Docket	:	A.17-10-007/008
Exhibit Number	:	ORA-22
Commissioner	:	L. Randolph
ALJ	:	R. Lirag
Witness	:	S. Hunter

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

Compensation & Benefits; Pension & Postretirement Benefits Other Than Pension

San Francisco, California
April 13, 2018

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COMPENSATION & BENEFITS AND PENSION & POSTRETIREMENT BENEFITS OTHER THAN PENSION

I. INTRODUCTION

This exhibit presents the analyses and recommendations of the Office of Ratepayer Advocates (ORA) regarding the proposals of San Diego Gas & Electric Company (SDG&E) and Southern California Gas Company (SCG or SoCalGas), collectively the Sempra Utilities (Sempra), in its Test Year (TY) 2019 General Rate Case (GRC), associated with Compensation & Benefits, and Pension & Postretirement Benefits Other Than Pension (PBOP).

ORA examined both companies' requests for TY 2019 rate recovery and conducted an independent analysis of their supporting workpapers, responses to data requests and other discovery. ORA also reviewed past Commission decisions from California and other states.

II. SUMMARY OF RECOMMENDATIONS

A. Compensation & Benefits

The following summarizes ORA's recommendations regarding SDG&E's and SoCalGas' compensation and benefits expenses:

- Ratepayers should not fund non-executive short-term incentives related to financial and customer service goals.
- Ratepayers should not fund executive short-term incentives related to financial and customer service goals.
- Ratepayers and shareholders should equally share funding of the remaining short-term incentives goals.
- Ratepayers should not fund long-term incentives.
- Ratepayers should fund Spot Cash and Employee Recognition Awards at the 2016 expense level.
- ORA's lower labor recommendations should be reflected in all program expense forecasts that rely on headcount.
- ORA recommends a medical escalation rate of 4.25% for 2018-2019.

- Ratepayers should not fund Wellness programs.
- Ratepayers should not fund the non-qualified retirement savings and supplemental pension plans.
- Ratepayers should not fund Emergency Childcare programs.
- Ratepayers should not fund Retirement Activities.
- Ratepayers should not fund Special Events.
- Ratepayers and shareholders should equally share funding of the Service Recognition programs.

Table 22-1 compares ORA's and Sempra's 2019 expense forecasts:

Table 22-1
Sempra Compensation & Benefits Expenses for 2019
(in Thousands of 2016 Dollars)

Description (a)	ORA Recommended (b)	Sempra Proposed[1] (c)	Amount Sempra>ORA (d=c-b)
Southern California Gas			
Compensation	$33,632	$90,743	$57,111
Health Benefits	$98,462	$105,050	$6,588
Welfare Benefits	$1,922	$1,922	$0
Retirement Benefits	$25,409	$27,629	$2,220
Other Benefit Program & Fees	$3,292	$4,475	$1,183
Total SoCalGas	$162,717	$229,819	$67,102
San Diego Gas & Electric			
Compensation	$29,959	$80,617	$50,658
Health Benefits	$59,310	$63,861	$4,551
Welfare Benefits	$833	$833	$0
Retirement Benefits	$17,369	$19,984	$2,615
Other Benefit Program & Fees	$1,315	$1,595	$280
Total SDG&E	$108,786	$166,890	$58,104

[1] Ex. SDG&E-31, p. SKH-1, Table SKH-2.

B. Pension & PBOP

The following summarizes ORA's recommendations regarding SDG&E's and SoCalGas' pension and PBOP expenses:

- Ratepayers should fund the pension plans at the forecasted amounts.
- The proposed pension funding methodology changes should be adopted.
- The two-way pension and PBOP balancing accounts should be continued.
- Ratepayers should fund the PBOP at the forecasted amounts.

Table 22-2 compares ORA's and Sempra's 2019 expense forecasts:

Table 22-2
Sempra Pension & PBOPs Expenses for 2019
(in Thousands of 2016 Dollars)

Description (a)	ORA Recommended (b)	Sempra Proposed[2] (c)	Amount Sempra>ORA (d=c-b)
Southern California Gas			
Pension	$202,830	$202,830	$0
PBOPs	$0	$0	$0
Total SoCalGas	$202,830	$202,830	$0
San Diego Gas & Electric			
Pension	$63,970	$63,970	$0
PBOPs	$1,430	$1,430	$0
Total SDG&E	$65,400	$65,400	$0

[2] Ex. SDG&E-31, p. SKH-1, Table SKH-2.

PART I: COMPENSATION & BENEFITS PROGRAMS

I. COMPENSATION

SoCalGas and SDG&E offer compensation packages designed to attract, retain, and motivate their employees. The specific compensation structure depends on an employee's group (Executive, Director, Management, Associate, or Union) and may include base pay (*e.g.,* salary), variable pay (*e.g.,* short-term incentives), long-term incentives (paid only to key management employees), and special recognition awards (the “spot cash” and Employee Recognition programs).[3]

SoCalGas requests $90.7 million in ratepayer funding for Compensation while ORA recommends ratepayer funding of $33.6 million. SoCalGas requests $75.680 million for TY 2019 for non-executives and $3.410 million for executives for the short-term Incentive Compensation Program (ICP) which is also known as “variable pay.” SoCalGas requests $10.029 million for the Long-Term Incentive Program (LTIP), $0.978 million for Spot Cash, and $0.646 million for the Employee Recognition Program.[4]

SDG&E requests $806 million in ratepayer funding for Compensation while ORA recommends ratepayer funding of $30.0 million. SDG&E requests $66.718 million for TY 2019 for non-executives and $4.020 million for executives for the short-term ICP. SDG&E requests $8.570 million for the LTIP, $0.970 million for Spot Cash, and $0.339 million for the Employee Recognition Program.[5]

Both SoCalGas and SDG&E presented the same reasoning and support for their respective Compensation and Incentive plans. ORA disagrees with SoCalGas' and SDG&E's requests and recommends a lower forecast of ratepayer funding for these programs in TY 2019. ORA’s analyses and recommendations are discussed below.

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[3] Ex. SCG-30/SDG&E-28, p. DSR-8.

[4] Ex. SCG-30/SDG&E-28, p. DSR-4.

[5] Ex. SCG-30/SDG&E-28, p. DSR-3.

Table 22-3
SDG&E and SoCalGas Compensation Expenses
2012-2016 Recorded and 2019 Forecast
(in Thousands of 2016 Dollars)

Description	2012	2013	2014	2015	2016	Sempra 2019	ORA 2019
SoCalGas							
Non-Executive Variable Pay	$49,156	$57,604	$46,466	$71,930	$63,638	$75,680	$32,164
Exec Variable Pay	$2,851	$3,062	$2,596	$3,366	$3,049	$3,410	$938
Long-Term Incentive Plan	$4,390	$5,905	$6,577	$7,989	$7,587	$10,029	$0
Spot Cash Program	$1,191	$1,507	$641	$1,117	$431	$978	$431
Employee Recognition Prog.	$174	$113	$142	$99	$99	$646	$99
Total SCG	$57,762	$68,191	$56,422	$84,501	$74,804	$90,743	$33,632
SDG&E							
Non-Executive Variable Pay	$70,356	$51,164	$69,191	$71,587	$62,488	$66,718	$28,355
Exec Variable Pay	$3,968	$3,250	$4,104	$4,179	$4,128	$4,020	$1,106
Long-Term Incentive Plan	$9,561	$9,270	$9,520	$10,407	$8,743	$8,570	$0
Spot Cash Program	$1,408	$1,018	$975	$1,039	$412	$970	$412
Employee Recognition Prog.	$182	$122	$111	$229	$86	$339	$86
Total SDG&E	$85,475	$64,824	$83,901	$87,441	$75,857	$80,617	$29,959

Source: 2012-2016 Variable Pay data from Master Data Request, Chapter 1, Question 1. Other 2012-2016 data from Ex. SCG-30-WP, pp. 14, 22, and 30 and Ex. SDG&E-28-WP, pp. 13, 21, and 29. SoCalGas and SDG&E 2019 forecasts from Ex. SCG-30/SDG&E-28, p. DSR-3, Table DSR-1 (SDG&E) and p. DSR-4, Table DSR-2 (SoCalGas).

A. Base Pay

SoCalGas and SDG&E claim that their base pay programs are designed to be competitive, cost effective, and internally equitable. Base pay for non-represented jobs can include an individual differentiation which takes an employee's skills, performance, and experience into account. Base pay for represented jobs is negotiated in the collective bargaining process, and is adjusted in accordance with the negotiated contract terms.[6] ORA's discussion of the compensation controls and review processes can be found in Section VII of this exhibit.

[6] Ex. SCG-30/SDG&E-28, pp. DSR-8 and 9.

