $90 | $93 | $85 | $90 | ($8) | ($3) | $93 | $0 |
| Business Travel Insurance | $24 | $24 | $24 | $24 | $0 | $0 | $24 | $0 |
| Life Insurance | $746 | $790 | $813 | $870 | $23 | $80 | $790 | $0 |
| *Subtotal* | *$860* | *$907* | *$922* | *$984* | *$15* | *$77* | *$907* | *$0* |
| **Retirement Benefits:** | | | | | | | | |
| Retirement Savings Plan | $12,250 | $14,287 | $14,287 | $14,287 | $0 | $0 | $14,287 | $0 |
| Nonqualified Retirement Savings Plan | $253 | $274 | $0 | $0 | ($274) | ($274) | $0 | ($274) |
| Supplemental Pension | $5,466 | $3,360 | $0 | $0 | ($3,360) | ($3,360) | $0 | ($3,360) |
| *Subtotal** | *$17,969* | *$17,921* | *$14,287* | *$14,287* | *($3,634)* | *($3,634)* | *$14,287* | *($3,634)* |
| **Other Benefit Programs and Fees:** | | | | | | | | |
| Benefits Administration Fees | $894 | $1,005 | $1,005 | $1,005 | $0 | $0 | $999 | ($6) |
| Educational Assistance | $462 | $536 | $536 | $536 | $0 | $0 | $532 | ($4) |
| Emergency Childcare | $141 | $133 | $133 | $133 | $0 | $0 | $131 | ($3) |
| Mass Transit Incentive | $62 | $58 | $58 | $58 | $0 | $0 | $101 | $43 |
| Retirement Activities | $108 | $117 | $117 | $117 | $0 | $0 | $0 | ($117) |
| Service Recognition | $118 | $133 | $133 | $133 | $0 | $0 | $69 | ($64) |
| *Subtotal* | *$1,785* | *$1,982* | *$1,982* | *$1,982* | *$0* | *$0* | *$1,831* | *($151)* |
| **Total** | **$135,597** | **$140,921** | **$90,043** | **$94,288** | **($50,878)** | **($46,633)** | **$97,006** | **($43,915)** |

*Note: The $3,634 differential under TURN vs. SDG&E for Nonqualified Retirement Savings Plan and Supplemental Pension differs from the $3,907 shown in Table 10 on page 27 of Mr. Sugar's testimony. It appears that TURN double-counted the Nonqualified Savings Plan ($274 + $274 + $3,360 = $3,908).

## Table 3

| Compensation and Benefits Programs | Thousands of 2013 $ | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | SoCalGas | | ORA | | ORA vs. SoCalGas | | TURN | |
| | 2013 Recorded | 2016 | ORA as Submitted | ORA w/Health & Welfare Corrections | ORA as Submitted vs. SoCalGas | ORA w/H&W Corrections vs. SoCalGas | TURN | TURN vs. SoCalGas |
| **Compensation:** | | | | | | | | |
| Variable Pay | $58,721 | $49,213 | $16,936 | $16,936 | ($32,277) | ($32,277) | $20,324 | ($28,889) |
| Long-Term Incentive Plan (LTIP) | $5,833 | $7,592 | $0 | $0 | ($7,592) | ($7,592) | $0 | ($7,592) |
| Spot Cash program | $2,159 | $1,291 | $1,291 | $1,291 | $0 | $0 | $1,291 | $0 |
| Employee Recognition program | $112 | $682 | $682 | $682 | $0 | $0 | $682 | $0 |
| *Subtotal* | *$66,825* | *$58,778* | *$18,909* | *$18,909* | *($39,869)* | *($39,869)* | *$22,297* | *($36,481)* |
| **Health Benefits:** | | | | | | | | |
| Medical | $73,317 | $89,763 | $85,725 | $92,927 | ($4,038) | $3,164 | $89,763 | $0 |
| Dental | $3,633 | $4,625 | $4,427 | $4,602 | ($198) | ($23) | $4,625 | $0 |
| Vision | $498 | $590 | $583 | $594 | ($7) | $4 | $590 | $0 |
| Wellness | $358 | $842 | $353 | $359 | ($489) | ($483) | $842 | $0 |
| EAP | $782 | $927 | $889 | $904 | ($38) | ($23) | $927 | $0 |
| Mental Health | $1,392 | $1,916 | $1,507 | $1,533 | ($409) | ($383) | $1,916 | $0 |
| *Subtotal* | *$79,980* | *$98,663* | *$93,485* | *$100,919* | *($5,179)* | *$2,256* | *$98,663* | *$0* |
| **Welfare Benefits:** | | | | | | | | |
| AD&D Insurance | $60 | $74 | $61 | $65 | ($13) | ($9) | $74 | $0 |
| Business Travel Insurance | $42 | $45 | $45 | $45 | $0 | $0 | $45 | $0 |
| Life Insurance | $1,806 | $2,107 | $2,164 | $2,312 | $57 | $205 | $2,107 | $0 |
| *Subtotal* | *$1,908* | *$2,226* | *$2,270* | *$2,422* | *$44* | *$196* | *$2,226* | *$0* |
| **Retirement Benefits:** | | | | | | | | |
| Retirement Savings Plan | $16,248 | $19,245 | $19,245 | $19,245 | $0 | $0 | $19,245 | $0 |
| Nonqualified Retirement Savings Plan | $199 | $216 | $0 | $0 | ($216) | ($216) | $0 | ($216) |
| Supplemental Pension | $1,994 | $870 | $0 | $0 | ($870) | ($870) | $0 | ($870) |
| *Subtotal* | *$18,441* | *$20,331* | *$19,245* | *$19,245* | *($1,086)* | *($1,086)* | *$19,245* | *($1,086)* |
| **Other Benefit Programs and Fees:** | | | | | | | | |
| Benefits Administration Fees | $1,345 | $1,498 | $1,498 | $1,498 | $0 | $0 | $1,331 | ($167) |
| Educational Assistance | $1,004 | $1,233 | $1,233 | $1,233 | $0 | $0 | $932 | ($301) |
| Emergency Childcare | $201 | $193 | $193 | $193 | $0 | $0 | $139 | ($54) |
| Mass Transit Incentive | $803 | $902 | $902 | $902 | $0 | $0 | $1,048 | $146 |
| Retirement Activities | $208 | $224 | $224 | $224 | $0 | $0 | $0 | ($224) |
| Service Recognition* | $233 | $241 | $241 | $241 | $0 | $0 | $107 | ($135) |
| Special Events | $430 | $529 | $0 | $0 | ($529) | ($529) | $0 | ($529) |
| *Subtotal* | *$4,224* | *$4,820* | *$4,291* | *$4,291* | *($529)* | *($529)* | *$3,557* | *($1,264)* |
| **Total** | **$171,378** | **$184,818** | **$138,200** | **$145,786** | **($46,619)** | **($39,032)** | **$145,988** | **($38,830)** |

*Note: Under Service Recognition, the amount shown for TURN is based on the six-year average shown in Table 8 on page 16 of Garrick Jones' testimony. The six-year average calculation in Table 10 on page 17 of Mr. Jones testimony contains an error. For 2012, the amount shown is "20" but instead should be "220".

# II. TOTAL COMPENSATION STUDY

## A. Introduction

SDG&E's and SoCalGas' request for compensation and benefits cost recovery is reasonable, consistent with past California Public Utilities Commission (Commission) decisions, will benefit customers and should be approved. SDG&E's and SoCalGas' compensation and benefits programs are critical to attracting, motivating, and retaining a skilled, high-performing workforce. The Total Compensation Study, which was performed by Towers Watson and jointly managed by ORA, found SDG&E's and SoCalGas' total compensation to be in line with the competitive market.

### B. Total Compensation Study Methodology

The Total Compensation Study project team included representatives from Towers Watson, ORA, and SDG&E/SoCalGas.[1] Ms. Stacey Hunter represented ORA.[2] Decisions on the study methodology, including the aspects of the study questioned by Ms. Hunter in her testimony,[3] were made based on the consensus of the entire project team, which included Ms. Hunter.[4] Throughout the process, the study team met a total of 10 times, with four in-person and six telephonic meetings.[5] In addition, Towers Watson provided the team with weekly status updates by email.

Despite ORA's participation in the Total Compensation Study, Ms. Hunter takes issue with the following items:

- Elements of compensation and benefits to be included in the study;
- Use of both utility industry and general industry survey data; and
- Use of mean versus median survey data for reporting.

#### 1. Elements of compensation and benefits included in the study

The elements of compensation and benefits included in the study were: base salary, short-term incentives (actual and target), long-term incentives, and employee benefits. As discussed in ORA's testimony,[6] Ms. Hunter proposed that paid time off be included in the study, the project team agreed with her suggestion, and it was included in the valuation of employee benefits. This is but one example of the ORA's involvement in the decision-making process and the project team's consideration and adoption of the ORA's suggestions. All members of the SDG&E/SoCalGas Total Compensation Study team, including Ms. Hunter, were in agreement regarding the elements of compensation and benefits to be included in the study.

#### 2. Use of both utility industry and general industry survey data

ORA questions the use of comparator groups that include both general industry and utility industry companies.[7] Ms. Hunter actively participated in the selection of the surveys, as well as the data cuts, to be used in benchmarking compensation and benefits data. Consistent

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[1] Exs. SDG&E-22/SCG-21, App. A ("2016 Total Compensation Study") at 2.
[2] *Id.*
[3] Ex. ORA-17 (Hunter).
[4] Exs. SDG&E-22/SCG-21, App. A at App. F ("Project Team Meeting Notes").
[5] *Id.* at F-2-F-27.
[6] Ex. ORA-17 (Hunter) at 6:4-6.
[7] Ex. ORA-17 (Hunter) at 6:11-19.

with prior total compensation studies, the survey data included both general industry and utility industry companies. The use of both utility industry and general industry data represents the competitive labor market from which SDG&E and SoCalGas must recruit and retain employees.

