Applications	:	A.06-12-009 / 010
Exhibit Number	:	DRA-36-R
Commissioner	:	Bohn
ALJ	:	Long
Witness	:	Enderby

DIVISION OF RATEPAYER ADVOCATES
CALIFORNIA PUBLIC UTILITIES COMMISSION

Report on the Results of Operations for San Diego Gas & Electric Company Southern California Gas Company General Rate Case

Test Year 2008

SoCalGas Non-Shared Services
Administrative and General Expenses

San Francisco, California
August 21, 2007

Exhibit DRA-36-R (Revised August 21, 2007)

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NOTE: Revisions reflect consideration of information contained in rebuttal testimony, SCG-224, and corrections to errors contained in the original Exhibit DRA-36.

SOUTHERN CALIFORNIA GAS COMPANY
NON-SHARED SERVICES
ADMINISTRATIVE & GENERAL EXPENSES

I. INTRODUCTION

This exhibit presents DRA's analysis and recommendations regarding the Test Year (TY) 2008 presentation of Non-Shared Services administrative and general (A&G) expenses for Southern California Gas Company (SCG or SoCalGas). These expenses are recorded in FERC Sub-Accounts 920.0, 921.0, 925.0 and 930.0. Sub-Accounts 920.0 and 921.0 refer to Utility A&G Labor and Utility A&G Non-Labor costs, respectively. These costs are incurred by the Cost Accounting, Claims Management, Accounts Payable, Staffing and Relocation, Human Resources Services, Labor Relations and Claims Management departments. Sub-Accounts 925.0 and 930.0 reflect, respectively, the cost of damage claim payments (Public Liability and Property Damage) and the costs of utility association dues and debt application fees (Miscellaneous General Expenses).

For these Sub-Accounts combined, SCG's forecast for the test year is $12,690,000, an increase of $1,805,000 or about 14% over the 2005 base year total of $10,885,000.[1] The corresponding DRA forecast is $9,984,000 ~~$9,956,000~~ which is $2.706~~34~~ million lower than the SCG request.

II. SUMMARY OF RECOMMENDATIONS

The following summarizes DRA's recommendation adjustments for TY 2008, totaling $2.706~~35~~ million:

a. An adjustment of $140,000 to Accounting Operations (Utility A&G Labor) based on disallowing 2 new full-time equivalent positions.

b. An adjustment of $203,000 to Staffing and Relocation based on lowering funding for expanded/new recruiting programs. Of this amount, about

[1] See Exhibit SCG-13, page 7, Table SCG-SK-NSS-0.b, "Utility A&G."

$108,000 is for Utility A&G Labor while about $95,000 is for Utility A&G Non-Labor.

c. An adjustment of $163,000 ~~$191,000~~ to Labor Relations (Utility A&G Non-Labor) based on normalizing the costs associated with contract negotiations.

d. An adjustment of $1,700,000 to Damage Claims Payments based on a more reasonable forecast for this account in 2008.

e. An adjustment of $500,000 to Miscellaneous General Expenses (Utility A&G Non-Labor) based on Disallowing Membership Dues.

Table 36-1 compares DRA's recommendation with SCG's[2] proposed estimates for TY 2008 by FERC account:

Table 36-1
Non-Shared A&G Expenses for 2008
(in Thousands of 2005 Dollars)

Description (a)	**DRA Recommended (b)**	**SCG Proposed (c)**	**Amount SCG>DRA (d=c-b)**	**Percentage SCG>DRA (e=d/b)**
Utility A&G Labor-FERC Acct. 920.0	$5,305	$5,553	$248	4.7%
Utility A&G Non-Labor-FERC Acct. 921.0	$1,159 ~~$1,131~~	$1,417	$258 ~~$286~~	22.3% ~~25.4%~~
Damage Claim Payments-FERC Acct. 925	$3,520	$5,220	$1,700	48.3%
Misc. General Expenses-FERC Acct. 930.1	$0	$500	$500	-
Total Utility A&G	$9,984 ~~$9,956~~	$12,690	$2,706 ~~$2,734~~	27.1% ~~27.5%~~

III. DISCUSSION / ANALYSIS

A. Accounting Operations

Accounting Operation consists of Cost Accounting and Affiliate Billing & Costing (ABC). The latter (ABC) provides shared services to SCG, SDG&E and

[2] Exhibit SCG-13, p. 8, Table SCG-SK-NSS-0.c.