B. Incentive Compensation Plan (ICP)

The short-term variable pay program, also known as the Incentive Compensation Plan (ICP), is a program that recognizes and rewards employee contributions to meeting safety and operational goals, customer service and supplier diversity goals, and financial goals.[7] The ICP is based on financial and operating measures, and for non-executives, on individual performance; while there is no individual performance measure for executives, the board of directors for each company may adjust an individual executive's ICP award.[8]

Forecasts for both companies are based on the five-year historical average of actual ICP payouts.[9] This is a change in methodology from the last GRC in which ICP was forecast at target.[10] The result from this change is significant for ratepayers. From 2012 to 2016, the actual payouts for ICP have been markedly higher than target, with SoCalGas averaging 27% above target and SDG&E averaging 31% over target. To highlight the difference, for 2016, SoCalGas' ICP request at target totaled $49,213[11] compared to its actual ICP expense of $66,687[12] and SDG&E's ICP request at target totaled $50,351[13] compared to its actual ICP expense of $66,616.[14]

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[7] Ex. SCG-30/SDG&E-28, pp. DSR-12 and 13.

[8] Ex. SCG-30/SDG&E-28, p. DSR-13.

[9] Ex. SCG-30/SDG&E-28, p. DSR-17.

[10] *See* A.14-11-003/004, Ex. SDG&E-22, pp. DSR-7 & 8 and Ex. SCG-21, pp. DSR-7 to DSR-9.

[11] *See* A.14-11-003/004, Ex. SCG-21, pp. DSR-9.

[12] Ex. SCG-30/SDG&E-28, p. DSR-17 & 18, SoCalGas' non-executive ICP 2016 actual of $63,638 plus its executive ICP 2016 actual of $3,049 totals $66,687.

[13] *See* A.14-11-003/004, Ex. SDG&E-22, pp. DSR-9.

[14] Ex. SCG-30/SDG&E-28, p. DSR-17 & 18, SDG&E's non-executive ICP 2016 actual of $62,488 plus its executive ICP 2016 actual of $4,128 totals $66,616.

1. Non-Executive ICP

To calculate the ICP awards for their non-executive employee populations, both companies use a matrix that includes safety and operational goals (35%), customer service and supplier diversity goals (5%), individual performance (50%), and financial goals tied to both the company and Sempra (10%).[15] ORA proposes that some of these metrics are not appropriate for ratepayer funding and that the funding for others should be shared equally between ratepayers and shareholders.

Table 22-4 compares SoCalGas' and ORA's proposed ratepayer funding levels, and Table 22-5 compares SDG&E's and ORA's proposed ratepayer funding levels.

Table 22-4
SoCalGas Variable Pay/ICP – Non-executives
SoCalGas and ORA Proposed Ratepayer Funding Levels

	Proposed percentages		Proposed dollar amounts	
Non-executives	**SoCalGas**	**ORA**	**SoCalGas**	**ORA**
Safety & Operations	35.0%	17.5%	$23,351	$11,676
Financial Goals	10.0%	0.0%	$6,672	$0
Customer Service	5.0%	0.0%	$3,336	$0
Individual Performance	50.0%	25.0%	$33,359	$16,680
Total	100.0%	42.5%	$66,718	$28,355

[15] Ex. SCG-30/SDG&E-28, pp. DSR-12 and 13.

Table 22-5
SDG&E Variable Pay/ICP – Non-executives
SDG&E and ORA Proposed Ratepayer Funding Levels

	Proposed percentages		Proposed dollar amounts	
Non-executives	**SDG&E**	**ORA**	**SDG&E**	**ORA**
Safety Measures	35.0%	17.5%	$26,488	$13,244
Financial Goals	10.0%	0.0%	$7,568	$0
Customer Service	5.0%	0.0%	$3,784	$0
Individual Performance	50.0%	25.0%	$37,840	$18,920
Total	100.0%	42.5%	$75,680	$32,164

ORA opposes ratepayer funding for the customer service metric for calculating STIP as this does not indicate any actual benefit to ratepayers by utility employees. In fact, one of the customer service metrics for SDG&E is "overall self-service," which measures the percentage of customers who are able to complete their service request on their own via the website or automated phone system,[16] and one of the customer service metrics for SoCalGas focuses on increasing the percentage of customer accounts billed electronically.[17] In other words, when utility customers are able to do the utility's work for themselves, the utility's employees can earn a bonus.

Each utility also has a metric that measures quality of service for customers or customers' perception of the utility.[18] Considering that both utilities and Sempra engage in a variety of marketing efforts, it is not unlikely that customers could have a positive perception of them. Employees should not be rewarded financially for successful advertising. The utilities also have a metric for supplier diversity, but this

[16] Ex. SCG-30/SDG&E-28, pp. DSR-16.

[17] Ex. SCG-30/SDG&E-28, pp. DSR-16.

[18] Ex. SCG-30/SDG&E-28, pp. DSR-16.

doesn't actually measure the diversity of the utilities' suppliers, it measures the amount of money spent within the Diverse Business Enterprise program.[19] A large amount of money spent with a few diverse companies could easily skew this statistic. Also, the majority of employees at SoCalGas and SDG&E are not in a position to make decisions about which contractors to hire or what companies to partner with, which makes this metric valueless. This recommendation is consistent with Commission Decision (D.) 14-08-032, which disallowed the portion of STIP related to PG&E's Customer Satisfaction goals.[20] ORA recommends that ratepayers should not be responsible for funding the 5% of each company's non-executive ICP request related to customer service goals.

Incentive criteria tied to financial goals are clearly shareholder oriented because they are based on financial performance of the corporation and primarily measured through the company's earnings per share or stock price. While there is no direct benefit to ratepayers, there is a tangible benefit to shareholders in the form of dividends and higher stock prices. As such, there is no justification to support ratepayer funding this part of the incentive matrix. In D.14-08-032, the Commission disallowed the portion of STIP related to PG&E's Earnings from Operations.[21] In D.15-11-021, the Commission determined that while "financial performance may benefit ratepayers… the ratepayer benefit is much less direct than the shareholder benefit," and disallowed ratepayer funding for the portion of incentive pay related to financial performance.[22] Commissions in other jurisdictions have rejected incentive plans, in total or in part, that are based on financial goals.[23] Also, the state of Illinois has a law which prohibits any ratepayer funding of incentive compensation that is

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[19] Ex. SCG-30/SDG&E-28, pp. DSR-16.

[20] D.14-08-032, p. 520.

[21] D.14-08-032, p. 520.

[22] D.15-11-021, p. 261.

[23] See, e.g., 2014 Ill. PUC LEXIS 752; 2014 Ky. PUC LEXIS 322; 2012 Fla. PUC LEXIS 233; 2013 D.C. PUC LEXIS 103.

based on net income or on an affiliate's earnings per share.[24] ORA recommends that ratepayers should not be responsible for funding the 10% of each company's non-executive ICP request related to financial goals.

In addition, because both ratepayers and shareholders may benefit from employees being motivated to meet safety, operational and individual goals, the remaining portion of this ICP expense should be shared equally. ORA recommends ratepayers fund 50% of the remaining non-executive ICP expense. This recommendation, along with ORA's recommendations related to financial goals and to customer service goals mentioned above, results in an ORA TY 2019 non-executive ICP expense of $32.164 million for SoCalGas and $28.355 million for SDG&E. These amounts are sufficient to cover bonuses of nearly $10,000 for every non-executive employee at SoCalGas[25] and over $11,000 for every non-executive employee at SDG&E.[26]

2. Executive ICP

To calculate the ICP awards for their executive employees, both companies use a matrix that includes safety and operational goals (50%), customers and supplier diversity (10%), strategic priorities (5%), and financial goals tied to both the company and Sempra (35%).[27]

Table 22-6 compares SoCalGas' and ORA's proposed ratepayer funding levels, and Table 22-7 compares SDG&E's and ORA's proposed ratepayer funding levels.

[24] Illinois Public Utilities Act, Article XVI, Section 16-108.5(c)(4)(A).

[25] Ex. SCG-30-WP, p. 12. SoCalGas' non-executive headcount in 2016 was 2,974.

[26] Ex. SDG&E-28-WP, p. 11. SDG&E's non-executive headcount in 2016 was 2,910.

[27] Ex. SCG-30/SDG&E-28, p. DSR-14.