The project team jointly evaluated which jobs required specialized utility experience. For jobs requiring utility experience, utility industry survey data was used exclusively or weighted more heavily than general industry survey data. For utility-specific jobs, survey data was often based solely on utility industry survey data. For example, survey data for “lineman” or “substation electrician” jobs would be based on data from other utilities, as these positions do not exist in general industry. For non-utility jobs, such as “accountant” or “human resources analyst,” survey data was based on both general industry and utility survey data. Again, the guiding principle determining the type of survey data used was the labor market from which SDG&E and SoCalGas compete for talent. This is discussed in the “Study Methodology” section of the Total Compensation Study:

> For each survey, specific data cuts were used for each different employee category to ensure an accurate reflection of the labor market that SDG&E [and SoCalGas] competes for talent.[8]

The Commission affirmed the relevance of using both utility and non-utility market data in the SDG&E/SoCalGas 2012 General Rate Case (GRC) decision:

> …the Total Compensation Study for both utilities used data from a number of other utilities, as well as data from non-utility companies comparable in revenue size to SDG&E and SoCalGas. These sixty or so companies provide a relevant comparison to what SDG&E and SoCalGas executives should make.[9]

### 3. Use of mean and median survey data

ORA questions the use of mean (average) data versus median data. As described above, Ms. Hunter was a member and active participant on the Total Compensation Study team and as such, she was involved in determining how survey data would be analyzed and presented. ORA could have recommended the use of median instead of mean data as an active participant of the team. ORA’s argument on this issue is misleading because it is based on a small sample of ten jobs and focuses on only one element of compensation and benefits. In addition, ORA ignores

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[8] Exs. SDG&E-22/SCG-21 (Direct Testimony of Debbie Robinson), App. A at 13.
[9] Decision (D.) 13-05-010 at 880.

Towers Watson's data validation process and the typical practice of basing final rate case reports on mean data.

For example, ORA selects just one element of compensation (base salary) for a sample of ten jobs and speculates that if median data had been used, the study results would have been higher, in some cases significantly higher, than the market.[10] ORA did not analyze the difference between median and mean data for all elements of compensation and benefits or for all jobs (the SDG&E study covered 382 jobs and the SoCalGas study covered 227 jobs). There is no evidence to support ORA's speculation that the overall study results (SDG&E's and SoCalGas' total compensation and benefits positioning relative to the competitive market) would have differed materially had the methodology focused more heavily on median data.

ORA also neglects to mention that Towers Watson analyzed and validated survey data using multiple statistics, as described in the "Study Methodology" section of the Total Compensation Study:

> Multiple statistics were developed for compensation analysis. Specifically, the 25th percentile, median, average, and 75th percentile of the market are provided.[11]
>
> Market cash compensation values by benchmark job were derived from multiple survey sources based on agreed-upon matches and the availability of quality market data (i.e. sufficient number of companies, good correlations of average and 50th percentile, etc.).[12]

For each job and each element of compensation, Towers Watson analyzed the correlation between the median and mean as well as the spread between the 25th and 75th percentiles to ensure that the mean provided a valid representation of the market data. Based on this analysis, Towers Watson identified cases in which data variances were broad and, therefore of concern, and the project team jointly decided how to address the concerns. In most cases, the jobs or survey data at issue were removed from the study. This process is further described in Towers Watson's testimony (Exhibits SDG&E-241 and SCG-240).

**C. Total Compensation Study Results**

The Total Compensation Study was based on valid methodology recommended and performed by Towers Watson, a nationally recognized compensation and benefits consulting

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[10] Ex. ORA-17 (Hunter) at 6:20-7:10.
[11] Exs. SDG&E-22/SCG-21 (Robinson), App. A at 16.
[12] Exs. SDG&E-22/SCG-21 (Robinson), App. A at 15.

firm. The project team, including ORA's representative, Ms. Hunter, jointly agreed upon the study methodology and approved the final study results. The overall results of the study concluded that SDG&E's total target compensation was within 5.3 percent of market and SoCalGas' total target compensation was within 2.6 percent of market. Compensation professionals, including Towers Watson, typically consider a range of plus or minus 10 percent of the average of the external market data to be competitive and broader ranges are common and expected for long-term incentives and benefits. Towers Watson provides the following guidance on interpretation of the study results:

> Towers Watson considers +/- 10 percent of the average or mean of the competitive market to be the range of competitiveness. A range such as this is generally considered by compensation professionals to be a standard of competitiveness due to variances in employee performance levels, years of experience, and tenure within and across organizations. For certain components of compensation, such as long-term incentives and benefits, larger variances are common. Because of the variables involved – matching benchmark jobs to survey information, matching career levels, sample size, and data quality issues – in a study such as this, a range should be considered in evaluating the competitiveness of compensation.[13]

Because SDG&E and SoCalGas tend to have more longer-service employees than the average employer, the relationship between pay and tenure is particularly significant. A workforce composed of highly skilled, experienced and long-tenured employees benefits ratepayers and results in lower employee turnover costs. The market survey data used in the Total Compensation Study conservatively reflects a range of tenure, and this data was not adjusted to take into account the longer average tenure of SDG&E and SoCalGas employees.

It should also be noted that the study also was conservatively based on nationwide survey data and did not apply a geographic differential to take into account the higher costs and pay levels of the Southern California market. If the study had applied a geographic differential for Southern California to the market data, the market survey data would have been significantly higher.

The Total Compensation Study found that SDG&E's and SoCalGas' total compensation is aligned with the competitive market. Compensation and benefits costs are reasonable and competitive and SDG&E's and SoCalGas' requests for recovery of these costs should be approved.

[13] Exs. SDG&E-22/SCG-21 (Robinson), App. A at 7.

## III. COMPENSATION

**Table 4**

| | Thousands of 2013 $ | | | | | |
|---|---|---|---|---|---|---|
| | SDG&E | | | | | |
| | 2013 Recorded | 2016 | ORA | ORA vs. SDG&E | TURN | TURN vs. SDG&E |
| **Compensation:** | | | | | | |
| Variable Pay | $50,977 | $50,351 | $17,244 | ($33,107) | $20,486 | ($29,865) |
| Long-Term Incentive Plan (LTIP) | $9,143 | $10,265 | $0 | ($10,265) | $0 | ($10,265) |
| Spot Cash program | $1,200 | $1,423 | $1,423 | $0 | $1,423 | $0 |
| Employee Recognition program | $121 | $366 | $366 | $0 | $366 | $0 |
| *Total* | *$61,441* | *$62,405* | *$19,033* | *($43,372)* | *$22,275* | *($40,130)* |

**Table 5**

| | Thousands of 2013 $ | | | | | |
|---|---|---|---|---|---|---|
| | SoCalGas | | | | | |
| | 2013 Recorded | 2016 | ORA | ORA vs. SoCalGas | TURN | TURN vs. SoCalGas |
| **Compensation:** | | | | | | |
| Variable Pay | $58,721 | $49,213 | $16,936 | ($32,277) | $20,324 | ($28,889) |
| Long-Term Incentive Plan (LTIP) | $5,833 | $7,592 | $0 | ($7,592) | $0 | ($7,592) |
| Spot Cash program | $2,159 | $1,291 | $1,291 | $0 | $1,291 | $0 |
| Employee Recognition program | $112 | $682 | $682 | $0 | $682 | $0 |
| *Total* | *$66,825* | *$58,778* | *$18,909* | *($39,869)* | *$22,297* | *($36,481)* |

### A. Introduction

Compensation programs include Variable Pay (also referred to as "ICP"), long-term incentives, and special recognition programs (spot cash and employee recognition). ORA and TURN took issue with Variable Pay and long-term incentives.

ORA proposes funding for only 20 percent of Variable Pay and TURN proposes funding approximately 40 percent of Variable Pay. Both ORA and TURN recommend zero funding for long-term incentives. ORA's and TURN's recommendations are based on their views of whether the specific performance measures under each short-term and long-term incentive program benefit ratepayers. SDG&E and SoCalGas dispute this approach.

#### 1. Incentive compensation programs (short-term and long-term) are part of a reasonable compensation package

Incentive compensation programs are part of a reasonable and competitive total compensation package and, as such, should be treated no differently than base salary for cost recovery purposes. The Commission has declined to micromanage utilities' variable compensation programs, saying that "as long as [a utility's] *total compensation levels* are appropriate [they] will not dictate how [the utility] distributes compensation among various types of employment benefits."[14] The Commission also noted:

> …it would be within [a utility's] managerial discretion to offer all cash compensation to employees in the form of base pay instead of a mix of base pay and incentive pay. In the event [the utility] were to do so, we would not take issue with ratepayer funding of the resulting compensation as long as total compensation is reasonable. If total compensation does not exceed market levels, a disallowance of reasonable expenses for the [incentive compensation] program would in effect be a substitution of our judgment for that of [utility] managers regarding the appropriate mix of base and incentive pay.[15]

In their respective testimonies, ORA and TURN inappropriately attempt to substitute their judgment for that of SDG&E and SoCalGas in determining the appropriate individual components that make up its incentive compensation program. Instead, ORA and TURN should recognize that SDG&E/SoCalGas' total compensation is at market and as such, is reasonable. In D.08-07-046 (at p. 22) the Commission also found that:

> "Because total compensation is reasonable, (defined as prevailing market rates for comparable skills) the ratepayers should reasonably fund a revenue requirement that includes the full market-based employee compensation for the adopted levels of staff. Thus, there is no basis to exclude the incentive component and force shareholders to assume a portion of the reasonable cost of employee compensation. We find no merit in DRA's argument that shareholders should fund any portion of the incentive portion of market-based employee compensation. We do not agree that incentives solely benefit the company: if employees work harder or smarter to earn incentives (even just to achieve the target incentives) then ratepayers should benefit too."