Corporate Center/Other, while Cost Accounting groups at each utility provide non-shared services.

The Cost Accounting group at SCG maintains a rate base of approximately $2.4 billion.[3] Cost Accounting is responsible for rate base accounting, operating cost accounting, new business accounting, fixed asset management and construction billing. Cost Accounting also handles numerous accounting and regulatory issues. The latter includes Sarbanes-Oxley (SOX) 404 business process controls testing.[4]

SCG requests two additional employees to address "new accounting requirements such as SOX."[5] The two employees represent two full-time equivalents (FTE's) and account for a requested increase of about $140,000.[6] This request is shown in FERC Account 920.0 as part of a total forecast of $2,192,000 for A&G labor in Accounting Operations for 2008.[7] DRA has reviewed this request and recommends disallowing the costs associated with the addition of the two FTE's. DRA, therefore, recommends an adjustment of $140,000 to Accounting Operations (Utility A&G Labor) based on disallowing 2 new full-time equivalent positions.

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[3] Exhibit SCG-13, p. 10.

[4] Exhibit SCG-13, p. 11.

[5] See Exhibit SDG&E/SCG-16, p. SK-57, lines 7-10.

[6] On p. SK-56 of Exhibit SCG-16, SCG requests a total labor (FERC Sub-account A. 920.0) of $335,000 for 4.8 additional FTE's. Of this amount, 2 FTE's account for about $140,000.

[7] See Exhibit SDGE/SCG-16, page SK-56, Table SK-USS-A&G-B.6.b.

Table 36-2
Non-Shared A&G Expenses for 2008
Accounting Operations[8]
(in Thousands of 2005 Dollars)

Description (a)	DRA Recommended (b)	SCG Proposed (c)	Amount SCG>DRA (d=c-b)	Percentage SCG>DRA (e=d/b)
Department Labor	$195	$335	$140	6.8%

SOX has been in effect since 2002 and SCG, as part of a Sempra Energy Corporate Center led team, started evaluation and implementation in 2003. SCG's implementation of SOX requirements appears to have been completed successfully by the end of 2005.[9] Responses to DRA data requests are described below.

SCG had previously stated to DRA that the Sarbanes-Oxley act "now requires" various activities concerning the annual report and evaluation of changes in the company's internal controls.[10] In a follow-up data request, DRA asked the company to indicate when these items were first required and what the company has done to address them.[11] The responses indicated the following:

1) SCG, as part of a Sempra Energy Corporation team, started evaluating how to implement the Sarbanes-Oxley act in April 2003. SCG needed to be in compliance with Section 404 of the Sarbanes-Oxley act starting with the 2004 10-K filing. As a result, SCG continued to implement its requirements to comply with the Sarbanes-Oxley act throughout 2004.[12]

2) SCG has adequate internal controls in place to ensure that the financial statements are properly stated. SCG was required to document and test

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[8] See Exhibit SDGE/SCG-16, page SK-56, Table SK-USS-A&G-B.6.b.

[9] See response to DRA-SCG-109-MBE, items 1-4.

[10] See response to DRA-SCG-025, Q/A 1.a.

[11] See response to DRA-SCG-109-MBE, item 3.

[12] See response to DRA-SCG-109-MBE, Q/A 1.

the effectiveness of the key controls in place to support the financial reporting process beginning in 2004.[13]

3) By mid to late 2004 SCG management had formally tested the key controls. By late 2004 both SCG management and the accounting firm of Deloitte and Touche had independently concluded that the internal controls were operating effectively.[14]

4) For all of 2004, approximately 1000 control activities were tested and approximately 300 employees were directly involved in compliance activities. The firm of Deloitte and Touche concluded in 2005 that "the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2005."[15]

5) In 2005, SCG Management and Deloitte and Touche provided their report on internal controls in the 10K. In 2006, SCG re-evaluated the "cycles and process flows" and, where needed, made changes to the process flows and the test plans. Management personnel performed the test plans to ensure that the identified internal controls were working.[16]

Given the above information provided about the Sarbanes-Oxley act and SCG's response to it, DRA disagrees with the request for the costs of two additional FTEs beginning in test year 2008. SCG has already implemented ongoing processes to address SOX accounting requirements and additional funding is unnecessary in the test year.

