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Exhibit Number	:	<u>ORA-04</u>
Commissioner	:	<u>L. Randolph</u>
ALJ	:	<u>R. Lirag</u>
Witness	:	<u>T. Burns</u>



**OFFICE OF RATEPAYER ADVOCATES
CALIFORNIA PUBLIC UTILITIES COMMISSION**

**Report on the Results of Operations
for
San Diego Gas & Electric Company
Southern California Gas Company
Test Year 2019
General Rate Case**

Fueling Our Future (FOF) Policy

San Francisco, California
April 13, 2018

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FUELING OUR FUTURE (FOF) POLICY

2 I. INTRODUCTION

3 This exhibit presents the analyses and recommendations of the Office of
4 Ratepayer Advocates (ORA) regarding the Fueling Our Future (FOF) Policy
5 proposals of San Diego Gas & Electric Company (SDG&E) and Southern California
6 Gas Company (SCG or SoCalGas), collectively the Sempra Utilities (Sempra), for
7 Test Year (TY) 2019.

8 Sempra's FOF initiative "focuses on innovating and modernizing processes to
9 meet the future needs of our business and build a better business through
10 reinvestments. Savings generated from FOF are passed through to ratepayers in
11 the form of revenue requirement reductions."¹

12 II. SUMMARY OF RECOMMENDATIONS

13 The following summarizes ORA's recommendations regarding the SDG&E
14 and SoCalGas FOF policy/initiatives:

15 A. SDG&E

- 16 • ORA does not oppose SDG&E's forecast of TY 2019 FOF net
17 benefits.

18 B. SoCalGas

- 19 • ORA does not oppose SCG's forecast of TY 2019 FOF net
20 benefits.

¹ Ex. SCG-03-R/SDG&E-03-R, p. HDS/RC-1.

1 **III. FOF INITIATIVE**

2 SCG/SDG&E’s testimony describes the FOF initiative’s processes.² FOF
3 was initiated in 2016, and resulted in over 450 approved cost saving ideas for SCG
4 and SDG&E, targeted for implementation before EOY 2019.³ FOF used an outside
5 operational improvement consultant, EHS Partners (EHS); according to
6 SCG/SDG&E, “[n]one of the costs of EHS were allocated to SoCalGas or SDG&E as
7 the costs were retained 100% at the Sempra Energy corporate center.”⁴ FOF ideas
8 “centered on ways to simplify or eliminate low value-added activities, eliminate
9 sources of re-work, optimize roles and responsibilities by standardizing procedures,
10 automate tasks where feasible and simplify organizational structure where it makes
11 sense.”⁵ FOF used a formula to evaluate potential net savings.⁶ As shown in
12 Tables 5-1 and 5-2 below, SCG/SDG&E forecasts TY 2019 net annual operating
13 and maintenance (O&M) savings of over \$42 million for SCG and over \$26 million
14 for SDG&E.

15 **A. ORA’s Analysis**

16 As part of its analysis, ORA reviewed SCG/SDG&E’s revised testimony,
17 hundreds of pages of workpapers and conducted discovery.⁷ In response to an

² Ex. SCG-03-R/SDG&E-03-R, pp. HDS/RC-1 to 7.

³ Ex. SCG-03-R/SDG&E-03-R, p. HDS/RC-7. The implementation phase began in September 2016. Id. at p. 5.

⁴ Ex. SCG-03-R/SDG&E-03-R, p. HDS/RC-3.

⁵ Ex. SCG-03-R/SDG&E-03-R, p. HDS/RC-4.

⁶ Ex. SCG-03-R/SDG&E-03-R, p. HDS/RC-5.

FOF/“Fulcrum” formula: 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.

⁷ Ex. SCG-03-R/SDG&E-03-R. SCG/SDG&E did not serve dedicated workpapers with its FOF direct testimony; instead, program descriptions, costs and benefits are spread throughout SCG/SDG&E’s
(continued on next page)

1 ORA data request, SCG provided a table with a complete listing of all approved FOF
2 ideas.⁸ The table shows implementation costs, ongoing costs and benefits, net
3 savings and expected completion dates. The expected net benefits in the table
4 approximately match the net benefits included in Ex. SCG-03-R/SDG&E-03-R.