Table 22-6
SoCalGas Variable Pay/ICP – Executives
SoCalGas and ORA Proposed Ratepayer Funding Levels

	Proposed percentages		Proposed dollar amounts	
Executives	**SoCalGas**	**ORA**	**SoCalGas**	**ORA**
Safety & Operations	50.0%	25.0%	$2,010	$1,005
Financial Goals	35.0%	0.0%	$1,407	$0
Customer Service	10.0%	0.0%	$402	$0
Strategic Priorities	5.0%	2.5%	$201	$101
Total	100.0%	27.5%	$4,020	$1,106

Table 22-7
SDG&E Variable Pay/ICP - Executives
SDG&E and ORA Proposed Ratepayer Funding Levels

	Proposed percentages		Proposed dollar amounts	
Executives	**SDG&E**	**ORA**	**SDG&E**	**ORA**
Safety & Operations	50.0%	25.0%	$1,705	$853
Financial Goals	35.0%	0.0%	$1,194	$0
Customer Service	10.0%	0.0%	$341	$0
Strategic Priorities	5.0%	2.5%	$171	$85
Total	100.0%	27.5%	$3,410	$938

Incentive criteria tied to financial goals are clearly shareholder oriented. Based on the same reasoning presented regarding non-executive ICP, ORA recommends that ratepayers should not be responsible for funding the 35% of each company's executive ICP request related to financial goals.

Another metric used to calculate executive ICP is "Customers and Supplier Diversity." Based on the same reasoning presented regarding non-executive ICP, ORA recommends that ratepayers should not be responsible for funding the 10% of each company's executive ICP request related to customer and supplier diversity goals.

In addition, because both ratepayers and shareholders may both benefit from employees being motivated to meet safety, operational and strategic business goals, the remaining portion of executive ICP expense should be shared equally. ORA recommends ratepayers fund 50% of the remaining executive ICP expense. This adjustment, along with the adjustments related to financial goals and customer and supplier diversity goals mentioned above, results in an ORA TY 2019 executive ICP expense of $0.938 million for SoCalGas and $1.106 million for SDG&E. These amounts are sufficient to cover bonuses of nearly $74,000 for every executive employee at SoCalGas[28] and nearly $63,000 for every executive employee at SDG&E.[29]

C. Long-Term Incentive Compensation

Both SDG&E and SCG offer a Long-Term Incentive Plan (LTIP) as a compensation program for upper management and executive employees. LTIP can make up as much as 51% of total target compensation for these employees.[30] Each company's LTIP awards are granted in the form of performance-based restricted stock units and, with the exception of certain executive officers, service-based restricted stock units. Award levels are set based on a review of total compensation for eligible employees compared to the external market.[31]

ORA opposes ratepayer funding for the LTIP. The long-term incentives, comprising stock options, are clearly shareholder-related expenses and are not an appropriate ratepayer expense. Stock-based compensation is tied to financial performance of the company over a period of four years;[32] this clearly aligns

[28] Ex. SCG-30-WP, p. 12. SoCalGas' executive headcount in 2016 was 15.

[29] Ex. SDG&E-28-WP, p. 11. SDG&E's executive headcount in 2016 was 15.

[30] Ex. SCG-30/SDG&E-28, p. DSR-20.

[31] Ex. SCG-30/SDG&E-28, p. DSR-21.

[32] Ex. SCG-30/SDG&E-28, p. DSR-20.

management interests with the interests of shareholders, and the LTIP payout is essentially a premium paid for financial performance. Another consideration is the cost to ratepayers, who see little benefit from LTIP programs, but who face increased costs if the LTIP program is included in rates. For these reasons, the Commission found it "reasonable to disallow ratepayer funding of the costs of the long term incentive compensation program" in its 2012 Sempra GRC decision.[33]

The Commission has a long history of declining to provide rate recovery for LTIP for those companies that request it.[34] (Pacific Gas and Electric Company (PG&E) does not request ratepayer funding for LTIP.)[35] The Commission, in its 2012 Sempra GRC decision, stated that because stock-based compensation is tied to financial performance over a period of time, "that clearly demonstrates that a premium is being placed on the companies' financial performance."[36] In the most recent Sempra 2016 GRC, the Commission adopted a settlement in D.16-06-054, which included no ratepayer funding for LTIP for either company.[37] In D.15-11-021, the Commission stated:

> "In recent decisions, we have held that LTI is not recoverable from ratepayers because LTI does not align executives' interests with ratepayer interests... We continue our consistent practice and reject rate recovery of SCE's LTI program."[38]

Ratepayers should not be burdened with this cost which serves to benefit highly compensated executives and shareholders. ORA's recommendation of zero funding for both companies' LTIP is consistent with long-standing Commission precedent. This policy is also consistent with policies of Public Utility Commissions

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[33] D.13-05-010, p. 884.

[34] D.12-11-051, pp. 451-452; D.13-05-010, pp. 882-884; and D.15-11-021, p. 266.

[35] *See* D.11-05-018, p. 97, which relieves PG&E of the obligation to include LTI in future TCS, as they are not funded by ratepayers.

[36] D.13-05-010, p. 884.

[37] D.16-06-054, SoCalGas Settlement Motion, SoCalGas Settlement Comparison Exhibit, p. 10, and SDG&E Settlement Motion, SDG&E Settlement Comparison Exhibit, p. 12.

[38] *Ibid*.

in other jurisdictions, including the Florida, Kentucky, and Washington, D.C. commissions which have rejected ratepayer funding for LTIP in recent cases.[39] The Illinois Public Utility Act expressly prohibits rate recovery for incentive compensation expense that is based on net income or an affiliate's earnings per share.[40]

D. Special Recognition Awards

The Special Recognition Awards are a program to reward individual employees and teams at each company, to recognize and reinforce outstanding or exceptional achievements or customer service, and for improvements or innovations to work processes.[41] Recognition awards can be financial or non-financial.

1. Spot Cash Program

Spot Cash Awards are cash payments ranging from $250 to $10,000; the average payment for the past five years was approximately $1,900 per recipient.[42] SoCalGas forecasts a TY 2019 Spot Cash Awards Program expense of $0.978 million and for SDG&E the forecast is $0.970 million.[43] These forecasts are based on a five-year average, with the expense in the base year of 2016 being the lowest at $0.431 million for SoCalGas and $0.412 million for SDG&E. The base year is an acceptable level for this expense because both companies were able to maintain service levels and retain employees despite the lower-than-average spending in this category. ORA recommends that both companies maintain this level of spending and recommends a TY 2019 expense of $0.431 million for SoCalGas and $0.412 million for SDG&E.

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[39] *See, e.g.,* 2014 Ill. PUC LEXIS 752; 2014 Ky. PUC LEXIS 322; 2012 Fla. PUC LEXIS 233; 2013 D.C. PUC LEXIS 103.

[40] Illinois Public Utilities Act, Article XVI, Section 16-108.5(c)(4)(A).

[41] Ex. SCG-30/SDG&E-28, p. DSR-22.

[42] Ex. SCG-30/SDG&E-28, p. DSR-22.

[43] Ex. SCG-30/SDG&E-28, p. DSR-23.

2. Employee Recognition Program

Employee Recognition Awards are non-cash gifts that are generally valued at $100 or less. These include gift cards and tickets to movies and sporting events.[44] SoCalGas forecasts a TY 2019 Employee Recognition Awards Program expense of $0.646 million and for SDG&E the forecast is $0.339 million.[45] These forecasts assume an expense of $75 for every non-executive employee.[46] This forecast assumes that every non-executive employee will earn one of these awards, which makes it not especially exceptional if every non-executive employee merits an award rather than achieving the stated improvements and innovations. The base year is an acceptable level for this expense because both companies were able to maintain service levels and retain employees despite the lower-than-average spending in this category. ORA recommends that both companies maintain this level of spending and recommends a TY 2019 expense of $0.098 million for SoCalGas and $0.086 million for SDG&E.

II. EMPLOYEE HEALTH BENEFITS

Both companies used the same methodology to forecast TY 2019 Employee Health Benefits program expenses: the actual 2017 premiums, or in some cases the actual 2016 expenses, were escalated by various rate factors and for an expected increase in employee population.

Employee Health Benefit program expenses are based on each company's headcount. The Results of Operations (RO) model utilizes ORA's recommended labor expense to dynamically forecast the ORA TY 2019 benefit program expenses. SoCalGas' TY 2019 headcount estimate is 8,609 and SDG&E's TY 2019 headcount estimate is 4,515. These headcounts are significantly higher than the 2016 base year headcounts of 8,027 and 4,119, respectively, so an adjustment to reflect

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[44] Ex. SCG-30/SDG&E-28, p. DSR-22.

[45] Ex. SCG-30/SDG&E-28, p. DSR-23.

[46] Ex. SCG-30-WP, p. 36 and Ex. SDG&E-28-WP, p. 34.

headcount change is necessary and appropriate. As ORA projects a lower labor expense than either company, ORA expects that each company's headcount will be lower, which will in turn lower the Employee Health Benefits program expenses. ORA did not make any headcount-related adjustments in this exhibit, but recommends that each company's adopted 2019 headcount be used to calculate all Employee Health Benefit program expenses. (See Exhibit (Ex.) ORA-02 for more details on ORA's calculation of each company's employee population.)

