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REVISED

SOCALGAS/SDG&E

DIRECT TESTIMONY OF HAL SNYDER AND RANDALL CLARK

(FUELING OUR FUTURE (FOF) POLICY)

DECEMBER 2017

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

TABLE OF CONTENTS

I. PURPOSE 1
II. CONTINUOUS IMPROVEMENT AT SOCALGAS AND SDG&E 1
III. FOF INITIATIVE 3
A. Structure of FOF 3
B. Group Leaders and Associate Group Leaders 3
C. Catalyst Team Members and Catalyst Team Associates 3
D. Core Support Team 4
E. Steering Committee 4
F. EHS Partners 4
G. FOF Project Phase 4
H. FOF Implementation Phase and Accomplishments to Date 5
I. FOF Outcome 7
IV. SUMMARY OF FOF IMPACTS BY AREA 7
V. CONCLUSION 10
VI. WITNESS QUALIFICATIONS 11

Appendix A – Glossary of Terms

SOCALGAS/SDG&E

REVISED DIRECT TESTIMONY OF HAL D. SNYDER AND RANDY CLARK

(FUELING OUR FUTURE (FOF) POLICY)

I. PURPOSE

The purpose of this testimony is to describe the Fueling Our Future (FOF) initiative at Southern California Gas Company (SoCalGas) and San Diego Gas & Electric Company (SDG&E) (jointly the Companies or Utilities) and the associated total benefits and costs that have been incorporated into the Test Year 2019 (TY 2019) General Rate Case (GRC). Accordingly, we provide a roadmap of the various witness areas that have reflected FOF impacts. Each witness area with projected FOF impacts reflects the projected benefits and costs in their respective testimony and workpapers.

FOF is an enterprise wide initiative designed to provide an opportunity to examine how we approach, organize and execute work. Built on the premise that within a successful company, opportunities exist to improve performance by better leveraging people, processes and technology, FOF focuses on innovating and modernizing processes to meet the future needs of our business and build a better business through reinvestments. Savings generated from FOF are passed through to ratepayers in the form of revenue requirements reductions. Ratepayers also benefit from continued operating excellence that delivers clean, safe and reliable energy to better the lives of our customers and communities now and in the future.

II. CONTINUOUS IMPROVEMENT AT SOCALGAS AND SDG&E

To appreciate the significance of FOF to SoCalGas' and SDG&E's operations, it is first necessary to understand how continuous improvement at the Companies sets the stage for FOF's successful introduction. To us, continuous improvement is far more than a collection of operational policies and procedures. It is a growth mindset that has employees seeking new ways of doing business to increase the efficiency of core operations and customer service. There are three pillars to continuous improvement efforts at SoCalGas and SDG&E: culture, analytics, and process.

A culture of continuous improvement enables employees to look at problems from new perspectives. Without a cultural commitment to continuous improvement, valuable analyses may be unrealized and processes unchanged. SoCalGas and SDG&E build a culture of continuous improvement by seeding the organization with employees trained in Lean Six Sigma

methods, a data-driven approach to improve business processes using statistical analysis. Lean Six Sigma casts an eye towards analysis that produces quantifiably-justifiable business decisions, and provides a framework for positively affecting business processes by mitigating variability and streamlining complexities between workstreams, while increasing speed and improving agility. Every year, the Companies train employees from across the organization in the Lean Six Sigma data-driven approach (typically, SoCalGas trains 80 to 100 employees per year and SDG&E trains 60 to 80 employees per year). Employees are encouraged to apply lessons learned with their teams and in their work, whether in the field, office, customer contact center, or elsewhere.

Along with a cultural focus on continuous improvement, SoCalGas has continued to invest in analytical talent and tools, empowering employees to conduct advanced analytics utilizing innovative approaches. As an example, SoCalGas developed a weather elasticity model to identify those customers least likely to conserve during a winter cold snap – allowing SoCalGas to target them with relevant literature. In another case, SoCalGas performed an analysis to determine the key drivers of bad debt – allowing SoCalGas to fine tune its methods of collecting owed monies and reduce the number of customers sent to third-party collections agencies. In addition, SoCalGas identified customers most likely to contact SoCalGas to provide them tools and information to better manage their usage during the peak season, and simplified the payment process to better enable customers to complete transactions in the channels of their choice (e.g., self-service).