5 ORA investigated an example of SCG’s forecast FOF savings: SCG’s
6 Customer Service – Field and Meter Reading testimony includes one sentence
7 describing a significant level of FOF savings: “[a] net benefit of (\$6.623) million and
8 one time implementation cost of \$0.034 million are included in the 2019 TY
9 estimated request for the CS-F Operations cost category.”⁹ SCG’s supporting
10 workpaper provides an additional sentence, but not further detail: “CS-Field
11 Operations net savings associated with Fueling our Future initiative.”¹⁰ In response
12 to an ORA data request, SCG provided a six page table that details the FOF “ideas”
13 that went into the (\$6.623) million total, but offered no underlying calculations; SCG’s
14 response stated that “[f]orecasted values for FOF projects are zero-based and are
15 determined by Subject Matter Experts.” ORA concludes that SCG’s support for FOF
16 CS-Field and Meter Reading savings is problematic, but ORA does not oppose
17 SCG’s forecast.

18 ORA also investigated an example of SDG&E’s forecast FOF savings:
19 SDG&E’s Electric Distribution O&M testimony provided one paragraph explaining TY
20 2019 FOF savings of \$4.770 million for Electric Regional Operations.¹¹ SDG&E’s
21 workpapers provided no additional detail, other than a forecast FTE reduction of
22 29.0.¹² In response to an ORA data request, SDG&E provided additional detail on

(continued from previous page)

other direct testimony exhibits. ORA’s data requests include ORA-SCG-011-TXB, ORA-SDGE-017-TXB, ORA-SDGE-109-TXB, ORA-SCG-107-TXB, ORA-SCG-115-TXB and ORA-SCG-123-TXB.

⁸ SCG response to ORA data request ORA-SCG-011-TXB, Q.1.

⁹ Ex. SCG-18-R, p. GRM-27.

¹⁰ Ex. SCG-18-WP, p. 9 of 174. SCG’s workpaper includes an estimated FTE reduction of 79.1.

¹¹ Ex. SDG&E-15-R, p. WHS-41, Ins. 15-24.

¹² Ex. SDG&E-15-WP, pp. 102 and 145.

1 the \$4.770 million in FOF savings¹³ and the FTE reduction of 29.0.¹⁴ As with SCG,
2 ORA concludes that SDG&E’s support for FOF Electric Distribution O&M/Electric
3 Regional Operations is problematic, but ORA does not oppose SDG&E’s forecast.

4 Regarding FTE savings, ORA asked both SCG and SDG&E for a summary
5 of TY 2019 FOF FTE savings. SCG responded that it expects a net reduction of
6 195.0 FTEs associated with FOF for TY 2019.¹⁵ SDG&E responded that it expects
7 a net reduction of 86.4 FTEs associated with FOF for TY 2019.¹⁶ FTE reductions
8 are important since they result in associated benefits cost reductions. ORA checked
9 Sempra’s RO Model to see whether the TY 2019 29.0 FTE reduction for Electric
10 Distribution/Electric Regional Operations is included in the RO Model, and ORA
11 concluded that it is included.

12 ORA asked SCG and SDG&E for 2017 recorded FOF savings, as a means of
13 gauging whether TY 2019 FOF savings are likely to appear. SCG responded:

14 As described in section III. H. of the Fueling Our Future (FOF) Policy
15 testimony, FOF is a work-in-progress initiative and it is possible that
16 some of the approved FOF ideas do not move forward to
17 implementation. Regardless, the overall FOF savings are committed in
18 SDG&E and SCG GRC filings whether or not the savings are realized.

19 The Sempra Utilities’ accounting system only records costs that are
20 incurred. FOF savings are cost that were not incurred and therefore
21 not recorded. For this reason, actual recorded 2017 FOF savings
22 cannot be provided because the information does not exist.¹⁷

23 Given the lack of 2017 savings data, ORA cannot conclude that SCG and
24 SDG&E are on track to achieve their forecast TY 2019 FOF savings, but notes that
25 SCG/SDG&E are committed to their TY 2019 FOF savings.

¹³ SDG&E response to data request ORA-SDGE-130-TXB, Q.1.

¹⁴ SDG&E response to data request ORA-SDGE-130-TXB, Q.2: “[t]he FTE reduction was a calculation using the total labor savings of \$2.895M and assuming an estimated average savings of \$100k per FTE. This results in approximately 29 FTEs saved from these programs.”

¹⁵ SCG response to data request ORA-SCG-107-TXB, Q.4.

¹⁶ SDG&E response to data request ORA-SDGE-109-TXB, Q.6.

¹⁷ SCG response to data request ORA-SCG-115-TXB, Q.1. SDG&E’s response to data request ORA-SCG-115-TXB, Q.2 referred to SCG’s response.