Table 22-8
SDG&E and SoCalGas Employee Health Benefits Expenses
2012-2016 Recorded and 2019 Forecast
(in Thousands of 2016 Dollars)

Description	2012	2013	2014	2015	2016	Sempra 2019	ORA 2019
SoCalGas							
Medical	$67,971	$74,480	$75,044	$75,948	$78,922	$96,023	$90,310
Dental	$3,972	$3,679	$4,042	$4,719	$2,587	$5,052	$5,052
Vision	$476	$504	$521	$562	$575	$629	$629
Wellness	$275	$362	$312	$393	$426	$707	$0
EAP	$766	$791	$786	$764	$728	$788	$788
Mental Health	$1,420	$1,410	$1,238	$1,308	$1,389	$1,851	$1,683
Total SCG	$74,880	$81,226	$81,943	$83,694	$84,627	$105,050	$98,462
SDG&E							
Medical	$48,942	$48,593	$44,167	$40,799	$43,933	$56,204	$52,941
Dental	$3,447	$3,280	$3,713	$3,739	$2,441	$3,993	$3,993
Vision	$343	$326	$310	$316	$318	$353	$353
Wellness	$405	$542	$715	$676	$791	$1,117	$0
EAP	$370	$365	$303	$288	$278	$291	$291
Mental Health	$1,181	$1,214	$1,194	$1,151	$1,404	$1,903	$1,732
Total SDG&E	$54,688	$54,320	$50,402	$46,969	$49,165	$63,861	$59,310

Source: 2012-2016 data from Ex. SCG-30-WP, pp. 40, 57, 67, 77, 85, and 92, and Ex. SDG&E-28-WP, pp. 38, 56, 66, 76, 84, and 92. SoCalGas and SDG&E 2019 forecasts from Ex. SCG-30/SDG&E-28, p. DSR-3, Table DSR-1 (SDG&E) and p. DSR-4, Table DSR-2 (SoCalGas).

A. Medical

SoCalGas' forecast of medical programs expense for the TY 2019 is $96.023 million and SDG&E's forecast is $56.204 million.[47] These estimates were forecast by escalating the actual 2017 premiums by a projected increase in headcount and

[47] Ex. SCG-30/SDG&E-28, p. DSR-25.

by a medical escalation rate; for 2018, Sempra's proposed medical escalation rate is 8.00% and for 2019 it is 7.00%.[48]

Both companies provide access to a variety of medical plans, including three health maintenance organizations (HMO), a high-deductible plan with a health savings account, and a specific plan for out-of-area employees.[49] Both companies have a cost-sharing strategy where the employees pay a portion of their medical premiums, in addition to co-payments for office visits and prescriptions, and with some plans, deductibles and coinsurance.[50]

ORA recommends using a different medical escalation rate of 4.25% as discussed below. This results in an ORA TY 2019 estimate of $90.310 million for SoCalGas and $52.941 million for SDG&E.

1. Medical Escalation Rates

SoCalGas and SDG&E use a medical escalation rate prepared by Willis Towers Watson (WTW), the actuary and benefits broker for both companies.[51] For 2018 the medical escalation rate projected by WTW is 8.00% and for 2019 it is 7.00%.[52] Both companies claim this is an appropriate rate because their actual, historical, 10-year medical escalation rates average 6.8% and California averages 6.9%.

In determining the reasonableness of each company's proposed medical escalation rate, ORA consulted several well-regarded sources of healthcare cost statistics. The *2017 Employer Health Benefits Survey*, prepared by the Kaiser Family Foundation, found that the average family premium increase for employers is expected to average 3%.[53] Price Waterhouse Coopers' Health Research Institute

[48] Ex. Ex. SCG-30-WP, p. 47, and Ex. SDG&E-28-WP, p. 43.

[49] Ex. SCG-30/SDG&E-28, p. DSR-27.

[50] Ex. SCG-30/SDG&E-28, p. DSR-32.

[51] Ex. SCG-30/SDG&E-28, p. DSR-30.

[52] Ex. Ex. SCG-30-WP, p. 47, and Ex. SDG&E-28-WP, p. 43.

[53] http://files.kff.org/attachment/Report-Employer-Health-Benefits-Annual-Survey-2017, p. 4.

projects 2018's medical cost trend to be 6.5% - the first uptick in growth in three years.[54] ORA used an average of these two rates to develop ORA's recommended medical escalation rate of 4.25% for 2018 and 2019. The historical data from 2012-2016 implies that SoCalGas and SDG&E have been able to effectively manage their medical expenses. The ORA proposed escalation rate is very equitable as compared to this historical data.

B. Dental

SoCalGas forecasts $5.052 million and SDG&E forecasts $3.993 million for TY 2019 Dental expense.[55] The forecasts are based on 2017 actual premiums indexed for inflation and by each company's projected headcount percentage change.[56]

Both companies offer a choice of three dental plans with a cost-sharing mechanism for the most expensive plan, with the company paying 80% of the premium and the employee paying 20%, and both companies pay the full cost of the lower-priced plans.

ORA has reviewed the testimony and workpapers presented to support these forecasts, and does not take issue with them at this time.

C. Vision

SoCalGas forecasts $0.629 million and SDG&E forecasts $0.353 million for TY 2019 Vision expense.[57] The forecasts are based on 2017 actual premiums indexed for inflation and by each company's projected headcount percentage change.[58]

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[54] https://www.pwc.com/us/en/health-industries/health-research-institute/behind-the-numbers/reports/hri-behind-the-numbers-2018.pdf, p. 2.

[55] Ex. SCG-30/SDG&E-28, p. DSR-33.

[56] Ex. SCG-30-WP, p. 62, and Ex. SDG&E-28-WP, p. 61.

[57] Ex. SCG-30/SDG&E-28, p. DSR-35.

[58] Ex. SCG-30-WP, p. 72, and Ex. SDG&E-28-WP, p. 71.

Both companies offer one vision plan, and both companies pay the full cost of the premiums for employees. Employees are responsible for the full cost of dependent coverage. Employees may choose any care provider, but out-of-pocket costs for the employee are lower if an in-network provider is used.[59]

ORA has reviewed the testimony and workpapers presented to support these forecasts, and does not take issue with them.

D. Wellness

SoCalGas forecasts $0.707 million and SDG&E forecasts $1.117 million for TY 2019 Wellness expense.[60] The forecasts are based on 2016 actual expenses indexed for inflation.[61]

Both companies state that their Wellness programs promote illness prevention, facilitate early detection and management of illness and disease, and promote healthy behaviors to prevent illness. The programs include worksite fitness programs, weight and stress management, influenza vaccinations, smoking cessation, and worksite health risk appraisals and screenings.[62]

ORA opposes ratepayer funding for this Wellness program. The services provided are duplicative of those already funded by ratepayers under the Medical Plans program expense. In response to data requests, both companies acknowledged that many of the services provided under this Wellness program are covered by all health plans offered by the companies.[63] The HMO coverage funded by ratepayers also includes the type of health management classes provided by the Wellness program.[64] Both companies claim that offering these services in the

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[59] Ex. SCG-30/SDG&E-28, p. DSR-35.

[60] Ex. SCG-30/SDG&E-28, p. DSR-36.

[61] Ex. SCG-30-WP, p. 83, and Ex. SDG&E-28-WP, p. 82.

[62] Ex. SCG-30/SDG&E-28, pp. DSR-36 and 37.

[63] Responses to data request ORA-SCG-020-STA and ORA-SDGE-034-STA, Q.s 6 and 7.

[64] https://healthy.kaiserpermanente.org/health/care/consumer/health-wellness/programs-classes/classes and https://mediproviders.anthem.com/ca/pages/health-education-programs.aspx both show a variety of classes including asthma, diabetes, stress, and weight management, and smoking cessation.

workplace increases the use of these types of preventative care, which in turn may help reduce healthcare costs and lost productivity.[65] This is not sufficient justification to burden ratepayers with the additional cost of providing these services to Sempra employees twice - under the Medical plans and also under the Wellness program. ORA recommends zero ratepayer funding for the Wellness programs.

E. Employee Assistance Program (EAP)

SoCalGas forecasts $0.788 million and SDG&E forecasts $0.291 million for TY 2019 Employee Assistance Program expense.[66] The forecasts are based on 2016 actual expense indexed for inflation and by each company's projected headcount percentage change.[67]

The EAP program offers employees and their eligible dependents cost-effective and confidential counseling and treatment services for a variety of personal problems that can affect job performance. EAP also supports managers and supervisors with employee-related issues such as workplace violence, crisis management, and substance abuse. Employees receive up to five one-hour private counseling sessions per year, either in person or over the phone, in addition to unlimited access to a 24-hour crisis hotline.[68]

ORA has reviewed the testimony and workpapers presented to support these forecasts, and does not take issue with them.