ORA and TURN's arguments may have the unintended consequence of encouraging SDG&E and SoCalGas to provide higher base salaries in lieu of incentive compensation, as long as the aggregate total compensation is at market. This would not be beneficial to ratepayers, as these incentive programs encourage employees to continue to find opportunities to improve efficiency, safety, reliability and customer service. D.04-07-022 (at p. 217) for Southern California Edison illustrates this view:

> "We also note that it would be within SCE's managerial discretion to offer all cash compensation to employees in the form of base pay instead of a

[14] D.97-07-054 at 68 (emphasis added). See also, e.g., D.13-05-010, p. 882 (declining to micromanage SDG&E and SoCalGas' variable compensation metrics).
[15] D.04-07-022 at 217.

> mix of base pay and incentive pay. In the event SCE were to do so, we would not take issue with ratepayer funding of the resulting total compensation as long as total compensation is reasonable."

### 2. Ratepayers benefit from incentive compensation programs

Ratepayers benefit from incentive compensation programs because they are critical to SDG&E/SoCalGas' ability to retain a highly-skilled, experienced workforce. In PG&E's 2014 GRC decision, the Commission stated:

> We conclude that offering employee compensation in the form of incentive payments is useful for recruiting and retaining skilled professionals and improving work performance. Conditioning a portion of management employees' compensation on achievement of specific company goals is a generally accepted compensation practice.[16]

Along these lines, the Commission has recognized that "short term incentive compensation is a valuable tool for attracting and retaining skilled professionals to run and manage the companies, and to carry out and meet safety, diversity, and customer service goals."[17]

For the reasons discussed in further detail below, performance measures in incentive compensation programs, including financial measures, benefit ratepayers.

## B. Variable Pay

**Table 6**

| | Thousands of 2013 $ | | | | | |
|---|---|---|---|---|---|---|
| | SDG&E | | | | | |
| | 2013 Recorded | 2016 | ORA | ORA vs. SDG&E | TURN | TURN vs. SDG&E |
| **Variable Pay** | | | | | | |
| Executive | $2,655 | $2,527 | $505 | ($2,022) | $758 | $1,769 |
| Non-Executive | $48,322 | $47,824 | $16,739 | ($31,085) | $19,728 | $28,096 |
| *Total* | *$50,977* | *$50,351* | *$17,244* | *($33,107)* | *$20,486* | *$29,865* |

**Table 7**

| | Thousands of 2013 $ | | | | | |
|---|---|---|---|---|---|---|
| | SoCalGas | | | | | |
| | 2013 Recorded | 2016 | ORA | ORA vs. SoCalGas | TURN | TURN vs. SoCalGas |
| **Variable Pay** | | | | | | |
| Executive | $2,733 | $1,927 | $385 | ($1,542) | $819 | ($1,108) |
| Non-Executive | $55,988 | $47,286 | $16,550 | ($30,736) | $19,506 | ($27,780) |
| *Total* | *$58,721* | *$49,213* | *$16,936* | *($32,277)* | *$20,324* | *($28,889)* |

[16] D.14-08-032 at 520.
[17] D.13-05-010 at 882.

As shown in Table 8 below, both ORA and TURN propose funding of Variable Pay based on their subjective views of the extent to which each incentive plan performance measure benefits ratepayers. ORA and TURN believe that financial measures are shareholder-oriented with no benefit to ratepayers.[18] ORA proposes 50 percent ratepayer funding of non-financial performance goals.[19] TURN proposes 100 percent ratepayer funding of most non-financial performance goals and 40 percent funding of individual performance goals.[20]

**Table 8**

| **Performance Measure** | **ORA Proposed Funding Percentage** | **TURN Proposed Funding Percentage*** |
|---|---|---|
| Financial measures | 0% | 0% |
| Safety and Reliability | 50% | 100% |
| Customer Service | 50% | 100% |
| Supplier Diversity | 50% | 100% |
| Individual Performance | 50% | 40% |

*Exceptions: TURN proposes 50% funding for efficiency measure and 0% funding for strategic goals in the 2015 SDG&E Executive ICP.

### 1. Financial performance measures

As previously mentioned, the Commission declined to micromanage SDG&E and SoCalGas' Variable Pay metrics in the TY 2012 GRC, rejecting arguments that short term incentive compensation should not be funded unless metrics are changed.[21] ORA and TURN's similar arguments against financial metrics should be rejected in this case as well. ORA and TURN are incorrect to assume that strong utility financial performance does not benefit ratepayers, as the Commission has correctly stated:

> The financial metric may benefit ratepayers as a result of the companies' lower borrowing costs.[22] …

[18] Ex. ORA-17 (Hunter) at 10:10; TURN (Sugar) at 5-12.
[19] Ex. ORA-17 (Hunter) at 11:11-12 and 12:7-8.
[20] TURN (Sugar) 19-22, Tables 1-8.
[21] D.13-05-010 at 882.
[22] *Id.*

> [A] financially strong company usually has lower borrowing costs, which benefits ratepayers by lowering costs.[23]

The linkage between utility financing costs and benefits to ratepayers was also discussed by Commissioner Ferron in his comments at an October 3, 2013 investor meeting:

> This reduction in risk has led to a direct reduction in the cost of financing capital for the utility sector in California. If you do the math, the reduction in the risk premium – the reduction in the incremental cost of capital to our utilities – when applied to the balance sheet of our utilities, is equal to several hundred million dollars every year in direct savings to rate-paying customers. In short, the ratepayer is ultimately the direct benefactor of this Commission making decisions that improve the investment climate in California.

ORA and TURN cite decisions in other states as justification to support its proposed exclusion of incentive plan financial goals. However, the decisions were by no means uniform on this issue. In fact, in two of the four cases cited by the ORA, the decisions supported ratepayer funding of incentive plan measures based on financial performance.

In the District of Columbia Public Utilities Commission's 2013 decision regarding short-term incentive pay (in that case, "STIP") for Washington Gas Light Company, the commission stated:

> We have not set as a requirement for STIP that each and every goal within an incentive plan must only benefit ratepayers. We recognize that a financially healthy utility company that provides quality service is beneficial to ratepayers and shareholders alike. As long as the STIP is structured to provide significant benefits to ratepayers, it can also contain a financial performance goal that benefits shareholders. For that reason, we decline to accept OPC's recommendation to reduce the STIP cost recovery by one-sixth because of the existence of the return on equity goal.[24]
>
> Consequently, we approve the Company's adjustment that increased test year expenses by $809,883 to fund the Company's at-risk STIP.[25]

[23] *Id*. at 883.
[24] 2013 D.C. PUC LEXIS 103 at *206.
[25] 2013 D.C. PUC LEXIS 103 at *206-207.

In the 2012 decision by the Florida Public Utilities Commission for Gulf Power Company regarding short-term incentive pay (in that case, "PPP"), the commission stated:

> We recognize that the financial incentives that Gulf employs as part of its incentive compensation plans may benefit ratepayers if they result in Gulf having a healthy financial position that allows the Company to raise funds at a lower cost than it otherwise could.[26]
>
> We find that the short-term incentive compensation test year amounts related to the PPP shall be included in O&M expense…[27]

In its testimony, TURN identifies various states that "do not allow recovery of incentives related to utility financial performance goals."[28] However, there are many states that do allow recovery of incentive compensation tied to financial goals, as California has, and as ORA's case cites show.

In a recent CenterPoint Energy Minnesota Gas GRC, the Minnesota Public Utilities Commission allowed short-term incentive compensation costs to be recovered from ratepayers, subject to a cap of 25% of employees' base pay. The incentive compensation program included performance and financial goals. The commission found that since the "financial performance metric…measures financial performance in terms of overall targets, not shareholder gains – it…provide[s] direct benefits to shareholders and indirect benefits to ratepayers."[29]

The Colorado Public Utilities Commission has also authorized the inclusion of financial incentives in Black Hills/Colorado Electric Utility, LP's revenue requirement. Black Hills argued that "customers directly benefit when they are being served by a financially secure utility that is able to meet their needs efficiently and economically" and the commission agreed that the incentive compensation tied to financial goals "represent[ed] a reasonable amount that directly benefits [Black Hills'] customers."[30] More recently, the Colorado Public Utilities Commission reaffirmed their position to include financial incentive compensation in revenue requirements. Black Hills offers

[26] 2012 Fla. PUC LEXIS 233 at *253.
[27] *Id.*
[28] TURN (Sugar) at 13.
[29] 2014 Minn. PUC LEXIS 299 at *40.
[30] 2011 Colo. PUC LEXIS 1285 at *67-68.

equity compensation to employees in the form of stocks and argues that ratepayers "directly benefit from the employee's activities that are being compensated which are directed towards providing safe, reliable and efficient electric service."[31] Moreover, they argued that "there [had] been no showing that the overall level of compensation [was] excessive, compared to similarly situated utilities."[32] While the commission recognized that there was shareholder benefit, they also agreed with Black Hills that the "expense represents a reasonable amount that directly benefits [Black Hills'] customers" and as such, equity compensation benefits should be included in the test period.[33]

The Indiana Utility Regulatory Commission also "recognizes the value of incentive compensation plans as part of an overall compensation package to attract and retain qualified personnel."[34] They have well-established criteria for the recovery of incentive compensation plan costs in rates when "the incentive compensation plan is not a pure profit-sharing plan, but rather incorporates operational as well as financial performance goals…"[35]

TURN's specific arguments regarding SDG&E's and SoCalGas' financial performance measures are discussed in the testimony of Robert Schlax (Exhibits SDG&E-242 and SoCalGas-241).