1 ORA requested SCG/SDG&E 2017 recorded capital related to FOF savings.
2 In response, SCG stated that “2017 recorded data will not be available until mid-
3 March [2018].”¹⁸ In a supplemental data response, SCG/SDG&E provided 2017
4 FOF recorded capital totaling \$11.816 million.¹⁹ In contrast, SCG/SDG&E’s forecast
5 2017 FOF capital totaled \$27.648 million.²⁰

6 **B. ORA’s Position**

7 Considering SCG/SDG&E’s FOF testimony, workpapers and responses to
8 discovery, ORA does not oppose SCG/SDG&E’s forecast TY 2019 FOF net benefits.
9 Regarding 2017 FOF capital, ORA’s recommendations are included in Ex. ORA-20
10 (IT) and Ex. ORA-10 (SDG&E Gas Transmission). ORA has not made any separate
11 2017 FOF capital adjustments.

¹⁸ SCG response to data request ORA-SCG-123-TXB, Q.1. (Feb. 13, 2018).

¹⁹ SCG response to ORA data request ORA-SCG-123-TXB, Q.1 Supplemental. (Mar. 23, 2018). The supplemental response shows 2017 recorded FOF capital of \$5.841 million for SCG and \$5.975 million for SDG&E.

²⁰ SCG response to ORA data request ORA-SCG-123-TXB, Q.1, Supplemental. The attachment shows 2017 forecast FOF capital of \$13.058 million for SCG and \$14.590 million for SDG&E.

1 **IV. SUMMARY OF FOF IMPACTS**

2 Tables 4-1 below shows SDG&E’s forecast TY 2019 FOF net benefits, and
 3 ORA’s recommendation. ORA does not oppose SDG&E’s TY 2019 FOF forecast.
 4 Tables 4-2 below shows SCG’s requested TY 2019 FOF net benefits, and ORA’s
 5 recommendation. ORA does not oppose SCG’s TY 2019 FOF forecast.

6 **Table 4-1**
 7 **Summary of SDG&E 2019 FOF Impacts by Functional Area**
 8 **(in Thousands of 2016 Dollars)**

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

9 Source: SDG&E 2019 forecast from Ex. SCG-03/SDG&E-03-R, p. HDS/RC-9, Table HDS/RC-2.

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Table 4-2
Summary of SoCalGas 2019 FOF Impacts by Functional Area
(in Thousands of 2016 Dollars)

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

4 Source: SCG 2019 forecast from Ex. SCG-03/SDG&E-03-R, p. HDS/RC-8, Table HDS/RC-1.

²¹ According to SDG&E, FOF savings of \$2.6 million (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.

WITNESS QUALIFICATIONS

1

2 My name is Truman L. Burns. My business address is 505 Van Ness
3 Avenue, San Francisco, California. I am employed by the Office of Ratepayer
4 Advocates (ORA) as a Program and Project Supervisor in the Energy Cost of
5 Service and Natural Gas Branch.

6 I received a Bachelor of Arts degree in Political Science and English, and a
7 Masters of Arts degree in Political Science, State Politics and Policy Specialization,
8 from the University of California, Davis. I received a Juris Doctorate degree from the
9 University of San Francisco, and am a member of the California Bar.

10 I joined the Commission's Special Economics Projects Branch in 1986.
11 During my employment with the CPUC, I have performed various tasks, and have
12 spent most of my time on electric utility regulation. I have testified before the
13 Commission related to Pacific Gas and Electric's (PG&E) Diablo Canyon nuclear
14 power plant (steam generator replacement cost effectiveness, nuclear
15 decommissioning trust funds, target capacity factor, long-term operating costs, utility
16 retained generation capital, NRC license renewal, and operating costs), Humboldt
17 Bay Unit No. 3 nuclear power plant (decommissioning trust funds and
18 decommissioning costs), and Southern California Edison's (SCE) San Onofre Units
19 2 & 3 (utility retained generation capital and operating costs) and Unit 1 nuclear
20 power plant (environmental costs and rate base recovery). I have also testified
21 before the Atomic Safety and Licensing Board of the U.S. Nuclear Regulatory
22 Commission regarding PG&E's financial qualifications requirements for an
23 independent spent fuel storage installation (ISFSI), and was appointed in 2004 to the
24 National Association of Regulatory Utility Commissioners Staff Subcommittee on
25 Nuclear Issues-Waste Disposal.

26 This completes my prepared testimony.