SCG also requests 2.8 additional FTE's due to "unusually large turnover in 2005," which led to a level of overtime for existing employees that is "not

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[13] See response to DRA-SCG-109-MBE, Q/A 1.

[14] See response to DRA-SCG-109-MBE, Q/A 1.

[15] See response to DRA –SCG-109-MBE, item 2 (including the 2005 Report from Deloitte and Touche).

[16] See Response to DRA –SCG-109-MBE, item 4.

sustainable."[17] The 2.8 FTE's account for an increase of about $195,000.[2] DRA has reviewed this request and agrees with the utility that it is an appropriate expense based on levelized annual costs.

The total requested increase for FERC Account 920.0 (Labor) for Accounting Operations is $335,000 or the sum of the $140,000 and the $195,000 described above. DRA proposes an adjustment of $140,000 of utility A&G labor expenses to the total request of $2,192,000 for A&G labor in Accounting Operations for 2008.

B. Staffing and Relocation

Staffing and Relocations is a department that manages the recruitment and selection of a qualified and diverse workforce while ensuring that legal and ethical guidelines are followed throughout the staffing processes. Except for a shared manager and two staff, this department provides Non-Shared Services at SCG and San Diego Gas & Electric Company (SDG&E).[18]

Each utility has a unique staff that handles internal and external recruitment activities for exempt, non-exempt and represented positions. The groups work with all other departments of the utility to ensure a selection and hiring process that follows legal requirements and undertakes various other functions, including a relocation program that provides assistance and resources for job related and company desired geographic moves.[19]

In prepared direct testimony, SCG requests an additional $364,000 for what are called "expanded/new recruiting programs."[20] This $364,000 represents a request for 3 new staffing representatives along with costs for related program development and maintenance. DRA recommends disallowing about $203,000 of

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[17] See Exhibit SDGE/SCG-16, p. SK-57, lines 10-13.

[18] See Exhibit SDGE/SCG-16, p. SK-101, lines 3-7.

[19] See Exhibit SDGE/SCG-16, p. SK-101, lines 9-25.

[20] See SDG&E/SCG-16, p. SK-103.

SCG's request for an additional $364,000 in Staffing and Relocation for what SCG calls "expanded/new recruiting programs." Of the $203,000, $108,000 represents A&G labor while $95,000 reflects A&G non-labor expense.

Table 36-3
Non-Shared A&G Expenses for 2008
Staffing and Relocation
(in Thousands of 2005 Dollars)

Description (a)	DRA Recommended (b)	SCG Proposed[21] (c)	Amount SCG>DRA (d=c-b)	Percentage SCG>DRA (e=d/b)
Accounting and Financial	$40	$80	$40	100%
Non-Professional External	$58	$116	$58	100%
Gov't Mandates and Audits	$105	$167	$105	100%
Total	$203	$364[22]	$203	100%

SCG has split the $364,000 requested amount into three areas described, and analyzed, below:[23]

1. Accounting and Financial

SCG requests $80,000 for one additional recruiter and related costs in the staffing areas of accounting and financial professionals. The utility states that, due to Sarbanes-Oxley (SOX) rules and direct competition with the top CPA firms, the external market for these types of employees has become more competitive since 2005. Prior to 2005 SCG recruited from local college campuses. To address recruiting challenges, the utility has added the University of Arizona as a new target school. A related effort is said to involve recruiting in the environmental area. The utility cites workforce projections based on long term company wide initiatives, state

[21] See response to DRA-SCG-030-MBE, question 1.

[22] Rounded.

[23] See response to DRA-SCG-030-MBE, question 1b.

and federal regulations such as SOX, and business operational needs. The utility also cites a tight labor market and the relatively high cost of living in California.[24]

In analyzing this requested incremental funding of $80,000, DRA considered two main items. First, SOX and other Government initiatives generally commenced some years ago and SCG has been implementing responses for a number of years. As discussed in Section A (Accounting Operations) above, SOX has been in effect since 2002 and SCG began evaluation and implementation in 2003 and appears to have completed it successfully by the end of 2005.[25] The additional staffing for SOX and other initiatives should be winding down both at SCG and at other businesses who compete with SCG for labor. Second, the utility is able to offer highly competitive pay and benefits in a state that is considered to be a very desirable place to live. In general, the utility should be able to attract the employees that are needed with its current level of funding. DRA believes that SCG should, when deemed necessary, reallocate resources from other areas of Human Resources

DRA is aware of change and uncertainty in the labor markets, including the rapidly growing environmental area, and DRA is receptive to the need for some additional recruitment spending. However, given a lack of specific information about the need for, and benefits from, additional recruitment efforts, DRA recommends that 50% of the $80,000 be allowed. DRA also recommends that SCG monitor the future recruitment efforts and discuss the efficacy of them in the next general rate case. Thus, DRA recommends an adjustment of $40,000 to the requested $80,000 increase in 2008.