**2. Operational and individual performance measures:**

ORA does not dispute that operational measures, such as safety, reliability, and customer service, and individual performance measures benefit ratepayers. Rather, it contends that shareholders also benefit from these measures and that costs should be shared 50/50.

TURN proposes full ratepayer funding of operational goals with the exception of strategic/regulatory goals, which were weighted at 10 percent in the 2015 SDG&E Executive plan. TURN proposes 40 percent ratepayer funding of the individual performance goal. TURN's rationale for 40 percent funding of the individual

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[31] 2014 Colo. PUC LEXIS 1508 at *138.
[32] *Id*. At *139.
[33] *Id*. at 142.
[34] 2012 Ind. PUC LEXIS 178 at *195
[35] *Id*. at 196. *See also* 2011 Ind. PUC LEXIS 115 at *149-151. (Finding that incentive compensation programs that included financial goals as well as operation and individual goals incent employees to aid the utility in improving its capabilities and service through increased efficiency and reliability.)

performance goal is the overall pool of funds available for individual performance awards is funded by the company performance score (i.e. the aggregate score for the goals based on financial and operational performance). Because this funding formula is partially based on performance related to the financial goals, TURN proposes disallowing this portion of the individual performance component.

SDG&E and SoCalGas strongly disagree with the ORA's and TURN's views. Because variable pay is part of a competitive and reasonable total compensation package, it should be fully recoverable. The Commission has declined to manage the performance goals in incentive plans. In SDG&E's and SoCalGas' 2012 GRC decision, the Commission concluded:

> With respect to the argument of TURN and UCAN that the metrics for the ICPs of SDG&E and SoCalGas should be revised, we do not adopt that suggestion. SDG&E and SoCalGas are in the best position to decide what metrics to use to measure the performance of its employees, and to revise the metrics as UCAN has suggested would result in the Commission's micromanaging of the Applicant's variable compensation.[36]

In addition, SDG&E and SoCalGas dispute TURN's proposed disallowance of 60 percent of the individual performance goal because, as discussed above, strong financial performance benefits ratepayers. Also, while the overall pool of funds for the individual performance award component is based on company performance, the amount awarded to each employee is based on his or her individual performance and contributions.

### 3. Inconsistency with ORA's approach in SCE's GRC and past Commission decisions

ORA's approach is also inconsistent with the approach it recommended in Southern California Edison Company's (SCE) 2015 GRC and with past Commission decisions. In SCE's most recent GRC, ORA bases its recommendation for cost recovery of incentive compensation costs on the level of employee participating in each incentive plan. ORA recommended no ratepayer funding for a plan in which non-officer executives participate, 50% funding for plans covering management and other non-represented employees, and 75% funding for plans covering represented employees:

> ORA recommends that shareholders pay 100% of the NOEIP portion, which benefit executives who are not officers (less than 1% of the

[36] D.13-05-010 at 882.

> company), 50% of the combined expenses for the MIP and the RS, and an additional 25% of the RS expenses for union employees.[37]

While both the approach used by the ORA in SCE's GRC and the approach used in SDG&E/SoCalGas GRCs are flawed, they are very different. This highlights the arbitrary nature of ORA's recommendations.

In SCE's 2014 GRC and PG&E's 2014 GRC, the Commission adopted ratepayer funding of 90 percent of short-term incentive compensation, citing reasons for the 10% reduction that were specific to the facts of those cases. [38] In D.12-11-051, the Commission determined:

> …the Commission finds reasonable and adopts $132.116 million, a 10% reduction in rate recovery, similar to reductions to forecast capital spending and an implied reduction in SCE's workforce forecast.[39]

In PG&E's 2014 GRC, the Commission also adopted a general approach based on ratepayer funding of 90 percent of non-officer short-term incentives. While the Commission disallowed funding for two of PG&E's performance measures, the reasons for the disallowance were specific to PG&E.

> Our adopted allowance incorporates the exclusion of the EFO and Customer Satisfaction STIP metrics, as proposed by TURN. After reducing PG&E's forecast for these exclusions, we apply a 10% reduction to provide some degree of sharing of cost responsibility between ratepayers and shareholders.[40]

The rationale for disallowance of PG&E's financial performance measure was specific to PG&E:

> Based on PG&E's past behavior, we conclude that incentives to increase earnings can potentially work at cross purposes with incentives to address safety or reliability issues.[41]

The rationale for the Commission's disallowance of PG&E's customer satisfaction measure also was specific to PG&E:

> PG&E has not demonstrated a convincing correlation between actual customer benefits and the metrics tracked by STIP…PG&E routinely uses

[37] Application (A.) 13-11-003, ORA-16, p. 26.
[38] *See* SCE's Decision at D.12-11-051 and PG&E's Decision at D.14-08-032.
[39] D.12-11-051 at 458. This portion of the decision relates to non-officer incentive plans. The Commission adopted 50/50 funding of the short-term incentive plan for officers.
[40] D.14-08-032 at 520.
[41] *Id*. at 521.

> any contact a customer may have had with PG&E, including through merely paying their bill, as reasonable indicators of customer satisfaction.[42]

Both SDG&E and SoCalGas have a strong history of safe and reliable performance and a focus on customer satisfaction, as more fully described in the direct testimonies of Diana Day (Risk Policy and Management), David Geier (Electric Operations Risk Policy), and Douglas Schneider (Gas Operations Risk Policy).[43] The culture of safety at SDG&E and SoCalGas extends from the top of the organization to the frontline employees. Clearly, the concerns expressed by the Commission in D.14-08-032 do not apply to SDG&E and SoCalGas. It should be noted that the Commission did not disallow funding of SCE's financial or customer satisfaction performance measures in D.12-11-051 nor did it differentiate funding based on specific performance measures in SDG&E's and SoCalGas' 2012 General Rate Case.

It is important to note that SDG&E and SoCalGas are requesting ratepayer funding based on <u>target</u> performance. To the extent that actual performance exceeds target performance, shareholders <u>already</u> fund a portion of Variable Pay. Over the past five years, the portion of the total actual Variable Pay that relates to above-target performance (i.e., the total actual Variable Pay awards less the total target Variable Pay awards), represents 29 percent of total Variable Pay payouts for SDG&E and 25 percent for SoCalGas. If the Commission were to adopt ratepayer funding of 90 percent of SDG&E's and SoCalGas' Variable Pay programs, it should be taken into account that shareholders already fund significantly more than 10 percent of SDG&E's and SoCalGas' Variable Pay programs.

### C. Long-Term Incentives

**Table 9**

| | Thousands of 2013 $ | | | | | |
|---|---|---|---|---|---|---|
| | SDG&E | | | | | |
| | 2013 Recorded | 2016 | ORA | ORA vs. SDG&E | TURN | TURN vs. SDG&E |
| **LTIP** | | | | | | |
| Long-Term Incentive Plan | $9,143 | $10,265 | $0 | ($10,265) | $0 | $10,265 |
| *Total* | *$9,143* | *$10,265* | *$0* | *($10,265)* | *$0* | *$10,265* |

[42] *Id*. at 522.
[43] *See* Exs. SDG&E-02/SCG-02 (Day), SDG&E-03 (Geier and Schneider), and SCG-03 (Schneider).

**Table 10**

| | Thousands of 2013 $ | | | | | |
|---|---|---|---|---|---|---|
| | SoCalGas | | | | | |
| | 2013 Recorded | 2016 | ORA | ORA vs. SoCalGas | TURN | TURN vs. SoCalGas |
| **LTIP** | | | | | | |
| Long-Term Incentive Plan | $5,833 | $7,592 | $0 | ($7,592) | $0 | ($7,592) |
| *Total* | *$5,833* | *$7,592* | *$0* | *($7,592)* | *$0* | *($7,592)* |

ORA and TURN recommend disallowing 100% of Long-Term Incentive Plan expenses. In ORA's view, these incentives only benefit executives and shareholders.

For SDG&E and SoCalGas, long-term incentives are a critical component of a competitive compensation and benefits package required to attract, motivate and retain executives and key management employees. These incentives have multi-year performance and service periods (three to four years) and are a powerful tool for ensuring the retention of SDG&E's and SoCalGas' management team.

Consistent with SDG&E's and SoCalGas' compensation philosophy, a greater proportion of pay is at-risk, or performance-based, at higher levels of responsibility. Long-term incentives make up 12 percent to 51 percent of total target compensation (which includes base pay, short-term incentives, and long-term incentives) for key management and executive employees.

Like Variable Pay, long-term incentives, are part of a reasonable, competitive total compensation package and should be recoverable.

**D. Joint Minority Parties' Proposal to Limit Executive Compensation**

Joint Minority Parties' testimony argues that SDG&E and SoCalGas should pay their employees, including executives, using the pay scale of the Los Angeles Department of Water and Power (LADWP). SDG&E and SoCalGas strongly disagree with this approach. As discussed above under "Total Compensation Study", compensation should be based on the labor market from which SDG&E and SoCalGas must recruit and retain employees. The Commission refuted JMP's suggestion to benchmark compensation to LADWP in D.13-05-010:

> …the wages of the executives at LADWP do not provide an apples to apples comparison of the wages and benefits that the executives at SDG&E and SoCalGas make. LADWP is a municipal utility, whose employees are city employees. As such, their wages and benefits are restricted, and are not comparable to what executives make at investor-owned utilities. To only compare wages and benefits that executives make

at LADWP to what executives make at SDG&E and SoCalGas would be an unfair comparison.[44]

## IV. BENEFITS

### A. Introduction

Benefit programs are a critical component of a competitive total rewards program. SDG&E and SoCalGas offer a comprehensive and balanced employee benefits program that includes:

- Health benefits: medical, dental, vision, wellness, employee assistance program ("EAP"), and mental health and substance abuse benefits;
- Welfare benefits: long-term disability, workers compensation, life insurance, accidental death and dismemberment ("AD&D") insurance, and business travel accident insurance;
- Retirement benefits: pension and retirement savings plans; and
- Other benefit programs.