SDG&E also has made significant advances in analytics and continuous improvement. For example, SDG&E created a customer analytics system using multi-dimensional data points to better provide targeted information to customers through a "next best offer." Energy Service Specialists in the Customer Contact Center are presented the information to offer a service or program based upon data about that customer such as their preferences and past program participation. The system also was used to target communications to customers about rate changes and to offer the right solution to the right customer at the right time. SDG&E also has made significant progress using analytics to improve customers' ability to self-serve. Continuous improvements have been made to add new functionality to its Interactive Voice Response system, its website and mobile applications to enable customers to conduct many transactions through their channel of choice, 24 hours a day, 7 days a week. For example,

SDG&E monitors the use of its mobile applications and adds new features or modifies the front page to allow customers to more easily find the type of transactions they are most interested in. SDG&E also is improving its unplanned outage communications by providing better, more timely information to customers.

FOF was born out of the same commitment to continuous improvement – linking a culture focused on continuous improvement and analytics to produce wide-ranging process improvements. FOF is an attempt to take the formula that has been successful in business units such as the customer contact center and extend the approach across the Companies as a whole.

III. FOF INITIATIVE

A. Structure of FOF

The FOF initiative utilized the services of an outside consultant, EHS Partners (EHS), who specializes in operational improvement programs designed to increase performance and results. None of the costs of EHS were allocated to SoCalGas or SDG&E as the costs were retained 100% at the Sempra Energy corporate center. EHS has worked with a broad client range, including major utilities and Fortune 500 companies. EHS utilizes a methodology that centers on a broad, methodical, and analytical effort to find smarter, more efficient ways to do business. While greater efficiency is a primary result of this work, the goal is operational effectiveness. FOF focused solely on changes that improved the effectiveness of the business.

The general structure of FOF included the following project participants: Group Leaders and Associate Group Leaders, Catalyst Team Members and Catalyst Team Associates, Core Support team members (i.e., Finance, Human Resources, Communications, IT, Regulatory, and Legal); the Executive Team (Steering Committee), and EHS.

B. Group Leaders and Associate Group Leaders

The Group Leaders (GLs) and Associate Group Leaders (AGLs) are heads of departments, functional areas or business units and are primarily responsible for project results. They led efforts in their area to generate and analyze ideas, garner consensus and make recommendations to the Steering Committee. Most importantly, GLs and AGLs commit to implementing and delivering impact from approved ideas.

C. Catalyst Team Members and Catalyst Team Associates

Management leaders from across the company were selected as Catalyst Team Members (CTMs) as full-time project participants. CTMs were assigned in teams to work with groups

typically outside of their current areas of responsibility to provide a fresh perspective and to more effectively challenge assumptions and practices. CTMs partnered with GLs and AGLs to assist with analysis and problem-solving, drive idea sharing between groups and build consensus around change. The Catalyst Team Associates (CTAs) provided analytical support to the CTMs.

D. Core Support Team

The Core Support Team included Finance, Human Resources, Communications, IT, Regulatory and Legal. The Finance team developed cost baselines to help measure the potential effectiveness of the portfolio of ideas. Human Resources provided position titles for groups within the Companies and the associated compensation. Communications directed internal messaging for FOF. IT facilitated the IT infrastructure for the process and provided expertise and IT cost estimates on ideas with IT components. Regulatory and Legal screened the idea portfolio to assess regulatory implications and suggested modifications of ideas as needed.

E. Steering Committee

The Steering Committee consisted of Sempra executive leadership and executive leadership from all Sempra Energy subsidiaries. The role of the Steering Committee was to formally review ideas presented by Group leaders, make final decisions about all ideas and ensure that the Companies maintain operational standards.

F. EHS Partners

EHS worked alongside teams to manage the process methodology and assist in structuring analytics and idea surfacing.