2. Non-Professional External Hires

SCG requests about $116,000 for one additional recruiter and related program development and maintenance costs in the staffing area of non-

[24] Id.

[25] See response to DRA-SCG-109-MBE, items 1-4.

professional external hires, mainly meter readers and customer service representatives. Eighty percent of the utility's external hires are in such entry level positions. The minimum requirement for these jobs is a high school diploma and the ability to pass a basic aptitude test. The utility states that these applicants currently experience a high failure rate on the aptitude tests which subsequently requires more recruiter time sourcing and screening additional applicants. SCG also states that filling these positions will become increasingly difficult based on recent evidence regarding the decline in "workforce ready" candidates for entry level positions. In order to "meet this challenge," SCG wants to "partner with community and government organizations, high schools, and labor organizations" to help build a pool of "workforce ready" candidates.[26]

SCG is able to offer highly competitive pay and benefits in a state that is considered to be a desirable place to live. The utility's current pay, benefits and recruitment efforts provide a reasonable basis to attract the employees that are needed. Moreover, the primary sources of education or training are schools and public and private community organizations. DRA believes that it is appropriate for these groups, rather than the utility, to provide education and training for those who are not employees of SCG. However, DRA is also aware of perceived problems with the entry level work force and the potential need for additional recruitment efforts. For example, SCG proposes to expand existing relationships with training organizations, community organizations, and government organizations in under-privileged areas to help develop a sustainable pool of qualified and trained candidates to fill entry level positions.

DRA is receptive to the need for some additional recruitment spending. However, given a lack of specific information about the need for, and benefits from, additional recruitment efforts, DRA recommends that 50% of the $116,000, or $58,000, be allowed. DRA also recommends that SCG monitor the future recruitment efforts and discuss the efficacy of them in the next general rate case.

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[26] SCG Response to DRA-SCG-30-MBE, Q/A 1.c.

Thus, DRA recommends an adjustment of $58,000 of the requested $116,000 increase in 2008.

3. Government Mandates and Related Audits

SCG requests about $167,000 to add an additional staffing specialist and to hire supplemental manpower to support what the utility states is a continuing trend of inceasing government mandates and related audits.[27] Specifically, SoCalGas cites three areas: (a) recent “NERC Cyber Security” regulations,[28] (b) Sarbanes-Oxley (SOX) compliance audits, and (c) a “new OFCCP” mandate regarding internet applicant tracking,[29,30] SCG has indicated that, for the time being, the intention is to spend almost 38% of the $167,000 for the NERC regulations, about 25% on Sarbanes Oxley Compliance audits, and almost 38% on the OFCCP mandate.[31] DRA has considered each of these areas in the following discussion.

a. In response to a DRA data request, SCG estimates that the NERC regulations will require implementation of a Personnel Risk Assessment Program which includes performing a criminal investigative report and identifying verification on incumbents in specific work areas when access is granted and every seven years thereafter and/or for cause.[32] A portion of the money will be used to fund the development of the program, implementation and processing of background reports.

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[27] SCG Response to DRA-SCG-30-MBE, Q. 1d.

[28] NERC refers to the North American Electric Reliability Association. See the website www.nerc.com.

[29] OFCCP refers to the Office of Federal Contract Compliance Program. See the website www.dol.gov/esa/ofccp.

[30] SCG Response to DRA-SCG-30-MBE, Q/A 1.d.

[31] SoCalGas Response to DRA–SCG-113-MBE. The original percentages given in this response were 30%, 20% and 30% respectively. Since these only added to 80%, DRA increased each one so that the totals come to 100%, while the relative proportions remain the same.

[32] SoCalGas Response to DRA-SCG-030-MBE, item 1.d.