F. Mental Health and Substance Abuse

SoCalGas forecasts $1.851 million and SDG&E forecasts $1.903 million for TY 2019 Mental Health and Substance Abuse expense.[69] The forecasts are based

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[65] Responses to data request ORA-SCG-020-STA and ORA-SDGE-034-STA, Q.s 6 and 7.

[66] Ex. SCG-30/SDG&E-28, p. DSR-38.

[67] Ex. SCG-30-WP, p. 90, and Ex. SDG&E-28-WP, p. 90.

[68] Ex. SCG-30/SDG&E-28, p. DSR-38.

[69] Ex. SCG-30/SDG&E-28, p. DSR-38.

on 2016 actual expense indexed by a medical escalation rate and by each company's projected headcount percentage change.[70]

The Mental Health and Substance Abuse program provides ongoing counseling and treatment services beyond what is covered by the EAP. Employees can receive individual counseling sessions for psychological and emotional conditions, life management, addiction, job-related problems, and relationship issues. Benefits include coverage for inpatient and outpatient treatment. Under the Mental Health Parity and Addiction Equity Act, mental health services are available on an unlimited basis and employees are charged the same costs as any other illness or condition that is covered by the companies' health plans.[71]

ORA takes issue with the medical escalation rate used to calculate these forecasts. See ORA's discussion of medical escalation rate which appears earlier in this exhibit. ORA recommends the use of 4.25% as an appropriate medical escalation rate. This results in an ORA forecast of $1.683 million for TY 2019 Mental Health and Substance Abuse expense for SoCalGas, and $1.732 million for SDG&E.

III. WELFARE BENEFITS

These programs are designed to provide financial support for employees in the event of injury or disability, and to their survivors in the event of the employee's death.[72] This section focuses on survivor benefits. Disability and workers' compensation benefits are discussed in Ex. ORA-23.

[70] Ex. SCG-30-WP, p. 90, and Ex. SDG&E-28-WP, p. 90.

[71] Ex. SCG-30/SDG&E-28, p. DSR-39.

[72] Ex. SCG-30/SDG&E-28, pp. DSR-39.

Table 22-9
SDG&E and SoCalGas Welfare Benefits Expenses
2012-2016 Recorded and 2019 Forecast
(in Thousands of 2016 Dollars)

Description	2012	2013	2014	2015	2016	Sempra 2019	ORA 2019
SoCalGas							
AD&D Insurance	$48	$60	$57	$62	$59	$73	$73
Business Travel Insurance	$0	$0	$0	$2	$48	$51	$51
Life Insurance	$1,648	$1,828	$2,019	$2,139	$1,618	$1,798	$1,798
Total SCG	$1,696	$1,888	$2,076	$2,203	$1,725	$1,922	$1,922
SDG&E							
AD&D Insurance	$95	$91	$84	$85	$74	$96	$96
Business Travel Insurance	$0	$0	$0	$2	$25	$27	$27
Life Insurance	$756	$756	$810	$845	$602	$710	$710
Total SDG&E	$851	$847	$894	$932	$701	$833	$833

Source: 2012-2016 data from Ex. SCG-30-WP, pp. 100, 107, and 114, and Ex. SDG&E-28-WP, pp. 100, 107, and 114. SoCalGas and SDG&E 2019 forecasts from Ex. SCG-30/SDG&E-28, p. DSR-3, Table DSR-1 (SDG&E) and p. DSR-4, Table DSR-2 (SoCalGas).

A. Accidental Death & Dismemberment (AD&D)

SoCalGas forecasts $0.073 million and SDG&E forecasts $0.096 million for TY 2019 Accidental Death & Dismemberment Programs expense. The forecasts are based on the 2017 actual premium amounts with the premium expected to remain flat; projected costs are indexed for labor inflation and by each company's projected headcount percentage change.[73]

This program provides basic Accidental Death & Dismemberment insurance coverage for all employees. The coverage amount is two times the annual pay for represented employees, and one times the annual pay, plus ICP if applicable, for all other employees.[74]

ORA has reviewed the testimony and workpapers presented to support these forecasts, and does not take issue with them.

[73] Ex. SCG-30-WP, p. 105, and Ex. SDG&E-28-WP, p. 105.

[74] Ex. SCG-30/SDG&E-28, pp. DSR-40.

B. Business Travel Insurance

SoCalGas forecasts $0.051 million and SDG&E forecasts $0.027 million for TY 2019 Business Travel Insurance Programs expense. The forecasts are based on 2016 actual program expense with projected costs indexed for inflation and by each company's projected headcount percentage change.[75]

This program provides $400,000 in additional life insurance benefits when an employee travels for business purposes.[76]

ORA has reviewed the testimony and workpapers presented to support these forecasts, and does not take issue with them.

C. Life Insurance

SoCalGas forecasts $1.798 million and SDG&E forecasts $0.710 million for TY 2019 Life Insurance Programs expense. The forecasts are based on the 2017 actual premium amounts with the premium expected to remain flat; projected costs are indexed for labor inflation and by each company's projected headcount percentage change.[77]

This program provides basic life insurance coverage equal to one times the employee's base salary, plus ICP if applicable.[78]

ORA has reviewed the testimony and workpapers presented to support these forecasts, and does not take issue with them.

IV. RETIREMENT BENEFITS

SoCalGas and SDG&E offer a variety of retirement benefits to their employees. These include a defined benefit pension plan, discussed in Part II, section I, a defined contribution (401k) retirement savings plan (RSP), and postretirement health and welfare benefits, which are discussed in Part II, Section II.

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[75] Ex. SCG-30-WP, p. 112, and Ex. SDG&E-28-WP, p. 112.

[76] Ex. SCG-30/SDG&E-28, pp. DSR-40.

[77] Ex. SCG-30-WP, p. 119, and Ex. SDG&E-28-WP, p. 119.

[78] Ex. SCG-30/SDG&E-28, pp. DSR-40.

Also discussed in this section are the nonqualified benefit plans, which are designed to benefit a small population of highly-paid employees whose participation in the qualified (*i.e.,* tax deductible for the company) plans is limited by Internal Revenue Service requirements.[79]

Table 22-10
SDG&E and SoCalGas Retirement Benefits Expenses
2012-2016 Recorded and 2019 Forecast
(in Thousands of 2016 Dollars)

Description	2012	2013	2014	2015	2016	Sempra 2019	ORA 2019
SoCalGas							
Retirement Savings	$15,358	$16,652	$18,366	$18,965	$21,351	$25,409	$25,409
Nonqualified Ret Savings Plan	$139	$202	$192	$190	$275	$300	$0
Suppl Pension	$2,737	$2,019	$5,649	$1,728	$2,287	$1,920	$0
Total SCG	$18,234	$18,873	$24,207	$20,883	$23,913	$27,629	$25,409
SDG&E							
Retirement Savings	$14,037	$12,676	$15,296	$13,448	$14,478	$17,369	$17,369
Nonqualified Ret Savings Plan	$253	$256	$226	$284	$225	$245	$0
Suppl Pension	$5,432	$5,541	$6,058	$3,685	$3,189	$2,370	$0
Total SDG&E	$19,722	$18,473	$21,580	$17,417	$17,892	$19,984	$17,369

Source: 2012-2016 data from Ex. SCG-30-WP, pp. 122, 129, and 136, and Ex. SDG&E-28-WP, pp. 122, 129, and 137. SoCalGas and SDG&E 2019 forecasts from Ex. SCG-30/SDG&E-28, p. DSR-3, Table DSR-1 (SDG&E) and p. DSR-4, Table DSR-2 (SoCalGas).

A. Retirement Savings Plan (RSP)

SDG&E forecasts $17.369 million and SCG forecasts $25.409 million for TY 2019 RSP expense.[80] The forecasts are based on 2016 actual expense escalated by each company's projected increases in headcount and labor escalation rates.[81]

This program encourages employees to set aside pre-tax earnings to help fund their future retirement. Both companies automatically enroll new hires in the program at a 6% contribution rate, which is automatically increased 1% per year until

[79] Ex. SCG-30/SDG&E-28, p. DSR-41.

[80] Ex. SCG-30/SDG&E-28, p. DSR-41.

[81] Ex. SCG-30-WP, p. 127, and Ex. SDG&E-28-WP, p. 127.

it reaches 11% contribution rate.[82] Approximately 93% of employees participate in this program, with an average contribution of 10% of eligible pay.[83] Both companies match 50% of employee contributions, up to 6% of eligible pay. Employees also receive a “stretch match” equal to one-fifth of the next five percent of employee contributions.[84]

ORA has reviewed the testimony and workpapers presented to support these forecasts, and does not take issue with them.