Long-term disability and workers compensation are covered by the direct testimonies of Sarah Edgar (Ex. SDG&E-24) and Mark Serrano (Ex. SCG-23). Broad-based pension benefits and post-retirement health benefits are covered by the direct testimony of David Sarkaria (Ex. SDG&E-23 and SCG-22.)

The differences between the amounts requested by SDG&E and SoCalGas and the amounts proposed by the ORA and TURN are summarized below in Table 11 for SDG&E and Table 12 for SoCalGas.

ORA, TURN, and UCAN take issue with the following elements of SDG&E's and SoCalGas' benefit program funding requests:

- Health and Welfare benefits: ORA advocates using 2014 adjusted actual recorded expense as the basis for the test year estimates. For medical benefit cost escalation, ORA proposes using the Berkeley Healthcare Forum forecast. ORA's calculation using this methodology contained errors, which are described below under "Health and Welfare Benefits."
- Nonqualified Savings Plan and Supplemental Pension: ORA and TURN oppose funding for these programs.

[44] D.13-05-010 at 879.

- Other Benefit Programs and Fees: ORA did not take issue with these programs, with the exception of SoCalGas' special events request, for which ORA proposes zero ratepayer funding. TURN recommends using a six-year average for these programs and disallowing 50 percent of the service recognition program and all retirement activities and SoCalGas special events costs.
- Post-test year medical escalation: ORA witness Tang (ORA-23) takes issue with the post-test year medical escalation proposed by SDG&E and SoCalGas. ORA recommends using the IHS (formerly Global Insights) forecast or, alternatively, the Berkeley Healthcare Forum forecast. UCAN recommends using the IHS Global Insights forecast.

**Table 11**

| Benefits Programs | Thousands of 2013 $ | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | SDG&E | | ORA | | ORA vs. SDG&E | | TURN | |
| | 2013 Recorded | 2016 | ORA as Submitted | ORA w/Health & Welfare Corrections | ORA as Submitted vs. SDG&E | ORA w/H&W Corrections vs. SDG&E | TURN | TURN vs. SDG&E |
| **Health Benefits:** | | | | | | | | |
| Medical | $47,929 | $50,179 | $47,238 | $51,216 | ($2,941) | $1,037 | $50,179 | $0 |
| Dental | $3,236 | $4,094 | $3,815 | $3,973 | ($279) | ($121) | $4,094 | $0 |
| Vision | $322 | $350 | $326 | $331 | ($24) | ($19) | $350 | $0 |
| Wellness | $535 | $1,169 | $758 | $771 | ($411) | ($398) | $1,169 | $0 |
| EAP | $322 | $335 | $321 | $326 | ($14) | ($9) | $335 | $0 |
| Mental Health | $1,198 | $1,579 | $1,361 | $1,385 | ($218) | ($194) | $1,579 | $0 |
| *Subtotal* | *$53,542* | *$57,706* | *$53,819* | *$58,002* | *($3,887)* | *$296* | *$57,706* | *$0* |
| **Welfare Benefits:** | | | | | | | | |
| AD&D Insurance | $90 | $93 | $85 | $90 | ($8) | ($3) | $93 | $0 |
| Business Travel Insurance | $24 | $24 | $24 | $24 | $0 | $0 | $24 | $0 |
| Life Insurance | $746 | $790 | $813 | $870 | $23 | $80 | $790 | $0 |
| *Subtotal* | *$860* | *$907* | *$922* | *$984* | *$15* | *$77* | *$907* | *$0* |
| **Retirement Benefits:** | | | | | | | | |
| Retirement Savings Plan | $12,250 | $14,287 | $14,287 | $14,287 | $0 | $0 | $14,287 | $0 |
| Nonqualified Retirement Savings Plan | $253 | $274 | $0 | $0 | ($274) | ($274) | $0 | ($274) |
| Supplemental Pension | $5,466 | $3,360 | $0 | $0 | ($3,360) | ($3,360) | $0 | ($3,360) |
| *Subtotal** | *$17,969* | *$17,921* | *$14,287* | *$14,287* | *($3,634)* | *($3,634)* | *$14,287* | *($3,634)* |
| **Other Benefit Programs and Fees:** | | | | | | | | |
| Benefits Administration Fees | $894 | $1,005 | $1,005 | $1,005 | $0 | $0 | $999 | ($6) |
| Educational Assistance | $462 | $536 | $536 | $536 | $0 | $0 | $532 | ($4) |
| Emergency Childcare | $141 | $133 | $133 | $133 | $0 | $0 | $131 | ($3) |
| Mass Transit Incentive | $62 | $58 | $58 | $58 | $0 | $0 | $101 | $43 |
| Retirement Activities | $108 | $117 | $117 | $117 | $0 | $0 | $0 | ($117) |
| Service Recognition | $118 | $133 | $133 | $133 | $0 | $0 | $69 | ($64) |
| *Subtotal* | *$1,785* | *$1,982* | *$1,982* | *$1,982* | *$0* | *$0* | *$1,831* | *($151)* |
| **Total** | **$74,156** | **$78,516** | **$71,010** | **$75,255** | **($7,506)** | **($3,261)** | **$74,731** | **($3,785)** |

*Note: The $3,634 differential under TURN vs. SDG&E for Nonqualified Retirement Savings Plan and Supplemental Pension differs from the $3,907 shown in Table 10 on page 27 of Mr. Sugar's testimony. It appears that TURN double-counted the Nonqualified Savings Plan ($274 + $274 + $3,360 = $3,908).

## Table 12

| Benefits Programs | Thousands of 2013 $ | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | SoCalGas | | ORA | | ORA vs. SoCalGas | | TURN | |
| | 2013 Recorded | 2016 | ORA as Submitted | ORA w/Health & Welfare Corrections | ORA as Submitted vs. SoCalGas | ORA w/H&W Corrections vs. SoCalGas | TURN | TURN vs. SoCalGas |
| **Health Benefits:** | | | | | | | | |
| Medical | $73,317 | $89,763 | $85,725 | $92,927 | ($4,038) | $3,164 | $89,763 | $0 |
| Dental | $3,633 | $4,625 | $4,427 | $4,602 | ($198) | ($23) | $4,625 | $0 |
| Vision | $498 | $590 | $583 | $594 | ($7) | $4 | $590 | $0 |
| Wellness | $358 | $842 | $353 | $359 | ($489) | ($483) | $842 | $0 |
| EAP | $782 | $927 | $889 | $904 | ($38) | ($23) | $927 | $0 |
| Mental Health | $1,392 | $1,916 | $1,507 | $1,533 | ($409) | ($383) | $1,916 | $0 |
| *Subtotal* | *$79,980* | *$98,663* | *$93,485* | *$100,919* | *($5,179)* | *$2,256* | *$98,663* | *$0* |
| **Welfare Benefits:** | | | | | | | | |
| AD&D Insurance | $60 | $74 | $61 | $65 | ($13) | ($9) | $74 | $0 |
| Business Travel Insurance | $42 | $45 | $45 | $45 | $0 | $0 | $45 | $0 |
| Life Insurance | $1,806 | $2,107 | $2,164 | $2,312 | $57 | $205 | $2,107 | $0 |
| *Subtotal* | *$1,908* | *$2,226* | *$2,270* | *$2,422* | *$44* | *$196* | *$2,226* | *$0* |
| **Retirement Benefits:** | | | | | | | | |
| Retirement Savings Plan | $16,248 | $19,245 | $19,245 | $19,245 | $0 | $0 | $19,245 | $0 |
| Nonqualified Retirement Savings Plan | $199 | $216 | $0 | $0 | ($216) | ($216) | $0 | ($216) |
| Supplemental Pension | $1,994 | $870 | $0 | $0 | ($870) | ($870) | $0 | ($870) |
| *Subtotal* | *$18,441* | *$20,331* | *$19,245* | *$19,245* | *($1,086)* | *($1,086)* | *$19,245* | *($1,086)* |
| **Other Benefit Programs and Fees:** | | | | | | | | |
| Benefits Administration Fees | $1,345 | $1,498 | $1,498 | $1,498 | $0 | $0 | $1,331 | ($167) |
| Educational Assistance | $1,004 | $1,233 | $1,233 | $1,233 | $0 | $0 | $932 | ($301) |
| Emergency Childcare | $201 | $193 | $193 | $193 | $0 | $0 | $139 | ($54) |
| Mass Transit Incentive | $803 | $902 | $902 | $902 | $0 | $0 | $1,048 | $146 |
| Retirement Activities | $208 | $224 | $224 | $224 | $0 | $0 | $0 | ($224) |
| Service Recognition* | $233 | $241 | $241 | $241 | $0 | $0 | $107 | ($135) |
| Special Events | $430 | $529 | $0 | $0 | ($529) | ($529) | $0 | ($529) |
| *Subtotal* | *$4,224* | *$4,820* | *$4,291* | *$4,291* | *($529)* | *($529)* | *$3,557* | *($1,264)* |
| **Total** | **$104,553** | **$126,040** | **$119,291** | **$126,877** | **($6,750)** | **$837** | **$123,691** | **($2,350)** |

*Note: Under Service Recognition, the amount shown for TURN is based on the six-year average shown in Table 8 on page 16 of Garrick Jones' testimony. The six-year average calculation in Table 10 on page 17 of Mr. Jones testimony contains an error. For 2012, the amount shown is "20" but instead should be "220".