In response to a DRA data request, the utility states that work toward compliance with the regulations must be shown by mid-2007. In order to comply with the Cyber Security Standards and avoid penalties for non-compliance, SCG will require several years to implement this program, with on-going expenses.[33] After review of the materials presented, DRA does not object to SCG funding 38%, or $63,000, of the $167,000 for the NERC Cyber Security regulations.

b. As discussed in Section A (Accounting Operations) above, SOX has been in effect since 2002 and SCG began evaluation and implementation in 2003 and appears to have completed it successfully by the end of 2005.[34] Thus the staffing for SOX and other initiatives should be winding down rather than increasing. Thus, DRA recommends adjusting the request to spend 25%, or about $42,000, of the $167,000 for the Sarbanes-Oxley Compliance audits.

c. "OFCCP" refers to a U.S. Department of Labor Employment Standard's Administration, "Office of Federal Contract Compliance Program." According to a response to a DRA data request, the utility states that the "OFCCP mandate" involves prescribing the recordkeeping requirements contractors must follow regarding hiring through the use of Internet or related electronic data technologies.[35] To comply with the new Internet Applicant Recordkeeping requirements, SoCalGas now retains data on all internal and external resume database searches for each position searched. The Final Rule took effect on February 2, 2006. Given that SCG has had two years to implement the mandate, DRA recommends adjusting the request by almost 38%, or about $63,000, of the requested $167,000.

For the three areas discussed in 3a, 3b, and 3c above, DRA recommends adjustments of $42,000 plus $63,000 or $105,000 of SCG's requested $167,000 for

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[33] SCG Response to DRA-SCG-113-MBE, item, 1a.

[34] SCG Response to DRA-SCG-109-MBE, items 1-4.

[35] SCG Response to DRA-SCG-111-MBE, item 2a.

an "additional staffing specialist and to hire supplemental manpower" to support the three efforts as described above. DRA does not object to spending 30% of the $167,000, or $63,000, for the NERC Cyber Security regulations that took effect in 2007 and will require several years to implement.

To summarize overall, DRA recommends a reduction of $203,000 to SCG's request for an additional $363,000 in Staffing and Relocation for "expanded/new recruiting programs." The adjustment of $203,000 is composed of $40,000 for item B1 above, $58,000 for item B2, and $105,000 for item B3. The total $364,000 request by SCG was split into labor (53%) and non-labor (47%).[36] Using the same percentage split between labor and non-labor, DRA has allocated 53% of the $203,000 adjustment, or $108,000, to utility A&G labor and 47% of the $203,000, or $95,000, to utility A&G non-labor in Table 36-1.

C. Labor Relations

Labor relations work groups at SCG are responsible for union relations, Collective Bargaining Agreement (CBA) negotiations, contract administration, grievances, arbitrations and National Labor Relations Board (NLRB) actions. The groups also ensure compliance with and implementation of, regulations and laws impacting represented employees which are not addressed by the Collective Bargaining Agreements. In September 2005, the Labor Relations organization was merged with Human Resources (HR), reporting to the Vice President of HR.[37]

DRA recommends an adjustment of $163,000 ~~$191,000~~ to Labor Relations.

[36] See Exhibit SCG-13, pages 14 and 21. The total request for labor dollars (FERC Sub-account 920.1) was $192,000 while the request for non-labor dollars (FERC Sub-account 921.0) was $172,000 for the total of $364,000.

[37] Exhibit No. SDGE/SCG-16 and SCG/SDGE-14, p. SK-112.

Table 36-4
Non-Shared A&G Expenses for 2008
Labor Relations
(in Thousands of 2005 Dollars)

Description (a)	DRA Recommended (b)	SCG Proposed (c)	Amount SCG>DRA (d=c-b)	Percentage SCG>DRA (e=d/b)
Department Non-Labor	$124 ~~$96~~	$287	$163 ~~$191~~	131.5% ~~202.1%~~

SCG states that it incurred total expenses for A&G Non-labor (FERC sub-account 921.0) of $325,000 for Labor Relations in base year 2005.[38] According to a SCG data request response, SCG contract negotiations for the current collective bargaining agreement lasted approximately five months, beginning the latter part of 2004 and concluding in early 2005.[39] The associated contract negotiations expenses in 2005 totaled $148,900 and included costs for materials and supplies ($13,400), contract printing ($32,500), professional services for Alternative Dispute Resolution training ($17,000), and professional services for conducting Position Analysis Questionnaires (PAQs) for ten job classifications ($86,000).[40] Of the 2005 total ($148,900), $42,000 represents ongoing, annual recurring costs, while the remaining $107,000 consists of periodic/intermittent costs incurred each time SoCalGas goes through contract negotiations.[41]