C. Nonqualified Retirement Savings Plan

SDG&E forecasts $0.300 million and SCG forecasts $0.245 million for TY 2019 Nonqualified Retirement Savings Plan expense.[85] The forecasts are based on 2016 actual expense escalated by each utility's labor escalation rate.[86]

This program allows a small population of high-income employees to make pre-tax contributions in excess of the limits of the RSP. Matching contributions from the company match the contributions provided under the RSP but do not include the “stretch match.”[87]

These types of plans primarily benefit the executives and their shareholders, because such plans may entice executives to work at the company for a prolonged period of time. In recent GRCs, this Commission has adopted ratepayer funding of 50% for Nonqualified Retirement Savings Plan expense.[88]

In this case, the evidence does not support any ratepayer funding for this plan. In Sempra’s 2018 Proxy Statement, the top five executive officers are shown

[82] Ex. SCG-30/SDG&E-28, p. DSR-42.

[83] Ex. SCG-30/SDG&E-28, p. DSR-41.

[84] Ex. SCG-30/SDG&E-28, p. DSR-42.

[85] Ex. SCG-30/SDG&E-28, p. DSR-42.

[86] Ex. SCG-30-WP, p. 134, and Ex. SDG&E-28-WP, p. 135.

[87] Ex. SCG-30/SDG&E-28, p. DSR-42.

[88] D.12-11-051, pp. 476-477; D.13-05-010, p. 888; D.15-11-021, p. 275; D.17-05-013, p. 101 adopted a settlement that specified a reduction of 50% of the requested amount of various non-qualified plans.

to be entitled to nonqualified retirement benefits totaling nearly $30 million.[89] While this amount does include contributions of deferred income from the executives themselves, as well as earned interest, it is clear that these executives' eventual retirements are already very well-funded. ORA is opposed to having ratepayers bear the costs of benefit programs in excess of federal limits and which serve to further enhance benefits to already highly-compensated employees. Neither company has demonstrated that these enhanced benefits are necessary to attract and retain skilled employees nor supported the reasonableness of ratepayers funding the costs associated with supplemental benefits beyond traditional funding levels and limitations. Accordingly, ORA recommends that the Commission deny ratepayer funding for the Nonqualified Savings Plan contributions in the 2019 TY.

D. Supplemental Pension

SDG&E forecasts $1.920 million and SCG forecasts $2.370 million for TY 2019 Supplemental Pension expense.[90] The forecasts are based on actuarial projections prepared by Willis Towers Watson.[91]

Both companies claim, "Supplemental retirement benefits form an important component of the total reward package for key managers, directors, attorneys and executives. These plans are a key component of a competitive compensation and benefits package to attract and retain the leadership talent required to operate the company."[92] These supplemental benefits are intended to "restore" benefits for a small population of employees whose earnings or benefits exceed the limitations set by Federal regulations.[93] In other words, a high-earning executive whose benefits

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[89] Sempra's 2018 Proxy Statement, p. 70, accessed at: http://files.shareholder.com/downloads/SRE/6177133347x0x975109/2C13BA55-3F32-4D0E-A752-1C660DC1FA43/2018_Proxy_SRE.PDF

[90] Ex. SCG-30/SDG&E-28, p. DSR-43.

[91] Ex. SCG-30-WP, p. 141, and Ex. SDG&E-28-WP, p. 142.

[92] Ex. SCG-30/SDG&E-28, p. DSR-43.

[93] Ex. SCG-30/SDG&E-28, p. DSR-43.

under the qualified retirement plan are limited by Federal regulations can still receive those benefits through the supplemental plan.

These types of plans primarily benefit the executives and their shareholders, because such plans may entice executives to work at the company for a prolonged period of time. In recent GRCs, this Commission has ordered ratepayer funding of 50% for Supplemental Pension expense.[94]

In this case, the evidence does not support any ratepayer funding for this plan. In Sempra's 2018 Proxy Statement, the top five executive officers are shown to be entitled to supplemental retirement benefits totaling nearly $75 million.[95] It is clear that these executives' eventual retirements are already very well-funded. The amount contributed to the qualified pension plan by ratepayers serves to provide sufficient retirement program benefits and does not need to be further supplemented to provide even higher retirement benefits. Therefore, given that ratepayers already contribute the appropriate pension plan contributions required under U.S. pension law, if Sempra wants to fund the costs associated with any supplemental executive benefits, it can do so from shareholder funds.

Each company is entitled to provide any benefits it wishes to executives, but ratepayers should not be required to bear the costs of exclusive executive benefits that exceed either what is authorized by the tax code and other pertinent laws and regulations, or what is offered as part of the company's coverage to other employees. Neither company has demonstrated that these enhanced benefits are necessary to attract and retain skilled employees nor supported the reasonableness of ratepayers funding the costs associated with supplemental benefits beyond traditional funding levels and limitations. Accordingly, ORA recommends that the Commission deny ratepayer funding for the Supplemental Pension Plan contributions in the 2019 TY.

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[94] D.12-11-051, pp. 476-477; D.13-05-010, p. 888; D.15-11-021, p. 275; D.17-05-013, p. 101 adopted a settlement that specified a reduction of 50% of the requested amount of various non-qualified plans.

[95] Sempra's 2018 Proxy Statement, p. 69, accessed at: http://files.shareholder.com/downloads/SRE/6177133347x0x975109/2C13BA55-3F32-4D0E-A752-1C660DC1FA43/2018_Proxy_SRE.PDF

V. OTHER BENEFIT PROGRAMS AND FEES

Both companies provide a number of benefit programs that they claim are designed to promote a collaborative team-oriented environment through enhanced educational opportunities, reduced lost time, and recognition of a job well done.[96]

Table 22-11 compares ORA's and Sempra's 2019 Other Benefit programs and fees expense forecasts:

Table 22-11
SDG&E and SoCalGas Other Benefit Programs & Fees
2012-2016 Recorded and 2019 Forecast
(in Thousands of 2016 Dollars)

Description	2012	2013	2014	2015	2016	Sempra 2019	ORA 2019
SoCalGas							
Benefit Admin Fees	$1,533	$1,362	$1,265	$1,157	$1,115	$1,107	$1,107
Educational Asst	$819	$1,041	$1,384	$1,065	$958	$1,087	$1,087
Emergcy Childcare	$150	$204	$158	$166	$188	$217	$0
Mass Transit Incen	$686	$814	$971	$985	$986	$1,098	$1,098
Retiremnt Activities	$168	$211	$192	$256	$241	$180	$0
Service Recognition	$222	$238	$167	$273	$254	$254	$127
Special Events	$450	$436	$390	$456	$471	$532	$0
Total SCG	$4,028	$4,306	$4,527	$4,358	$4,213	$4,475	$3,292
SDG&E							
Benefit Admin Fees	$1,030	$920	$969	$817	$669	$667	$667
Educational Asst	$555	$469	$456	$458	$441	$508	$508
Emergcy Childcare	$104	$143	$91	$137	$132	$159	$0
Mass Transit Incen	$129	$63	$54	$68	$71	$86	$86
Retiremnt Activities	$45	$110	$129	$64	$209	$67	$0
Service Recognition	$152	$120	$164	$111	$126	$108	$54
Total SDG&E	$2,015	$1,825	$1,863	$1,655	$1,648	$1,595	$1,315

Source: 2012-2016 data from Ex. SCG-30-WP, pp. 148, 155, 163, 171, 180, 187, and 194, and Ex. SDG&E-28-WP, pp. 149, 157, 164, 172, 180, and 188. SoCalGas and SDG&E 2019 forecasts from Ex. SCG-30/SDG&E-28, p. DSR-3, Table DSR-1 (SDG&E) and p. DSR-4, Table DSR-2 (SoCalGas).

[96] Ex. SCG-30/SDG&E-28, p. DSR-44.

A. Benefits Administration Fees

SoCalGas forecasts $1.107 million and SDG&E forecasts $0.667 million for TY 2019 Benefits Administration Fees Programs expense. The forecasts are based on 2016 actual program expense with projected costs indexed for inflation.[97]

This program includes the costs of legally-required audits, actuarial and other professional fees, third-party administrator and record-keeper fees, and the Total Compensation Study. It also includes costs for benefits-related communication materials, such as open enrollment communications, benefit plan summaries, and materials to educate employees about their benefit options.[98]

ORA has reviewed the testimony and workpapers presented to support these forecasts, and does not take issue with them.

B. Educational Assistance

SoCalGas forecasts $1.087 million and SDG&E forecasts $0.508 million for TY 2019 Educational Assistance Programs expense. The forecasts are based on 2016 actual program expense with projected costs indexed for inflation and with each company's program participant count increased by its projected headcount percentage change.[99]

This program provides tuition reimbursement to employees who pursue degrees or certifications that maintain or enhance skills necessary to perform jobs within the company. The utilities claim that this program supports their efforts to promote from within for supervisory and management positions, and helps reduce the recruiting costs needed to fill key positions.[100]

ORA has reviewed the testimony and workpapers presented to support these forecasts, and does not take issue with them.

