

Company: San Diego Gas & Electric Company (U 902 M)
Southern California Gas Company (U 904 G)
Proceeding: 2016 General Rate Case
Application: A.14-11-003/004 (cons.)
Exhibit: SDG&E-241
SCG-240

**SDG&E AND SOCALGAS
REBUTTAL TESTIMONY OF RICK BEAL
(TOTAL COMPENSATION STUDY)**

June 2015

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



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1 **SDG&E AND SOCALGAS REBUTTAL TESTIMONY OF RICK BEAL**
2 **(TOTAL COMPENSATION STUDY)**

3 **I. INTRODUCTION**

4 The following rebuttal testimony regarding compensation addresses the April 24, 2015
5 testimony of the Office of Ratepayer Advocates (ORA) witness Stacey Hunter (Ex. ORA-17).

6 Specifically, my testimony supports the following rebuttal that the Towers Watson Total
7 Compensation Study (“Total Comp Study” or “Study”)¹ is an accurate and reliable basis for
8 determining that compensation at San Diego Gas & Electric Company (“SDG&E”) and Southern
9 California Gas Company (“SoCalGas”) is competitively “at market,” with SDG&E’s total target
10 compensation found to be 5.3% above the competitive market average and with SoCalGas’ total
11 target compensation found to be 2.6% above the competitive market average.²

12 Towers Watson considers plus or minus 10 percent of the average or mean of the
13 competitive market to be the range of competitiveness. A range of plus or minus 10 percent is
14 generally considered by compensation professionals, including Towers Watson, to account for
15 individual employee and organizational variances that naturally occur between an organization’s
16 total compensation levels and survey data. These variances are typically attributed to:

- 17 • Years of experience for the employees in a role and/or tenure within the organization
18 • Expected and realized differences in employee performance levels impacting pay, and
19 • Different pay philosophies and strategies influencing a company’s total pay mix (e.g. pay
20 for performance environments can provide lower base salary, yet higher short-term
21 incentive levels).

22 Additionally, for certain GRC job categories, such as executives, and certain components of total
23 compensation, such as benefits, Towers Watson acknowledges that larger variances are common.

24 Further, my testimony confirms that the Study is a reasonable assessment upon which to
25 base ratepayer expense for Total Compensation labor costs.

26 **II. SDG&E AND SOCALGAS COMPENSATION LEVELS**

27 My testimony rebuts the following ORA testimony concerning compensation:

¹ Exhibit ORA-17, Page 5, line 17, footnote 11.

² SDG&E-22/SCG-21 (Direct Testimony of Debbie Robinson), Appendix A, p. 5.

Table 1A summarizes the overall study results based on Total Target Compensation (based on target ICP) and Total Actual Compensation (based on actual ICP). Total Actual Compensation was 5.4% above the competitive market average for SDG&E and 2.7% for SoCalGas.

- 1 (a) ORA’s shift in what compensation elements should be valued for SDG&E and
2 SoCalGas’ General Rate Case to determine whether compensation is reasonable;³
3 (b) The inappropriate recommendation that SDG&E and SoCalGas should not rely upon
4 the study outcomes because of its selection of general industry companies, along with
5 utilities, as a talent comparator group for SDG&E and SoCalGas;⁴
6 (c) The incorrect insertion that it is inappropriate to use mean data as a reasonable
7 comparison for determining the amount that ratepayer should fund.⁵

8 **A. Elements of Compensation in the Study Were Agreed Upon by Both Parties**

9 The ORA witness Ms. Hunter notes that “But, in its TY 2014 GRC, that PG&E Study
10 refused to include a valuation for long-term incentive plan (“LTIP”) in its Study, even though the
11 company has a long-term incentive program.”⁶ The premise seems to be that for this reason,
12 despite the agreement by Ms. Hunter to include long-term incentives in the SDG&E and
13 SoCalGas GRC Study, in multiple internal meetings, as outlined in Appendix A, that the use of
14 long-term incentives in the Study does not hold warrant, nor should this component of total
15 compensation be funded by shareholders or ratepayers.