SCG states that in test year 2008 it will incur additional costs associated with contract negotiations of $138,000 for a total of $245,000 ~~$287,000~~ of non-labor expenses (the base year periodic/intermittent cost of $107,000 ~~$148,900~~ plus the

[38] See Exhibit No. SDGE/SCG-16, page SK-113, Table SK-USS-A&G-D.7.b.

[39] SCG response to DRA-SCG-105-MBE, item 1.a.

[40] Id.

[41] Exhibit SCG-224, Rebuttal Testimony of Scott Kyle, page 11, lines 13-16.

added costs of $138,000).[42] The Collective Bargaining agreement for SCG expires in 2008 and must be re-negotiated. According to SCG, the additional $138,000 requested for the test year, beyond the costs incurred in 2005, include supplies ($11,600), contract printing ($19,500), professional services for PAQs and ADRs ($26,000), and other costs related to business planning and outside legal/other services ($81,000).[43]

SCG is requesting total costs associated with contract negotiations in 2008 of $107,000 ~~$148,900~~ (the same periodic/intermittent costs as incurred in 2005) plus the additional costs of $138,000, for a total of ~~about $287,000~~ $245,000. After careful review, DRA is willing to accept these costs for contract negotiations expected to take place in 2008. However, DRA recommends that they be allocated over the likely three-year length of the contract, based on the recent history of contract negotiations.

Recent history of SCG's labor relations suggests that the costs be amortized over a 3 year period. The current (expiring) collective bargaining agreement (Jan. 1, 2005) was for 3.75 years, while SCG states that the "average length of collective bargaining agreements over the past ten years at SCG has been 2 to 3 years."[44] The average of 2-3 years (2.5 years) and the current contract of 3.75 years would suggest that the bargaining in 2008 might yield a collective bargaining agreement of about 3 years, and thus DRA recommends using 3 years to amortize the labor costs to be incurred in 2008. Dividing the $245,000 ~~$287,000~~ costs to be incurred in 2008 by 3 years yields about $82,000 ~~$95,600~~ per year. Adding the annual recurring cost of $42,000 to the $82,000 yields a total of $124,000 per year. Thus, DRA is recommending a forecast of $124,000 ~~$95,600~~ which is an adjustment of $163,000 ~~$191,000~~ to SCG's estimate.

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[42] See Exhibit No. SDGE/SCG-16, page SK-114.

[43] SCG Response to DRA-SCG-105-MBE, item 1.b.

[44] SCG Response to DRA-SCG-105-MBE, item 1.c.

D. Damage Claim Payments

FERC Sub-Account 925.0, Public Liability and Property Damage (PL/PD), includes the cost of damage claim payments. This only includes the cost of actual claims paid to third parties by SCG. In the filing of December 2006, SoCalGas showed a base year amount of $4,989,000 and a forecast for 2008 of $5,220,000, for an incremental change of $231,000.[45] The utility's forecast for 2008 was based on a 5 year average of actual and projected claims payments, from 2003 through 2007.

DRA forecasts $3,520,000 for Damage Claim Payments, which is $1,700,000 lower than SCG's estimate.

Table 36-5
Non-Shared A&G Expenses for 2008
Damage Claim Payments
(in Thousands of 2005 Dollars)

Description (a)	DRA Recommended (b)	SCG Proposed (c)	Amount SCG>DRA (d=c-b)	Percentage SCG>DRA (e=d/b)
FERC Account 925	$3,520	$5,220	$1,700	48.0%

In response to a DRA data request, SCG provided the following: 1) 5 years of actual and projected claims payments, and 2) a detailed description of how SCG developed the "projected claims payments" and the PL/PD forecast for 2008.[46]

Based on a review of the data request response, DRA concluded that SCG's method of "forecasting" test year damage claims used historical claims payment data from 2002 through 2004 and projected payouts for 2005 and 2006. Then the utility used the historical 2002-2004 data plus the estimated 2006 and 2007 payouts to forecast a claims payment for 2007 (using a 5 year average from 2002-2006). Next, the data from 2003 through 2007 (both historical and projected) was used to develop a 5 year average to project 2008 for the test year forecast. This forecast for

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[45] Exhibit No. SCG-13, page 24, Section II.c, FERC Sub-Account 925.0, page 24.