G. FOF Project Phase

FOF was launched in May 2016 and included 18 weeks of highly structured work. The project phase included the identification, refinement, evaluation and prioritization of ideas within each functional area, culminating in a final decision to move forward with a given idea. The first six weeks of the initiative was dedicated to idea generation. The goal was to generate a comprehensive menu of ideas. All ideas had to be specific and measurable, focused on a change action and fully implementable within 36 months, no later than third quarter 2019. Ideas centered on ways to simplify or eliminate low value-added activities, eliminate sources of re-work, optimize roles and responsibilities by standardizing procedures, automate tasks where feasible, and simplify organizational structure where it made sense.

During the FOF project phase, there were three review sessions held with the Steering Committee to evaluate ideas under consideration and provide feedback to each group from every business unit. Every idea presented was targeted for completion in a specific quarter, from the third quarter of 2016 through the third quarter of 2019. The targeted completion date represented the quarter in which all necessary actions would have been taken and the net financial impact, accounted for any and all off-setting costs that would start accruing at the full annual run-rate by the end of the implementation period.

The project phase used a standardized formula for valuing the pre-tax "financial impact" of each idea within the EHS Proprietary Software called Fulcrum. The Fulcrum formula for net financial impact for any net savings ideas was essentially a simplified cash accounting basis calculated as follows:

- Recurring annual cost saving within a group (commencing upon implementation/completion of the idea including all dependent activities).
- Subtract: Recurring annual costs added Company-wide.
- Subtract: One fourth of one-time costs net of any one-time benefits (one-time costs and benefits are spread over 4 years for return on investment purposes starting on date of occurrence/activity).
- Add or Subtract: Any revenue impact associated with new products or services or discontinued products or services.

The methodology described above was the primary tool used during the project phase to evaluate ideas on a common basis from a pre-tax financial perspective, and it continues to be used through the implementation phase to assess progress toward the overall program objective.

The EHS Fulcrum "financial impact" for an idea or group of ideas under FOF is not a comparable financial metric for purposes of this GRC. Section III.I. below describes the translation of EHS Fulcrum financial impacts to TY 2019 GRC financial impacts.

H. FOF Implementation Phase and Accomplishments to Date

The implementation phase of the program began in September 2016 and is anticipated to continue through the third quarter of 2019, at which point all approved ideas are targeted for completion and accruing benefits at their full annual run-rate.

A key feature of the FOF program is rigorous accountability at the business unit level to achieve targeted net benefits. FOF's structure was designed to promote a high degree of

ownership for FOF initiatives and to underpin a commitment to bring ideas to fruition. This commitment serves as the basis for the FOF impacts that have been included in the TY 2019 GRC. It is important to note that FOF is a work-in-progress, and is not an "all or nothing" initiative. All FOF projects are in varying stages of completion. Some are still in the conception phase, while some have components that are currently being implemented. As SoCalGas and SDG&E continue to conduct their periodic review processes, it is possible that some of the approved FOF ideas will not move forward to implementation.

Here are some examples of benefits realized to date through the FOF program.

Shared programs for SoCalGas and SDG&E:

- Supply Management is increasing efficiencies through improving and renegotiating supplier contracts and DBE spend.
- Pipeline Safety is improving the pipeline project close-out process to support our Pipeline Safety Enhancement Plan (PSEP) using formal Lean Six Sigma methods.

SoCalGas:

- Gas Engineering is developing a standardized playbook to optimize projects and work to improve consistency throughout the organization. This will improve the overall efficiency of our line and back office organizations.
- Customer Services is utilizing advanced analytics to improve targeting of customers most likely to enroll in paperless billing and notifications. The goal is to increase the paperless adoption rate, reduce our paper footprint, reduce costs related to paper/postage and improve the customer experience of those who prefer a digital experience.

SDG&E:

- Customer Generation implemented an online electronic payment process as part of the transition to Net Energy Metering 2.0, making it more convenient for customers to pay their interconnection fees. Prior to that, the billing process had been manual, requiring SDG&E to create and send an invoice to the customer and requiring the customer to write and send a check.
- Environmental Services has eliminated the need for Hazardous Material crews to process leaking transformers prior to transportation by replacing the prior bags with

Department of Transportation-approved ABG transformer bags. The field crew now transports the leaking transformers to a centralized collection point, which reduces the amount of equipment pumping and standby time.