16 As described in the prepared direct testimony of Debbie Robinson (Ex. SDG&E-22 and
17 Ex. SCG-21), the Study was conducted under the joint management of the ORA,
18 SDG&E/SoCalGas and Towers Watson, and the methodology for the Study was consistent with
19 prior GRC total compensation studies and practices used by compensation professionals.
20 Additionally, the ORA provided input on the elements of total compensation to include in the
21 study, for instance paid time off. At multiple times during the Study the development of LTI
22 values and inclusion of this element of total compensation was raised providing ample
23 opportunity for the ORA to voice concern to the Study team, however, this was never raised as
24 an objective or brought to the attention of the team during any of the internal Study meetings as
25 outlined in Appendix A.

26 It is Towers Watson’s normal process in rate cases to assess the value of LTI as part of
27 our estimate of total compensation unless it is agreed in advance that it will not be included as
28 part of the analysis and that rate relief would not be sought for LTI. We also understand that the

³ Exhibit ORA-17, Page 6, lines 3-10.

⁴ Exhibit ORA-17, Page 6, line 11-19.

⁵ Exhibit ORA-17, Page 6, line 20-27 and Page 7, line 1-10.

⁶ Exhibit ORA-17, Page 6, line 6-7.

1 inclusion of LTI was part of the normal rate-case methodology used in the past for
2 SDG&E/SoCalGas. In our view, excluding LTI from our analysis paints only a partial picture of
3 total compensation at SDG&E/SoCalGas compared to peers, in particular Executives. In the
4 labor market LTI such as stock options, restricted stock and performance shares, are viewed by
5 investors as critical elements of incentive compensation. These forms of pay are designed to
6 motivate managers to stabilize and grow the value of the organization, operate efficiently and use
7 resources wisely. In addition, LTI awards are increasingly used to replace benefits, typically
8 defined benefits, and supplemental cash compensation. We believe that the exclusion of LTI
9 from our analysis will remove a large portion of compensation and may not provide the full
10 representation of the true value nor the true cost of the Executive employee Total Compensation
11 package. For the above reasons, we contend that LTI was an element of compensation agreed up
12 by the ORA as well as an important component of the Total Compensation program and
13 therefore should be included in the assessment and not removed based on a retrospective
14 decision from the ORA unrelated to the case at hand.

15 **B. Total Compensation Study is Properly Structured to Compare to Relevant**
16 **Peers in the Market**

17 The ORA witness Ms. Hunter asserts that the methodology of peer group selection for the
18 Study was incorrect and that “Based on the utilities’ repeated efforts to convince the Commission
19 to abdicate its own evaluation of compensation to total compensation studies, the reason seems
20 to be that general industry pays more.”⁷ This is not a reasonable assertion for why both utility
21 and general industry data from compensation surveys was used in the assessment. The rationale
22 for using both sets of data points is that the talent pool for selected GRC jobs for the study cuts
23 across labor markets and includes both utility and general industry peers. For instance, when
24 looking for a job in any of the support service job families (i.e., human resources, finance, and
25 information technology), SDG&E/SoCalGas would need to evaluate a broader peer group than
26 just utility companies. For instance, if SDG&E/SoCalGas only looked at other utility firms in
27 California to hire candidates into these roles, they would be limited to PG&E, Southern
28 California Edison, and local municipal electric and gas utilities in terms of a recruitment pool.
29 This recruitment perspective is unrealistic and risky to the ratepayers.

30 The compensation survey data sets were developed based upon objective criteria

⁷ Exhibit ORA-17, Page 6, lines 15-17.