[46] SCG response to DRA-SCG-097-MBE.

2008 was $3,816,389 and was added to two other estimates (as explained below) to derive the test year forecast of $5,220,000 (rounded).

DRA carefully evaluated SCG's use of historical and budgeted claims data to develop the utility test year forecast of $5,220,000 for PL/PD claims payments. DRA concluded the following: 1) SCG used a 5 year average of claims payout, from 2003 to 2007, but the data for 2005 through 2007 was estimated and not recorded. This resulted in using only 3 years of recorded data to derive a 5 year estimate for 2008 of $3,656,389. 2) The utility added in amounts for investigation expenses ($160,000) and an estimated impact of self-insurance retention to $2 million ($1,403,000). This raised the 2008 forecast from the $3,656,389 to $5,220,000 (rounded).

After evaluation of the data and further discussion with SCG, DRA concluded that the addition of the $160,000 was unwarranted, since "investigation expenses" are already embedded within the historical data. Also based upon discussion with SCG pertaining to the historical data and forecasted claims payments, DRA concluded that historical data was now available in usable form from 2001 through 2006 (provided in SCG's data request response and shown below).[47]

Historical PL/PD Claims

(in Thousands of 2005 Dollars)

Actual-2001	Actual-2002	Actual-2003	Actual-2004	Actual-2005	Actual-2006[48]
2,845.5	3,052.2	5,513.1[49]	2,263.0	4,876.9	2,567.0

[47] See SCG response to DRA-SCG-097-MBE, question 1.b. Discussion took place on April 3, 2007 with Scott Kyle of SCG.

[48] See SCG response to DRA-SCG-097-MBE, question 1.a.

[49] This is based on actual total payments of $9,279,000 minus $3,766,200, an adjustment to remove an unusual gas transmission incident. See the SCG's response to DRA-SCG-097-MBE.

DRA evaluated the historical damage claims data provided by SCG (shown above) and recommends using a 6 year average from 2001-2006 to forecast PL/PD claims to 2008. Use of a 6 year historical average is the most appropriate methodology to "smooth out" the significant variations in historical data from year to year. Moreover, by using historical data that are now available for 2006, DRA avoids having to use "forecasted data" for 2007 to develop a forecast for 2008, as was done by SCG. Relying on historical data updated through 2006 provides the most understandable and transparent method for developing the test year forecast.

To summarize, DRA recommends a forecast of PL/PD claims for 2008 based on using a simple average of the actual historical data for damage claims from 2001-2006. The 6 year average provides a forecast of $3,520,000.

In developing its PL/PD claims forecast for 2008 of $5,220,000, SCG had included $1,402,000 for the "estimated impact of self insurance retention to $2M."[50] In response to a DRA data request, SCG stated that "$1,402,000 is SCG's estimate of the projected annual cost increase in claims expenses that would result from raising the PL/PD liability insurance deductible from $1 million to $2 million."[51] SCG also states that "The need for this forecast (the $1,402,000) was based on information received early in the GRC preparation process from SCG's insurance department indicating that based on preliminary negotiations with SCG's insurers for the 2007 calendar year raising the deductible to $2 million appeared likely."[52]

SCG also stated that "Subsequently the insurance department was able to negotiate a continuation of the previously existing $1 million deductible for 2007. This assumption was then reflected in the insurance cost forecast described in the Corporate Shared Services testimony of Monica Haas (page MPH-87), creating inconsistency between that testimony and the utility non-shared testimony where

[50] See SCG response to DRA-SCG-097-MBE, question 1.b (see attached file).

[51] See SCG response to DRA-SCG-128-MBE, item 1a.

[52] SCG response to DRA-SCG-128-MBE, item 1a.

actual claims expenses are sponsored. Accordingly, SCG believes that its PL/PD claims expense forecast of $5,220,000 should be reduced by the $1,402,000."[53]

Given the above responses to the DRA data request, DRA recommends adopting a test year forecast of $3,520,000 based on the 6 year average of actual PL/PD claims. There is no need to add in the $1,402,000 as SCG did in its testimony. The $3,520,000 is $1,700,000 less than SCG's forecast of $5,220,000 for 2008. Thus DRA recommends a forecast of $3,520,000, which is an adjustment of $1,700,000 to SCG's estimate of Damage Claims Payments for FERC Account 925 in Table ~~1~~36-1.