I. FOF Outcome

In total, the program resulted in over 450 approved ideas for SoCalGas and SDG&E, targeted for implementation before year-end 2019 for a total net annual operating and maintenance savings of over $40 million for SoCalGas and over $25 million for SDG&E. This GRC filing reflects the relevant impact of those initiatives approved for implementation by the FOF Steering Committee. Certain adjustments necessary to form the basis of the TY 2019 GRC request include:

- The removal of standard labor loaders that were used in the FOF projects given that witnesses in the GRC represent direct costs only.
- The exclusion of non-GRC balanced O&M and non-GRC revenue impacts.
- True-up the actual timing of one hundred percent of the one-time implementation costs (as discussed in section III.G. above, the EHS Fulcrum model valued one-time costs at only twenty-five percent).

Positive capital impacts were assumed to be re-invested in the business to fund incremental strategic and base projects that modernize our infrastructure, with an emphasis on ensuring safety and enhancing reliability. Without the projected FOF capital avoided costs, SoCalGas and SDG&E would have needed to forecast additional capital funding.

IV. SUMMARY OF FOF IMPACTS BY AREA

Table 1 and Table 2 below illustrate how SoCalGas and SDG&E, respectively, allocated FOF savings to various GRC functional and witness areas. The TY 2019 impacts reflect the full annual run rate of expected ratepayer benefits net of ongoing costs to achieve.

TABLE HS/RC-1

Summary of SoCalGas TY 2019 GRC FOF Impacts by Witness Area

Witness Name by Functional Area	Exhibit #	TY 2019 2016$ ($000)
A&G		
Debbie Robinson	SCG-30/SDG&E-28	(1,676)
Mary Gevorkian	SCG-32	(1,143)
Mia DeMontigny	SCG-28	(3,380)
Stacey Lee	SCG-33	(559)
Customer Services		
Andrew Cheung	SCG-20	(1,037)
Gwen Marelli	SCG-18	(6,122)
Lisa Alexander	SCG-21	(50)
Mike Baldwin	SCG-19	(9,565)
Engineering		
Deanna Haines	SCG-09	(55)
Gas Distribution		
Gina Orozco-Mejia	SCG-04	(4,742)
Gas System Integrity		
Omar Rivera	SCG-05	(204)
Gas Major Projects		
Mike Bermel	SCG-08	(423)
Gas Transmission - O&M		
Beth Musich	SCG-06	(5,095)
Information Technology		
Chris Olmsted	SCG-26	(1,792)
Gas Procurement		
Martin Lazarus	SCG-16	(12)
PSEP		
Rick Phillips [1]	SCG-15	-
Support Services		
Carmen Herrera	SCG-23	(2,050)
Darrell Johnson	SCG-25	(96)
Denita Willoughby	SCG-22	(4,432)
Underground Storage		
Neil Navin	SCG-10	(327)
Total 2019 Benefits (net of Costs):		**(42,760)**

[1] FOF savings of $2,600K (related to Engineering and System Integrity within PSEP) already were factored into the testimony of Rick Phillips (Ex. SCG-15) and thus are not separately identified in the table above or in his testimony or workpapers.

TABLE HS/RC-2

Summary of SDG&E TY 2019 GRC FOF Impacts by Witness Area

Witness Name by Functional Area	Exhibit #	TY 2019 2016$ ($000)
A&G		
Debbie Robinson	SCG-30/SDG&E-28	(1,714)
Mia DeMontigny	SDG&E-26	(2,997)
Sandra Hrna	SDG&E-31	(935)
Tashonda Taylor	SDG&E-30	(150)
Customer Services		
Gwen Marelli	SDG&E-17	(344)
Jerry Stewart	SDG&E-18	(191)
Lisa Davidson	SDG&E-19	(922)
Electric Distribution - O&M		
William Speer	SDG&E-15	(8,483)
Gas Distribution		
Gina Orozco-Mejia	SDG&E-04	(517)
Gas Transmission		
Beth Musich	SDG&E-06	(52)
Generation		
Dan Baerman	SDG&E-16	(2,478)
Information Technology		
Chris Olmsted	SDG&E-24	(2,946)
Support Services		
Carmen Herrera	SDG&E-21	(12)
Denita Willoughby	SDG&E-20	(1,349)
Nancy Clancy	SDG&E-23	(1,876)
R. Dale Tattersall	SDG&E-22	(1,265)
Total 2019 Benefits (net of Costs):		**(26,231)**

V. CONCLUSION

Through FOF, SoCalGas and SDG&E examined how to approach, organize and execute all aspects of our operations to build a stronger, higher performing and more sustainable company to better serve our customers and the communities in which we operate.