### B. Health and Welfare Benefits

ORA used 2014 actual adjusted recorded expense as the basis for its calculation. ORA divided the 2014 actual adjusted recorded expense by SDG&E's and SoCalGas' 2014 headcount forecast to calculate a per-employee cost. The per-employee cost was then escalated and applied to SDG&E's and SoCalGas' projected TY2016 headcount.

ORA's calculation contained two types of errors:

- The 2014 actual adjusted recorded expense used by the ORA had been de-escalated into 2013 dollars. If ORA wants to use 2014 actual expense as a proxy for the base year expense, actual 2014 expense (without de-escalation to 2013 dollars) should be used.
- When ORA applied benefit cost escalation for medical and dental benefits, it applied only one year of escalation instead of two years, in effect, only

escalating through 2015 rather than 2016. ORA did not apply any escalation for accidental death and dismemberment or life insurance benefits.[45] ORA's escalation of costs for other benefit programs (e.g. wellness, EAP, and Mental Health) did not contain this error.

Setting aside whether ORA's overall methodology is appropriate, if ORA's methodology is adopted these errors must be corrected. Below is a summary of ORA's calculations as submitted and the corrected calculations. The highlights indicate differences between the ORA's calculations and the corrected calculations:

**Table 13**

| SDG&E | 2014 Adj. Actual Expense in 2013 $ | De-escalation | 2014 Adj. Actual Expense in 2014 $ | 2014 Headcount Forecast | 2014 Per-Employee Cost | Escalation Rate: 2014 to 2015 | 2015 Per-Employee Cost | Escalation Rate: 2015 to 2016 | 2016 Per-Employee Cost | 2016 Headcount Forecast | Total 2016 Cost | Corrected vs Submitted |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Medical: | | | | | | | | | | | | |
| ORA | $ 43,350 | $ 741 | $ 44,091 | 4,770 | $ 9.0881 | 6.60% | $ 9.6879 | 0.00% | $ 9.6879 | 4,876 | $ 47,238 | |
| Corrected | $ 43,350 | $ 741 | $ 44,091 | 4,770 | $ 9.2434 | 6.60% | $ 9.8535 | 6.60% | $ 10.5038 | 4,876 | $ 51,216 | $ 3,978 |
| Dental | | | | | | | | | | | | |
| ORA | $ 3,645 | $ 62 | $ 3,707 | 4,770 | $ 0.7642 | 2.40% | $ 0.7825 | 0.00% | $ 0.7825 | 4,876 | $ 3,815 | |
| Corrected | $ 3,645 | $ 62 | $ 3,707 | 4,770 | $ 0.7771 | 2.40% | $ 0.7958 | 2.40% | $ 0.8149 | 4,876 | $ 3,973 | $ 158 |
| Vision | | | | | | | | | | | | |
| ORA | $ 304 | $ 5 | $ 309 | 4,770 | $ 0.0637 | 2.40% | $ 0.0653 | 2.40% | $ 0.0668 | 4,876 | $ 326 | |
| Corrected | $ 304 | $ 5 | $ 309 | 4,770 | $ 0.0648 | 2.40% | $ 0.0663 | 2.40% | $ 0.0679 | 4,876 | $ 331 | $ 5 |
| Wellness | | | | | | | | | | | | |
| ORA | $ 702 | $ 12 | $ 714 | 4,770 | $ 0.1472 | 2.75% | $ 0.1512 | 2.75% | $ 0.1554 | 4,876 | $ 758 | |
| Corrected | $ 702 | $ 12 | $ 714 | 4,770 | $ 0.1497 | 2.75% | $ 0.1538 | 2.75% | $ 0.1580 | 4,876 | $ 771 | $ 13 |
| EAP | | | | | | | | | | | | |
| ORA | $ 297 | $ 5 | $ 302 | 4,770 | $ 0.0623 | 2.75% | $ 0.0640 | 2.75% | $ 0.0657 | 4,876 | $ 321 | |
| Corrected | $ 297 | $ 5 | $ 302 | 4,770 | $ 0.0633 | 2.75% | $ 0.0651 | 2.75% | $ 0.0668 | 4,876 | $ 326 | $ 5 |
| Mental Health | | | | | | | | | | | | |
| ORA | $ 1,172 | $ 20 | $ 1,192 | 4,770 | $ 0.2457 | 6.60% | $ 0.2619 | 6.60% | $ 0.2792 | 4,876 | $ 1,361 | |
| Corrected | $ 1,172 | $ 20 | $ 1,192 | 4,770 | $ 0.2499 | 6.60% | $ 0.2664 | 6.60% | $ 0.2840 | 4,876 | $ 1,385 | $ 23 |
| AD&D | | | | | | | | | | | | |
| ORA | $ 83 | $ 1 | $ 84 | 4,770 | $ 0.0174 | 0.00% | $ 0.0174 | 0.00% | $ 0.0174 | 4,876 | $ 85 | |
| Corrected | $ 83 | $ 1 | $ 84 | 4,770 | $ 0.0176 | 2.75% | $ 0.0181 | 2.40% | $ 0.0185 | 4,876 | $ 90 | $ 6 |
| Life Insurance | | | | | | | | | | | | |
| ORA | $ 795 | $ 14 | $ 809 | 4,770 | $ 0.1667 | 0.00% | $ 0.1667 | 0.00% | $ 0.1667 | 4,876 | $ 813 | |
| Corrected | $ 795 | $ 14 | $ 809 | 4,770 | $ 0.1696 | 2.75% | $ 0.1743 | 2.40% | $ 0.1784 | 4,876 | $ 870 | $ 57 |
| Total | | | | | | | | | | | | |
| ORA | | | | | | | | | | | $ 54,716 | |
| Corrected | | | | | | | | | | | $ 58,963 | $ 4,246 |
| Amount Requested by SDG&E | | | | | | | | | | | $ 58,589 | |

[45] ORA's calculation is contrary to the its assertion on p. 22 of Ex. ORA-17 (Hunter) that it does not dispute the proposed escalation rates for AD&D and life insurance.

**Table 14**

| SoCalGas | 2014 Adj. Actual Expense in 2013 $ | De-escalation | 2014 Adj. Actual Expense in 2014 $ | 2014 Headcount Forecast | 2014 Per-Employee Cost | Escalation Rate: 2014 to 2015 | 2015 Per-Employee Cost | Escalation Rate: 2015 to 2016 | 2016 Per-Employee Cost | 2016 Headcount Forecast | Total 2016 Cost | Corrected vs Submitted |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Medical: | | | | | | | | | | | | |
| ORA | $ 74,037 | $ 1,251 | $ 75,288 | 8,378 | $ 8.8371 | 6.60% | $ 9.4203 | 0.00% | $ 9.4203 | 9,100 | $ 85,725 | |
| Corrected | $ 74,037 | $ 1,251 | $ 75,288 | 8,378 | $ 8.9864 | 6.60% | $ 9.5795 | 6.60% | $ 10.2117 | 9,100 | $ 92,927 | $ 7,202 |
| Dental | | | | | | | | | | | | |
| ORA | $ 3,987 | $ 67 | $ 4,054 | 8,378 | $ 0.4759 | 2.23% | $ 0.4865 | 0.00% | $ 0.4865 | 9,100 | $ 4,427 | |
| Corrected | $ 3,987 | $ 67 | $ 4,054 | 8,378 | $ 0.4839 | 2.23% | $ 0.4947 | 2.23% | $ 0.5057 | 9,100 | $ 4,602 | $ 175 |
| Vision | | | | | | | | | | | | |
| ORA | $ 514 | $ 9 | $ 523 | 8,378 | $ 0.0614 | 2.23% | $ 0.0627 | 2.23% | $ 0.0641 | 9,100 | $ 583 | |
| Corrected | $ 514 | $ 9 | $ 523 | 8,378 | $ 0.0624 | 2.23% | $ 0.0638 | 2.23% | $ 0.0652 | 9,100 | $ 594 | $ 10 |
| Wellness | | | | | | | | | | | | |
| ORA | $ 308 | $ 5 | $ 313 | 8,378 | $ 0.0368 | 2.75% | $ 0.0378 | 2.75% | $ 0.0388 | 9,100 | $ 353 | |
| Corrected | $ 308 | $ 5 | $ 313 | 8,378 | $ 0.0374 | 2.75% | $ 0.0384 | 2.75% | $ 0.0394 | 9,100 | $ 359 | $ 6 |
| EAP | | | | | | | | | | | | |
| ORA | $ 775 | $ 13 | $ 788 | 8,378 | $ 0.0925 | 2.75% | $ 0.0950 | 2.75% | $ 0.0977 | 9,100 | $ 889 | |
| Corrected | $ 775 | $ 13 | $ 788 | 8,378 | $ 0.0941 | 2.75% | $ 0.0966 | 2.75% | $ 0.0993 | 9,100 | $ 904 | $ 15 |
| Mental Health | | | | | | | | | | | | |
| ORA | $ 1,221 | $ 21 | $ 1,242 | 8,378 | $ 0.1457 | 6.60% | $ 0.1554 | 6.60% | $ 0.1656 | 9,100 | $ 1,507 | |
| Corrected | $ 1,221 | $ 21 | $ 1,242 | 8,378 | $ 0.1482 | 6.60% | $ 0.1580 | 6.60% | $ 0.1685 | 9,100 | $ 1,533 | $ 26 |
| AD&D | | | | | | | | | | | | |
| ORA | $ 56 | $ 1 | $ 57 | 8,378 | $ 0.0067 | 0.00% | $ 0.0067 | 0.00% | $ 0.0067 | 9,100 | $ 61 | |
| Corrected | $ 56 | $ 1 | $ 57 | 8,378 | $ 0.0068 | 2.75% | $ 0.0070 | 2.23% | $ 0.0071 | 9,100 | $ 65 | $ 4 |
| Life Insurance | | | | | | | | | | | | |
| ORA | $ 1,992 | $ 34 | $ 2,026 | 8,378 | $ 0.2378 | 0.00% | $ 0.2378 | 0.00% | $ 0.2378 | 9,100 | $ 2,164 | |
| Corrected | $ 1,992 | $ 34 | $ 2,026 | 8,378 | $ 0.2418 | 2.75% | $ 0.2485 | 2.23% | $ 0.2540 | 9,100 | $ 2,312 | $ 148 |
| Total | | | | | | | | | | | | |
| ORA | | | | | | | | | | | $ 95,709 | |
| Corrected | | | | | | | | | | | $ 103,295 | $ 7,586 |
| Amount Requested by SoCalGas | | | | | | | | | | | $ 100,844 | |

As shown in Table 13 and Table 14 above, the corrected ORA calculations result in a total health and welfare benefit amount that is higher than the amounts requested by SDG&E and SoCalGas. SDG&E's and SoCalGas' calculations take into account benefit plan enrollment by plan (e.g. Anthem HMO, Kaiser HMO, waives, etc.), by coverage level (e.g. employee only, employee + dependents) and by union status. This comprehensive forecast is preferable to the high-level method proposed by the ORA.