E. Miscellaneous General Expenses

Miscellaneous General Expenses fall within FERC Sub-Account 930.1 and include the cost of industry-based dues and memberships. SoCalGas shows zero expenses in base year 2005 and is requesting $500,000 for 2008.

DRA recommends an adjustment of $500,000 to Miscellaneous General Expenses.

Table 36-6
Non-Shared A&G Expenses for 2008
Miscellaneous General Expenses
(inhousands of 2005 Dollars)

Description (a)	DRA Recommended (b)	SCG Proposed (c)	Amount SCG>DRA (d=c-b)	Percentage SCG>DRA (e=d/b)
FERC Account 930.1	$0	$500	$500	n/a

The utility is requesting the $500,000 for membership in the American Gas Association (AGA). According to SoCalGas, the "AGA is an advocate for local natural gas utility companies and provides a broad range of programs and services for member natural gas pipelines, marketers, gatherers, international gas companies

[53] SCG response to DRA-SCG-128-MBE, item1b.

and industry associates."[54] The organization represents 197 local energy utility companies located throughout the United States.

SCG states that AGA performs an important and influential role in Washington, D.C. on regulations and legislation affecting utility operations.[55] In addition, SCG states that its customers will benefit from membership because the AGA will provide the utility with access to resources and services that it cannot readily achieve without membership.

DRA has reviewed SCG's showing and concluded that any benefit to ratepayers is incidental to a promotion of the utility's stockholders and the American gas utility business in general. SCG has failed to demonstrate that gaining access to resources and services potentially provided by AGA membership represents tangible and significant ratepayer benefits relative to the cost of membership. Nor has SCG demonstrated that any lobbying functions of these organizations provide tangible and significant ratepayer benefits.

SCG states that, aside from lobbying in Washington D.C., the AGA will provide ratepayers benefits in the following ways:[56] 1) AGA has supported additional Low Income Home Energy Assistance program (LIHEAP) funding, 2) AGA membership provides information on technical and operational innovation within the as industry, as well as information from across the industry about customers' changing needs, and 3) AGA membership would allow SCG to leverage the funding it spends on Research, Demonstration and Development.

In its summary of "benefits," SCG has failed to provide information that shows total specific definitive benefits to offset the cost of membership. AGA support for LIHEAP is redundant to the state's and utility's ongoing efforts in this area. Moreover, information about the industry in general and technical and operational

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[54] Exhibit No. SCG-13, p. 25 (lines 19-23), Section II.d (Misc. General Expenses).

[55] Exhibit No. SCG-13, pp. 25 (lines 19-27) and 26 (lines 1-19), Section II.d, FERC Sub-Account 930.1.

[56] See Exhibit SCG-13, page 26.

innovation is available from many sources, not simply AGA. The utility has not demonstrated how the leveraging of funding would lead to tangible benefits. Further, the Commission is already a national leader in the area of low income assistance through the CARE program and low income targeted Energy Efficiency programs.

AGA dues for SCG were disallowed in the SoCalGas Decision 82-12-054 (Dec. 9, 1982) following the exclusion of AGA dues to Pacific Gas and Electric Company in Decision 93887.[57] Decision 93887 for PG&E stated that "We have also eliminated all EEI and AGA dues for ratemaking purposes."[58] As a Finding of Fact, Decision 82-12-054 stated that "The ratepayer should not have to fund AGA dues since the primary purpose of the AGA is to promote the gas industry and the interests of its stockholders. The benefit flowed through to the ratepayer is incidental."[59] This fact has not changed in 25 years and SCG has presented inadequate justification for ratepayer funding of AGA dues.

The reasoning of the decisions cited above applies equally here. DRA thus proposes an adjustment of $500,000 for AGA dues requested by SCG for FERC Sub-Account 930.0, Miscellaneous General Expenses.

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[57] Decision 82-12-054, December 9, 1982, page 90, Account 930, Miscellaneous, AGA Dues.

[58] Decision 93887, December 20, 1981, page 95.

[59] Decision 82-12-054, December 9, 1982, page 104, Finding of Fact 28.