1 established jointly by the ORA, SDG&E/SoCalGas and Tower Watson as outlined in Appendix
2 A. Based upon these predefined criteria all parties were involved in the review of Study jobs to
3 survey data inclusive of spending three days in job matching sessions to verify the job matches
4 and to ensure objectivity in our final results. The peer group selected for each of the GRC job
5 categories were composed of both utility and general industry companies comparable in annual
6 revenues to SDG&E/SoCalGas. Throughout the Study the idea or concern that the chosen peer
7 group was not an accurate representation of SDG&E/SoCalGas's labor market was never raised
8 by the ORA. In fact, it was agreed to during the meetings.

9 For all these reasons, we attest that the use of compensation survey data from both
10 utilities and general industry is appropriate. To focus on the utility industry alone would
11 misalign with practices used by compensation professionals for conducting total compensation
12 studies, and the agreed upon method that the ORA, SDG&E/SoCalGas and Tower Watson
13 outlined together as a team.

14 **C. Use of Mean Survey Results Provides a Reasonable Comparison to Market**

15 The Study invalidates the use of the mean over the median. Specifically, Ms. Hunter
16 asserts that the use of a mean value upon which to base recommendations to the ORA by
17 SDG&E/SoCalGas provides a false indication of the market. The ORA cites that, "The problem
18 with this method is that a few very high data points can skew the results upward,"⁸ however,
19 what is not outlined is that the values used in the final results page by each GRC job category
20 and as well as for each organization are based on a weighted average. Specifically, total
21 compensation values were based on SDG&E and SoCalGas by employee size or headcount to
22 provide an employee weighted average for each GRC job category. Therefore the values are not
23 a simple mean, as defined by the grand total divided by the number of data points, giving each
24 weight equal value.

25 The Study also followed Towers Watson's standard process of using a weighted average
26 for total compensation studies of this size and scale. We typically follow this method because
27 when the sample size is large and does not include outliers, a weighted mean score usually
28 provides a better measure of central tendency, and therefore a valid summary of the typical value
29 of the data set. In a sense, the weighted mean is used because it is sensitive to the data of
30 actual incumbent pay whereas as a median value is not. Significant effort was expended after the

⁸ Exhibit ORA-17, Page 6, lines 24-26.

1 Job Mapping Meetings to ensure that the job data in the 2017 GRC did not contain any outliers
2 that could skew the mean, inclusive of a separate call to review the data with the ORA and
3 SDG&E/SoCalGas. At this meeting on May 23, 2014 we evaluated two primary statistics to
4 determine which data outliers should be excluded from the Study. The first was the evaluation
5 of the differential between the market 25th percentile and market median, as well as the
6 differential between the market median and 75th percentile. The other variable was the number
7 of companies represented in the market survey data. When both of the differentials outlined fell
8 above 100% and the number of companies in the data set was less than ten companies, the survey
9 match was excluded from the final assessment. At this joint meeting a revised opinion that mean
10 or average data was not a good representative of the market results was never brought up by the
11 ORA. For the reasons stated above, including the use of a weighted mean over a simple mean,
12 the evaluation of outliers and exclusion of them from the Study, and the previous agreement
13 from the ORA that the mean provided valuable results, we believe that the results of the Total
14 Compensation Study are valid. Therefore they provide a valid statistical data point upon which
15 to base ratepayer funding.

16 **III. SUMMARY AND CONCLUSION**

17 None of the criticisms set forth in the testimony of ORA are valid with regard to the Total
18 Compensation Study conducted by Towers Watson. The Study was conducted accurately and in
19 accordance with industry standards and Commission practice, as follows:

- 20 • The total compensation study was conducted and jointly managed by
21 SDG&E/SoCalGas , the ORA, and Towers Watson:
- 22 • An objective process was conducted to select a consultant to conduct the Study; and
- 23 • Objective, predefined criteria were agreed upon by SDG&E/SoCalGas and the ORA
24 in selection of the Study survey elements, peer group methodology and final weighted
25 mean comparison.

26 Therefore the Commission should accept the Study as a valid demonstration that SDG&E
27 and SoCalGas' compensation levels are reasonable and at market.