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[97] Ex. SCG-30/SDG&E-28, pp. DSR-45 and 46.

[98] Ex. SCG-30/SDG&E-28, pp. DSR-45 and 46.

[99] Ex. SCG-30/SDG&E-28, pp. DSR-46 and 47.

[100] Ex. SCG-30/SDG&E-28, pp. DSR-46 and 47.

C. Emergency Childcare

SoCalGas forecasts $0.217 million and SDG&E forecasts $0.159 million for TY 2019 expense for the Emergency Childcare Program. The forecasts assume that program costs will increase by five percent in the years 2018 and 2019.[101]

This program provides employees with emergency childcare services when an employee's primary childcare resources are unavailable, such as when wildfires or earthquakes require work to be done during hours that schools and daycares are closed. It also provides backup for elder care.[102]

ORA does not dispute that this program provides a clear and identifiable benefit to *employees*. But ratepayers should not be responsible for funding childcare services for SDG&E and SoCalGas employees. Employees with children are responsible for providing for their children's care, and for paying for their care, both routinely and during emergencies. If the utilities want to continue to provide this benefit for employees, it should be at the shareholders' expense, or the employees who utilize the service should be billed for the cost. It is inappropriate for ratepayers to be burdened with the responsibility of subsidizing childcare for the employees who utilize this service. ORA recommends zero ratepayer funding for the Emergency Childcare Program.

D. Mass Transit Incentive

SoCalGas forecasts $1.098 million and SDG&E forecasts $0.086 million for TY 2019 Mass Transit Incentive Programs expense. The forecasts expect that the participant ratio will remain the same; the number of participants is expected to increase as the population for each utility increases.[103]

This program provides subsidies for employees who take advantage of carpool, vanpool, and public transit options. In compliance with the South Coast Air

[101] Ex. SCG-30/SDG&E-28, pp. DSR-47 and 48.

[102] Ex. SCG-30/SDG&E-28, pp. DSR-47 and 48.

[103] Ex. SCG-30/SDG&E-28, p. DSR-48.

Quality Management District Rule 2202, the utilities also purchase Mobile Source Emission Reduction Credits to offset any shortfall in Rule 2202 requirements.[104]

ORA has reviewed the testimony and workpapers presented to support these forecasts, and does not take issue with them.

E. Retirement Activities

SoCalGas forecasts $0.180 million and SDG&E forecasts $0.067 million for TY 2019 Retirement Activities Programs expense. The forecasts are based on the number of employees expected to retire each year, and are lower than historical expense levels because the number of retirements is expected to decrease.[105]

Retirement activities include a retirement gift and a retirement breakfast to honor the employee's service and contributions. Both utilities claim that recognizing continued service supports the goal of workforce retention.[106]

The Commission has previously determined that because retirement activities serve to build loyalty and camaraderie between current and former employees of a company, and because they are not related to any of the employees' job-related activities, they should not be supported by ratepayers.[107] From D.13-05-010, p. 888:

> "We agree with DRA, TURN, and UCAN that the funding requests for retirement activities… should not be borne by ratepayers. These… benefits are in the nature of programs that build loyalty and camaraderie between current and former employees with their respective companies, and are not related to any of their companies' job-related activities. For those reasons, we remove the costs of the retirement activities… from the revenue requirement of both companies."

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[104] Ex. SCG-30/SDG&E-28, p. DSR-48.

[105] Ex. SCG-30/SDG&E-28, pp. DSR-48 and 49.

[106] Ex. SCG-30/SDG&E-28, pp. DSR-48 and 49.

[107] D.13-05-010, p. 888.

If the companies want to continue to provide this benefit to their employees, they should do so at the shareholders' expense. ORA recommends zero ratepayer funding for Retirement Activities.

F. Service Recognition

SoCalGas forecasts $0.108 million and SDG&E forecasts $0.254 million for TY 2019 Service Recognition Programs expense. These forecasts are based on the numbers of employees expected to have service anniversaries in each year.[108]

Service Recognition awards are presented to employees on their fifth anniversary and every five years thereafter. Employees can select their own gifts from a variety of options that depending on the number of years of service. Both utilities claim that recognizing continued service supports the goal of workforce retention.[109]

The Commission has determined that it is reasonable for ratepayers and shareholders to share funding for Service Recognition expenses. This is because this program is related to employees' job activities and continuity of employment, but it is also related to building loyalty between employees and the companies.[110] ORA recommends that ratepayers fund 50% of the requested forecasts. This results in ORA's recommended forecast of $0.127 million for SoCalGas and $0.054 million for SDG&E.

G. Special Events

SoCalGas forecasts $0.532 million for TY 2019 expense for the Special Events Program. SDG&E does not request ratepayer funding for such a program.[111]

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[108] Ex. SCG-30/SDG&E-28, p. DSR-49.

[109] Ex. SCG-30/SDG&E-28, p. DSR-49.

[110] D.13-05-010, p. 888.

[111] Ex. SCG-30/SDG&E-28, p. DSR-50.

This program provides SoCalGas' union and management employees with an annual event held at such places as Knott's Berry Farm, Disneyland, and Sea World.[112]

The Commission has previously determined that because such special events serve to build loyalty and camaraderie between current and former employees of a company, and because they are not related to any of the employees' job-related activities, they should not be supported by ratepayers.[113] From D.13-05-010, p. 888:

> "We agree with DRA, TURN, and UCAN that the funding requests for special events… should not be borne by ratepayers. These… benefits are in the nature of programs that build loyalty and camaraderie between current and former employees with their respective companies, and are not related to any of their companies' job-related activities. For those reasons, we remove the costs of the special events… from the revenue requirement of both companies."

If SoCalGas wants to continue to provide this benefit to its employees, it should do so at the shareholders' expense. ORA recommends zero ratepayer funding for SoCalGas' Special Events program.

VI. COMPENSATION CONTROLS

Both utilities claim to continuously evaluate the external labor market to ensure that their compensation and benefits packages remain competitive and cost-effective. Sempra Energy participates in a number of professional compensation surveys, and databases are purchased from some of the leading compensation firms including WTW, Aon Hewitt, Mercer SIRS, and EAPDIS.[114] SDG&E and SoCalGas both participate in the WTW BENVAL benefits valuation database.[115] Third-party

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[112] Ex. SCG-30/SDG&E-28, p. DSR-50.

[113] D.13-05-010, p. 888.

[114] Ex. SCG-30/SDG&E-28, p. DSR-50.

[115] Ex. SCG-30/SDG&E-28, p. DSR-51.

compensation consultants are also used to supplement information not available from surveys or databases. For executive compensation, the primary survey sources are the Aon Hewitt Total Compensation Database and the WTW executive compensation database.[116] Compensation and benefits data for executives from the S&P 500 are also reviewed in those companies' annual proxy statements.[117]

Both companies also claim to have internal controls in place to maintain competitive and cost-effective compensation programs. These include compensation staff providing budget and administrative guidelines, reviewing new and existing jobs for proper placement within pay ranges, and reviewing compliance with state and Federal law. Executive compensation is also reviewed and approved by each utility's board of directors.[118]

ORA has reviewed the testimony and workpapers presented to support the utilities' claims about compensation controls, and does not take issue with them.

VII. SEMPRA ENERGY CORPORATE CENTER – COMPENSATION & BENEFITS

Comparable compensation and benefits are provided to Sempra Energy Corporate Center (SECC) employees as are provided to employees of the utilities. An allocation of SECC jobs was included in the Total Compensation Study which supports the utilities' compensation and benefits requests. Therefore, both utilities claim that the issues discussed in Sections I through VI above are also applicable to SECC.[119] ORA does not take issue with this.

SECC compensation and benefits expense, and the allocations of these expenses are discussed in Ex. SCG-28/SDG&E-26, and addressed in Ex. ORA-21.

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[116] Ex. SCG-30/SDG&E-28, p. DSR-50.

[117] Ex. SCG-30/SDG&E-28, p. DSR-51.

[118] Ex. SCG-30/SDG&E-28, p. DSR-51.

[119] Ex. SCG-30/SDG&E-28, p. DSR-51.

PART II: PENSION & POSTRETIREMENT BENEFITS OTHER THAN PENSION

I. PENSION BENEFITS

SoCalGas and SDG&E both offer Pension benefits to all employees. Employees are fully vested in their Pension benefits after three years of service.