This concludes our prepared direct testimony.

VI. WITNESS QUALIFICATIONS

HAL SNYDER

My name is Hal Snyder, and I am employed by SoCalGas. My business address is 555 W. Fifth Street, Los Angeles, CA. 90013-1044. My current position is Chief Human Resources and Chief Administrative Officer. In this role, I am responsible for all human resources functions, fleet, real estate and facilities, environmental services, and supply management functions at SoCalGas.

Prior to my current job, I was Vice President – Human Resources, Diversity & Inclusion (2012-2017); Vice President – Customer Solutions (2008-2012); Vice President – Gas Storage, Transmission and Distribution, SDG&E and SoCalGas (2004-2008); Director- Supply Management, SDG&E and SoCalGas (2002-2004); President - Sempra Atlantic Gas (2000-2002); Director in Charge of International Gas Operations – Sempra International (1999-2000); Technical Services Manager – Gas Distribution (1995-1998). I have been employed by the Sempra family of companies since 1984.

I received a B.S in Civil Engineering from California State University, Long Beach in 1983, and received my Masters in Business Administration from Pepperdine University in 1998.

RANDALL CLARK

My name is Randall Clark, and I am employed by SDG&E. My business address is 8330 Century Park Court, San Diego, CA. 92123-1530. My current position is Chief Human Resources and Chief Administrative Officer. In this role, I am responsible for all human resources functions, fleet, real estate and facilities, environmental services, and supply management functions at SDG&E.

Prior to my current job, I was Vice President – Human Resources, Diversity & Inclusion, SDG&E (2015-2017); Vice President – Human Resources Services, Sempra Energy (2014-2015); Vice President – Compliance & Governance and Corporate Secretary, Sempra Energy (2013 - 2014); Vice-President – Corporate Responsibility and Corporate Secretary, Sempra Energy (2012-2013); Vice-President – Corporate Relations and Corporate Secretary, Sempra Energy (2010-2012); and Corporate Secretary – Assistant General Counsel, Sempra Energy (2008-2010). In addition, I served as an attorney at Sempra Energy (2000-2008). Prior to

joining Sempra Energy, I was an attorney with the law firms of Cooley Godward LLP and Morrison & Foerster, focusing on corporate and securities matters.

I received a B.S in Accounting from Pepperdine University and Juris Doctorate from Duke University.

Appendix A

Glossary of Terms

AGLs	Associate Group Leaders
CTAs	Catalyst Team Associates
CTMs	Catalyst Team Members
EHS	EHS Partners
FOF	Fueling Our Future
GLs	Group Leaders
GRC	General Rate Case
PSEP	Pipeline Safety Enhancement Plan
SDG&E	San Diego Gas & Electric Company
SoCalGas	Southern California Gas Company
TY	Test Year

SCG/SDG&E 2019 GRC Testimony Revision Log –December 2017

Exhibit	Witness	Page	Line or Table	Revision Detail
SCG-03/ SDGE-03	*Hal Snyder and Randall Clark*	*HDS/ RC-8*	*HS/ RC-1*	*Changed SCG-28 from (3,606) to (3,380)* *Changed SCG-19 from (9,347 to (9,565)* *Changed SCG-25 from (-) to (96)* *Changed Total 2019 Benefits (net of Costs): from (42,672) to (42,760)*
SCG-03/ SDGE-03	*Hal Snyder and Randall Clark*	*HDS/ RC-9*	*HS/ RC-2*	*Changed SDG&E-26 from (3,199) to (2,997)* *Changed SDG&E-15 from Darren Weim to William Speer* *Changed Total 2019 Benefits (net of Costs): from (26,433) to (26,231)*