1 **IV. WITNESS QUALIFICATIONS**

2 I am currently a Managing Partner of Towers Watson, 345 California Street, in San
3 Francisco, CA 94104. I have 30 years of experience consulting with organizations in the areas of
4 competitive analyses, design of incentive compensation programs, and executive compensation
5 governance practices. I have participated in or led several total compensation studies for general
6 rate case proceedings since the late 1980s and have conducted numerous total compensation
7 studies for companies using compensation and benefits data obtained from major surveys and
8 consulting firm. These compensation studies have been conducted for clients in a variety of
9 industries including energy services, financial services, high technology, and insurance
10 organizations.

11 I hold a Master's degree in Business Administration from the University of California at
12 Berkeley (1985), a J.D. from New England School of Law (1977) and a Bachelor's degree in
13 Organization Psychology from the University of Wisconsin (1974). I am a licensed attorney in
14 the State of California and before the Ninth Federal District and an active member on university,
15 non-profit and local government/community boards. Prior to joining Towers Watson, and
16 entering consulting I worked in litigation, strategy, tax and financial roles in banking and
17 government.

18 I was the senior technical consultant for Towers Watson's work on the Study, ensuring
19 that our assessment met Towers Watson's strict code of ethics. In my role, I was responsible for
20 serving as the technical advisor facilitating internal team discussions, reviewing set
21 methodologies and final analyses and serving as the subject matter expert in the development and
22 completion of the Study. As such, I helped direct the Study Team in conducting and managing
23 the completion of the work.

APPENDIX 1

Table Outlining Project Team Meeting Decisions

Meeting	Meeting Date	Appendix F: Project Team Meeting Notes Section	Details
Meeting # 1- Project Kick Off Meeting	Monday, April 7, 2014	Section 7 – Compensation Methodology – Benchmark Job Data Collection	Includes reference to inclusion of LTI data
Weekly Status Update	Week of April 7 – 11, 2014	Issue/Decision	Includes reference to use of GI and utility survey data, and decision to use difference industry cuts for specific job categories
Meeting #2 - Planning and Methodology Conference Call	Wednesday, April 16, 2014	Section 1 - Housekeeping	Includes reference to inclusion of LTI data
Meeting #2 - Planning and Methodology Conference Call	Wednesday, April 16, 2014	Section 2 – Survey Scopes	Includes reference to use of GI and utility survey data, and decision to use difference industry cuts for specific job categories
Meeting #2 - Planning and Methodology Conference Call	Wednesday, April 16, 2014	Section 5- Compensation Analysis (Methodology Document)	Includes reference to inclusion and methodology used for LTI data
Meeting #2 - Planning and Methodology Conference Call	Wednesday, April 16, 2014	Section 7- Peer Groups for benefits analysis	Includes reference to use both GI and utilities benefits peer participants
Weekly Status Update	Week of April 14 – 18, 2014	Benefits Peer Participants	Includes reference to use both GI and utilities benefits peer participants
Weekly Status Update	Week of April 21 – 25, 2014	Preliminary Job Match Review Call	Includes reference to job matches (indirect reference to use of GI and utilities data for job matches)
Meeting #3- Job Match Review Meeting	Thursday, May 1, 2014	All Sections	Includes indirect reference to use of GI and utility survey data
Meeting #4 - Job Match Review Meeting (Professional/Technical)	Monday, May 5, 2014	All Sections	Includes indirect reference to use of GI and utility survey data
Meeting #7 - Project Update Conference Call	Wednesday, June 4, 2014	Bullet 1 - Executive LTI valuation for Sempra Energy data Bullet 2 - Market LTI Valuation	Includes reference to inclusion of LTI data
Meeting #8- Project Update Conference Call	Monday, June 9, 2014	Bullet 1 - Corporate Center Executives Market Pricing Methodology	Includes reference to use of both GI verses utility matches for Corporate Center Executive jobs