### 1. Medical Escalation (Including Post-Test Year)

**Table 15**

| Medical Cost Escalation | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|---|
| SDG&E and SoCalGas | 9.60% | 7.80% | 7.80% | 7.80% | 6.50% |
| | | | | | |
| ORA-Hunter | 6.60% | 6.60% | 6.60% | 6.60% | 6.60% |
| | | | | | |
| ORA-Tang - Primary | | | 5.00% | 4.30% | 3.60% |
| | | | | | |
| ORA-Tang - Alternative | | | 6.60% | 6.60% | 6.60% |
| | | | | | |
| UCAN-Norin | | | 5.00% | 4.30% | |

*ORA's Proposals for* Medical *Escalation:*

In addition to *using* 2014 actual expenses as the basis for TY2016 costs, ORA takes issue with the medical cost escalation rates used by SDG&E and SoCalGas. ORA's witnesses are recommending two different sources of medical escalation rates. In ORA-17, Ms. Hunter proposes using the Berkley Healthcare Forum medical escalation projection.

> The Berkeley Healthcare Forum, a group that includes the CEOs of six of California's leading health systems, three health insurers and two large physician organizations, along with the California Secretary of Health and Human Services, the U.S. Department of Health and Human Services Region IX Director and California insurance regulators, analyzed California-specific data from a number of sources. The Berkeley Healthcare Forum projects that employer-provided healthcare premiums in California will increase an average of 6.6% every year for 2015-2018.[46]

In Ex. ORA-23, Mr. Tang recommends using the IHS (formerly Global Insight) Operational Excellence and Risk Management Cost Planner forecast for post-test year medical escalation rates.[47] Mr. Tang's testimony acknowledges some of the shortcomings of the IHS Global Insight forecast, such as its use of nationwide (not California-specific) data and offers the Berkeley Healthcare Forum forecast, which projects medical escalation at 6.6%, as an alternative.[48]

[46] Ex. ORA-17 (Hunter) at 17-18.
[47] Ex. ORA-23 (Tang) at 20:11-16.
[48] *Id*. at 20:21-22 and 21:8-11.

*UCAN's Proposal for Medical Escalation (Post-Test Year Only):*

UCAN also recommends using the IHS Global Insight escalation forecast for post-test year medical escalation.[49] UCAN's recommendation would set medical escalation rates each year based on the prior IHS Global Insight forecast from the preceding September, subject to a 200 basis point cap above the forecasted escalation rates.[50] UCAN's proposal to place a 200 point basis point cap on forecasted medical escalation rates is arbitrary, unfair to SDG&E and SoCalGas and should be rejected. In addition, the IHS Global Insight medical escalation forecast should not be used for the reasons discussed below.

*SDG&E and* SoCalGas' *Proposal and Concerns with ORA's and UCAN's Proposals:*

SDG&E and SoCalGas recommend the medical trend forecast prepared by Towers Watson. Towers Watson prepared a forecast specifically for SDG&E and SoCalGas taking into account location, workforce demographics, and medical plan design.

- Location: The unit cost of health care (medical and pharmacy) and the rate of cost increases is most accurately determined by the local health care market. SDG&E and SoCalGas's trends reflect the markets where the enrolled employees and their dependents receive health care services, which is primarily Southern California. Other data sources report national trends with the exception of the Berkeley Forum, which utilizes the entire state of CA. Projected national cost increases are not directly relevant to SDG&E and SoCalGas projected increases. Even within California, the rate of increase in cost is significantly different between Northern California and Southern California.
- Workforce Demographics: SDG&E's and SoCalGas's projected trends incorporate their enrolled population's age, gender and family size makeup. The other data sources will have a wider range of demographics. Towers Watson survey results indicate SDG&E's and SoCalGas' enrolled employees are, on average, more than one year older than Towers Watson's database average. Since demographics are a key component of how a population utilizes services and generates health care costs, any differences in demographics have an effect on predicting future costs. Older age implies higher cost and a faster rate of increase if all else is equal. SDG&E's and

[49] UCAN (Norin) at 53:4-6.
[50] *Id*. at 53:7-8.

SoCalGas' plans also currently have, on average, more dependents enrolled per employee than a typical employer-sponsored plan.

- **Type of Plans:** SDG&E and SoCalGas's trends are based on the majority of enrolled members being in fully-insured capitated HMO plans. Fully-insured capitated HMOs are very cost-effective compared to plan designs like PPOs that are based on fee for service payment models. Outside of Southern California, fully-insured capitated HMO plans are uncommon. However, the national market is moving toward innovative provider payment approaches that are expected to mitigate future cost increases to employer plans. SDG&E and SoCalGas will likely benefit less from this new way of mitigating future cost increases because these innovative approaches impact fully-insured capitated HMOs to a lesser degree. Similarly, the employer-sponsored market on a national basis is expected to continue to embrace consumer-directed plan designs (such as the Health Care Plus$^+$ plan offered by SDG&E and SoCalGas). Those designs typically experience lower future cost increases compared to more traditional plan designs. While Sempra offers a consumer-directed plan, the majority of employees are still enrolled in the low-cost HMO offering and the ability to encourage enrollment in the consumer-directed plan is limited by collective bargaining agreements with SDG&E's and SoCalGas' unions.

*Concerns with IHS Global Insight and Berkeley Forum Forecasts:*

Because the IHS Global Insight forecast incorporates national data and the Berkeley Forum includes a high number of respondents from Northern California, it is expected that the escalation rates will not align with the escalation that SDG&E and SoCalGas' will experience based on location, workforce demographics and plan design. In addition, use of the IHS Global Insight data is inappropriate because:

- The Employment Cost Index for health benefits includes non-medical benefits such as dental and vision benefits. Dental and vision benefits have experienced significantly lower cost escalation compared to medical benefits. Using an index that includes these non-medical benefits to forecast medical expenses understates medical escalation.

- When companies included in the Employment Cost Index eliminate health benefit coverage, their benefit costs drop to zero. This would have a downward effect on the health insurance ECI series.[51]
- The U.S. Bureau of Labor Statistics discusses additional concerns and cautions users to exercise care in interpreting this information:

> The 12-month percent change in health benefit costs from the ECI should be used with caution. First, employer nonresponse for the health benefit component is substantial, which may affect the quality of the estimate. Second, there are fewer observations supporting health benefit estimates as compared with total benefit estimates. Finally, in some cases, respondents are able to report only a single cost for a combination of benefits (for example, life insurance and health benefits); in these instances, BLS allocates the cost among the benefits. Users should also be aware that the ECI may understate health insurer increases for a fixed set of plans because employers may reduce their contributions or employees may switch to lower cost health plans where there is an employee contribution. For these reasons, please exercise care in using and interpreting these estimates.[52]

*One-year cost data cited by UCAN is misleading:*

UCAN provides data comparing recorded medical expense from 2013 to 2014. Based on this comparison, SDG&E's expense decreased by 8 percent and SoCalGas increased by 3 percent. Based on this one-year trend, UCAN argues that the 7.5% forecasted 2014 medical escalation provided by Towers Watson in the 2012 General Rate Case was unreliable. SDG&E and SoCalGas take issue with this claim because:

- UCAN based their analysis on one year of expense data. In the TURN data requests used in UCAN's analysis[53], SDG&E and SoCalGas provided data from 2005 through 2014. When this entire period is considered, total recorded medical expense increased by 73% for SDG&E and 138% for SoCalGas. On a per-employee basis, expense increased by 85% for SDG&E and 100% for SoCalGas during the same period. While there has been a steep long-term escalation in medical costs, there is a great deal of variation from year to year. UCAN's analysis of one year of data does not provide the full picture.

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[51] Email from Alan Zilberman, Bureau of Labor Statistics, dated April 28, 2008 as cited in Southern California Edison 2012 Rate Case Rebuttal Testimony, Exhibit No. SCE-21, p. 62.
[52] *Available at* http://www.bls.gov/ncs/ect/sp/echealth.pdf.
[53] TURN-SDG&E Data Request-08, Question 1 and TURN-SDG&E Data Request 10, Question 1.

- Medical escalation rates, whether from Towers Watson, Berkeley Healthcare Forum, or IHS Global Insights, reflect changes in *medical insurance premiums.* The recorded medical expense, on the other hand, is based on both the medical escalation rate and the number of covered employees and dependents. While UCAN's analysis considered headcount, headcount is not a proxy for the total number of covered employees and dependents.