SoCalGas has two pension plans: a "traditional" plan for union employees hired prior to January 1, 2012, and a Cash Balance Plan for all other employees. SoCalGas' pension plan for non-union employees was modified in 1998 from a "traditional" plan to a Cash Balance Plan, and all non-union employees were "grandfathered" for a five-year transition period. Employees who had not retired as of July 1, 2003, received credit to their cash balance plan equal to the greater of their benefits calculated under the two different plans. Beginning January 1, 2012, newly-hired SoCalGas union-represented employees became participants in the same Cash Balance plan as non-represented employees; employees who were covered by collective bargaining agreements prior to January 1, 2012, continue to accrue benefits under the "traditional" plan.[120]

SDG&E offers a Cash Balance Plan to union and non-represented employees. Prior to July 1, 2003, retired employees received a "traditional" pension based on years of service and final earnings, and they continue to receive that benefit. The Plan was modified in 1998 to a Cash Balance Plan, and all employees were "grandfathered" for a five-year transition period. Employees who had not retired as of July 1, 2003, received credit to their cash balance plan equal to the greater of their benefits calculated under the two different plans.[121]

Both companies propose to maintain the two-way pension balancing account (PBA), which helps reduce expense variability caused by external economic and regulatory sources. The companies also propose changes to the methodology for recovery of pension costs. Currently, the minimum required contribution is

[120] Ex. SCG-31/SDG&E-29, pp. DSR-4 through DSR-6.

[121] Ex. SCG-31/SDG&E-29, pp. DSR-4.

calculated in accordance with the Employee Retirement Income Security Act of 1974 (ERISA), the Pension Protection Act of 2006 (PPA), and as allowed by Internal Revenue Code, but the current methodology has led to a significant funding shortfall. This shortfall increases long-term costs due to higher Pension Benefit Guaranty Corporation premiums, and higher accrued interest costs. The companies propose that full funding is targeted within seven years, and rate recovery is based on the greater of: the annual service cost plus an amortization to eliminate the shortfall; the minimum contribution required under ERISA; or, the contribution required to maintain a funding ratio of 85%.[122]

Table 22-12
SDG&E and SoCalGas Pension Expenses
2012-2016 Recorded and 2019 Forecast
(in Thousands of 2016 Dollars)

Description	2012	2013	2014	2015	2016	Sempra 2019	ORA 2019
SCG Pension	$44,037	$56,822	$26,513	$4,667	$70,350	$202,830	$202,830
SDG&E Pension	$45,327	$47,428	$48,739	$0	$0	$63,970	$63,970
Total	$89,364	$104,250	$75,252	$4,667	$70,350	$266,800	$266,800

Source: 2012-2016 data from Ex. SCG-31-WP/SDG&E-29-WP, p. 5. SoCalGas and SDG&E 2019 forecasts from Ex. SCG-31/SDG&E-29, p. DSR-3, Table DSR-1.

A. Overview of SCG's Request

The SoCalGas Traditional Plan provides retirement benefits based on an employee's final average earnings and years of service. Normal retirement benefits are provided at age 65 with five or more years of service, and early retirement benefits at age 55 with at least 15 years of service. Benefits can be paid as an annuity, but most retirees opt to receive a lump sum payout. Participants in the Cash Balance plan receive credits equal to 7.5% of eligible earnings and interest on their account balances.[123] SoCalGas requests $202.830 million for pension benefits for the Test Year.[124]

[122] Ex. SCG-31/SDG&E-29, pp. DSR-1 and DSR-2.

[123] Ex. SCG-31/SDG&E-29, pp. DSR-4 through DSR-6.

[124] Ex. SCG-31/SDG&E-29, pp. DSR-3.

B. Overview of SDG&E's Request

SDG&E's plan participants receive credits equal to 7.5% of eligible earnings and interest on their account balances. Benefits can be paid as an annuity, but most retirees opt to receive a lump sum payout.[125] SDG&E requests $63.970 million for pension benefits expense for the Test Year.[126]

C. ORA's Analysis

ORA examined both company's requests for TY 2019 rate recovery and conducted an independent analysis of their supporting workpapers, responses to data requests, and other discovery. ORA does not take issue with either SoCalGas' or SDG&E's pension benefits expense or methodology change requests.

Both companies employ an actuarial consultant, Willis Towers Watson, to calculate their required annual contributions. The 2019 required contributions were calculated using the proposed new methodology, and in accordance with federal law including ERISA.[127]

Both companies have a two-way pension balancing account (PBA) for pension costs, which serves to protect both ratepayers and shareholders because the legally-required contribution can fluctuate over time based on many factors; higher than expected earnings might lead to no pension contribution being required, and conversely, lower than expected earnings might require a higher minimum contribution than ratepayers had funded. Any variance between the authorized and actual contributions would be subject to balancing account treatment. The PBAs are trued-up annually via an Advice Letter process.[128] ORA recommends the continuation of the PBAs for both SoCalGas and SDG&E.

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[125] Ex. SCG-31/SDG&E-29, pp. DSR-4.

[126] Ex. SCG-31/SDG&E-29, pp. DSR-3.

[127] Ex. SCG-31/SDG&E-29, pp. DSR-6.

[128] D.09-09-011.

II. POSTRETIREMENT BENEFITS OTHER THAN PENSION

Both companies offer a variety of Post-retirement Benefits Other than Pension (PBOP) to retirees, including medical, dental, and vision insurance coverage, mental health and substance abuse coverage, and life insurance. Retiree contributions depend on the retiree's date of retirement, age, years of service, chosen plans, and whether they were a union or non-union employee upon retirement.[129]

Effective December 1, 2009, PBOP benefits also include a health reimbursement account, which is established for each new retiree and is available to reimburse retirees for qualified medical expenses during retirement. Opening account balances are based on the value of unused sick leave and vacation, and accrue interest. Both companies also recently offered a Voluntary Retirement Enhancement Program to certain eligible represented employees; those employees who accepted the offer were credited with an opening balance but no other accruals or interest will be credited to these accounts.[130]

Table 22-13
SDG&E and SoCalGas PBOP Expenses
2012-2016 Recorded and 2019 Forecast
(in Thousands of 2016 Dollars)

Description	2012	2013	2014	2015	2016	Sempra 2019	ORA 2019
SCG PBOP	$23,359	$9,146	$280	$0	$271	$0	$0
SDG&E PBOP	$13,703	$14,390	$14,168	$7,314	$2,357	$1,430	$1,430
Total	$37,062	$23,536	$14,448	$7,314	$2,628	$1,430	$1,430

Source: 2012-2016 data from Ex. SCG-31-WP/SDG&E-29-WP, p. 18. SoCalGas and SDG&E 2019 forecasts from Ex. SCG-31/SDG&E-29, p. DSR-33, Table DSR-4.

[129] Ex. SCG-31/SDG&E-29, pp. DSR-29 through DSR-32.

[130] Ex. SCG-31/SDG&E-29, pp. DSR-29 through DSR-32.

A. Overview of Sempra's Request

SDG&E requests $1.430 million for TY 2019 PBOP expense; SCG does not request ratepayer funding for PBOP expense in the Test Year.[131] PBOP expense includes costs for current retirees and also an allocation of costs for current employees who are expected to access benefits in their future retirement.[132] The forecast expenses are the result of valuations prepared by Willis Towers Watson, the same actuarial consulting firm that prepared the estimates of pension expenses, and are determined in accordance with Financial Accounting Standard (FAS) 715-60.[133]

B. ORA's Analysis

ORA examined both company's requests for TY 2019 rate recovery and conducted an independent analysis of their supporting workpapers, responses to data requests, and other discovery. ORA does not take issue with either SoCalGas' or SDG&E's PBOP expense requests.

Both companies have a two-way PBOP balancing account (PBOPBA) for PBOP costs, which serves to protect both ratepayers and shareholders because the legally-required contribution can fluctuate over time based on factors not subject to management control; higher than expected earnings might lead to no contribution being required, and conversely, lower than expected earnings might require a higher minimum contribution than ratepayers had funded. ORA does not oppose the continuation of the two-way PBOPBAs for both SoCalGas and SDG&E.

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[131] Ex. SCG-31/SDG&E-29, pp. DSR-29 through DSR-32.

[132] Ex. SCG-31/SDG&E-29, pp. DSR-32.

[133] Ex. SCG-31/SDG&E-29, pp. DSR-32 and DSR-33.

WITNESS QUALIFICATIONS

My name is Stacey Hunter. My business address is 505 Van Ness Avenue, San Francisco, California. I am employed by the Office of Ratepayer Advocates (ORA) as a Public Utilities Regulatory Analyst IV in the Energy Cost of Service and Natural Gas Branch.

I received a Bachelor of Sciences degree in Accounting from Golden Gate University.

I joined the Commission in the Division of Ratepayer Advocates in January 2003. I have prepared Human Resources testimony in recent Pacific Gas and Electric Company, Southern California Gas Company (SoCalGas), San Diego Gas & Electric Company (SDG&E), and Southern California Edison Company General Rate Cases. I have prepared other expense analysis testimony in many other proceedings. I also review certain advice letter filings on behalf of ORA.

This completes my prepared testimony.