## C. Retirement Benefits

Retirement benefits include the qualified 401(k) Savings Plans, Nonqualified Retirement Savings Plan, and Supplemental Pension. ORA and TURN do not take issue with SDG&E's and SoCalGas' request for Retirement Savings Plan funding. However, ORA and TURN recommend zero ratepayer funding for the Nonqualified Retirement Savings Plan and Supplemental Pension.

**Table 16**

| Retirement Benefits | Thousands of 2013 $ | | | | | |
|---|---|---|---|---|---|---|
| | SDG&E | | | | | |
| | 2013 Recorded | 2016 | ORA | ORA vs. SDG&E | TURN | TURN vs. SDG&E |
| Retirement Savings Plan | $12,250 | $14,287 | $14,287 | $0 | $14,287 | $0 |
| Nonqualified Retirement Savings Plan | $253 | $274 | $0 | ($274) | $0 | ($274) |
| Supplemental Pension | $5,466 | $3,360 | $0 | ($3,360) | $0 | ($3,360) |
| *Total* | *$17,969* | *$17,921* | *$14,287* | *($3,634)* | *$0* | *($3,634)* |

Note: The $3,634 differential under TURN vs. SDG&E for Nonqualified Retirement Savings Plan and Supplemental Pension differs from the $3,907 shown in Table 10 on page 27 of Mr. Sugar's testimony. It appears that TURN double-counted the Nonqualified Savings Plan ($274 + $274 + $3,360 = $3,908).

**Table 17**

| Retirement Benefits | Thousands of 2013 $ | | | | | |
|---|---|---|---|---|---|---|
| | SoCalGas | | | | | |
| | 2013 Recorded | 2016 | ORA | ORA vs. SoCalGas | TURN | TURN vs. SoCalGas |
| Retirement Savings Plan | $16,248 | $19,245 | $19,245 | $0 | $19,245 | $0 |
| Nonqualified Retirement Savings Plan | $199 | $216 | $0 | ($216) | $0 | ($216) |
| Supplemental Pension | $1,994 | $870 | $0 | ($870) | $0 | ($870) |
| *Total* | *$2,193* | *$20,331* | *$19,245* | *($1,086)* | *$0* | *($1,086)* |

### 1. Nonqualified Retirement Savings Plan

The nonqualified savings plan, or deferred compensation plan, allows pre-tax contributions for employees subject to IRS compensation and contribution limits. Company matching contributions under the plan are consistent with company matching contributions under the Retirement Savings Plan. Deferred compensation plans are a component of a competitive compensation and benefits package. Availability of these plans facilitates recruiting and retention of the best candidates for executive, director, attorney and other key management positions.

### 2. Supplemental Pension

SDG&E and SoCalGas offer two supplemental pension plans: the Supplemental Executive Retirement Plan, which covers a very small number of senior executives, and the Cash Balance Restoration Plan.

The Cash Balance Restoration Plan restores benefits for employees that would otherwise be lost due to limitations on earnings and/or benefits established by the Internal Revenue Service and the Employee Retirement and Income Security Act. Benefits are accrued at the same percentage and using the same benefit formula as the broad-based retirement plan.

Supplemental pension plans are an important component of a competitive compensation and benefits package for executive and other key employees. These benefits are common in the external market, particularly among utilities.

Attracting and maintaining talented employees at all levels provides value to ratepayers. SDG&E and SoCalGas request that the Commission approve the Nonqualified Retirement Savings Plan and Supplemental Pension requests as submitted, or at a minimum, continue the Commission's current practice of equal sharing of these costs between ratepayers and shareholders. In D.13-05-010, the Commission found:

> These plans also provide ratepayers with the benefit of having a continuity of executives and managers who are familiar with the corporate culture and the policies and objectives of the companies. For those reasons, it is reasonable and appropriate for ratepayers and shareholders to equally share in these costs.[54]

[54] D.13-05-010 at 887-888.

The Commission also adopted 50 percent ratepayer funding for similar plans at Southern California Edison and PG&E:

> Therefore, the Commission finds reasonable and adopts $8.4 million for this category of expense, or 50% of SCE's forecast.[55]

> Thus, although the details differ among the utilities regarding how the pensions are applied and paid, the broad principle is the same that both ratepayers and shareholders derive benefits therefrom. Ratepayers benefit by being served by a utility that can retain executives and managers who are familiar with the corporate culture, politics, and objectives. As a result, we find it appropriate to apply a similar ratemaking convention as applied in the SCE and Sempra GRCs , and assign only 50% of PG&E's forecast SERP pension costs to ratepayers.[56]

### D. Other Benefit Programs and Fees

SDG&E and SoCalGas offer a number of benefit programs that are designed to provide opportunities to enhance employees' knowledge and skills, reduce lost time, recognize achievements and promote a collaborative, team-oriented environment. These programs and costs are outlined in Table 18 and Table 19 below. The ORA did not take issue with SDG&E's or SoCalGas' requests, with the exception of SoCalGas' special events program.

**Table 18**

| Other Benefit Programs and Fees | Thousands of 2013 $ | | | | | |
|---|---|---|---|---|---|---|
| | SDG&E | | | | | |
| | 2013 Recorded | 2016 | | | | |
| **Other Benefit Programs and Fees:** | | | ORA | ORA vs. SDG&E | TURN | TURN vs. SDG&E |
| Benefits Administration Fees | $894 | $1,005 | $1,005 | $0 | $999 | ($6) |
| Educational Assistance | $462 | $536 | $536 | $0 | $532 | ($4) |
| Emergency Childcare | $141 | $133 | $133 | $0 | $131 | ($3) |
| Mass Transit Incentive | $62 | $58 | $58 | $0 | $101 | $43 |
| Retirement Activities | $108 | $117 | $117 | $0 | $0 | ($117) |
| Service Recognition | $118 | $133 | $133 | $0 | $69 | ($64) |
| *Total* | *$1,785* | *$1,982* | *$1,982* | *$0* | *$1,831* | *($151)* |

55 D.12-11-051 at 477.
56 D.14-08-032 at 535.

**Table 19**

| Other Benefit Programs and Fees | Thousands of 2013 $ | | | | | |
|---|---|---|---|---|---|---|
| | SoCalGas | | | | | |
| | 2013 Recorded | 2016 | | | | |
| **Other Benefit Programs and Fees:** | | | ORA | ORA vs. SoCalGas | TURN | TURN vs. SoCalGas |
| Benefits Administration Fees | $1,345 | $1,498 | $1,498 | $0 | $1,331 | ($167) |
| Educational Assistance | $1,004 | $1,233 | $1,233 | $0 | $932 | ($301) |
| Emergency Childcare | $201 | $193 | $193 | $0 | $139 | ($54) |
| Mass Transit Incentive | $803 | $902 | $902 | $0 | $1,048 | $146 |
| Retirement Activities | $208 | $224 | $224 | $0 | $0 | ($224) |
| Service Recognition | $233 | $241 | $241 | $0 | $107 | ($135) |
| Special Events | $430 | $529 | $0 | ($529) | $0 | ($529) |
| *Total* | *$4,224* | *$4,820* | *$4,291* | *($529)* | *$3,557* | *($1,264)* |

Note: Under Service Recognition, the amount shown for TURN is based on the six-year average shown in Table 8 on page 16 of Garrick Jones' testimony. The six-year average calculation in Table 10 on page 17 of Mr. Jones testimony contains an error. For 2012, the amount shown is "20" instead of "220".

ORA and TURN recommend no ratepayer funding for the SoCalGas special events program.[57] In addition, TURN recommends no ratepayer funding for Retirement Activities and 50 percent ratepayer funding for Service Recognition.[58] TURN also recommends using a six-year historical average. SDG&E and SoCalGas disagree with ORA's and TURN's recommendations, as discussed below.

### 1. Service Recognition

Service awards provide employers with a means of recognizing and thanking employees for their service to the organization. Such awards also benefit the company, as they promote employee loyalty and longevity. Recognizing length of service is one of the most common types of employee recognition programs. According to a 2013 World at Work survey, 84 percent of organizations recognize employee service anniversaries.[59] Promoting the retention of long-service employees and maintaining a positive organizational culture by recognizing employee loyalty and longevity benefits ratepayers.

### 2. Retirement Activities

Similar to service awards, retirement activities promote an organizational culture that values the contributions of employees. Publicly recognizing and expressing appreciation for a

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[57] Ex. ORA-17 (Hunter) at 27:15; TURN (Jones) 16:16-18.
[58] Ex. TURN (Jones) at 16:16-18, 17:5-6.
[59] "Trends in Employee Recognition", A Report by WorldatWork and Underwritten by ITA Group, June 2013, p. 8.

retiring employee's career-long contributions to the organization helps to inspire loyalty and longevity among active employees.

### 3. SoCalGas Special Events

Special Events night is a long-standing benefit valued by employees at all levels.

### 4. Zero-based forecasting versus six-year average

The methodology for developing SDG&E's and SoCalGas' forecasts is described below:

- Educational Assistance and Mass Transit Incentive: Based on current levels of utilization factoring expected changes in headcount
- Benefits Administration Fees and Retirement Activities: Based on current levels of utilization
- Emergency Childcare: Based on fees per current contract with vendor
- Service Recognition: Based on demographics (length of service) of current employees

Because the methodology used by SDG&E and SoCalGas is tailored to the cost drivers of each benefit, it is preferable to the six-year average recommended by TURN.

## V. CONCLUSION

SDG&E's and SoCalGas' compensation and benefits costs are part of a reasonable, market-driven compensation package. These programs are critical to attracting, motivating and retaining the experienced, highly-skilled workforce required to operate safe and reliable utilities while providing excellent service to customers. Costs for these programs are well-supported, reasonable and should be approved as submitted.

This concludes my prepared rebuttal testimony.