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SDG&E
DIRECT TESTIMONY OF STEVEN D. DAVIS
(POLICY OVERVIEW)

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



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**SDG&E DIRECT TESTIMONY OF
STEVEN D. DAVIS
(POLICY OVERVIEW)**

I. INTRODUCTION

My name is Steven D. Davis, and I am the President and Chief Operating Officer of San Diego Gas & Electric Company (“SDG&E”). This exhibit provides overarching policy testimony for SDG&E and generally describes how the proposals and requests SDG&E has included in its 2016 General Rate Case (“GRC”) Application reflect our strong commitment to delivering safe and reliable gas and electric service to customers at reasonable rates, through a safety-first culture. Indeed, although the energy industry is changing, safety, reliability and customer service remain the foundation of our business at SDG&E. Moreover, we view the changing industry as an opportunity for every employee, at every level, to make new and meaningful differences in the success of our business by being:

- **Customer focused:** consider the customer in all aspects of decision-making;
- **Strong financial stewards:** effectively manage financial resources and helping to reduce rates;
- **Innovators:** great ideas leading to improved core business and customer outcomes; and
- **High performers:** expect everyone to perform at a high level to support the team.

California’s energy policy is constantly evolving and is currently characterized by an increasing focus on public safety, affordability, energy efficiency and efforts to reduce carbon emissions. SDG&E is adapting to and supporting this changing landscape while remaining committed to achieving its goals with respect to safety, reliability, and customer service. This commitment is reflected in the following awards and recognition:

- SDG&E has been ranked “Best in the West” in reliability by PA Consulting Group, earning their regional ReliabilityOne award for eight consecutive years, beginning in 2005;
- 2012 Exemplary Energy Efficiency Program Award from the American Council for an Energy Efficient Economy;
- 2012 KITE (Knowledge, Innovation, Technology, and Excellence) Award for Customer Service Leader of the Year from Energy Central’s Intelligent Utility Magazine;
- 2012 Best Practices Award for Utility Customer Service - Certificate of Excellence from Chartwell for the Trusted Energy Advisor Program;
- 2012 Best Practices Award for Utility Marketing - Certificate of Excellence from Chartwell for the Smart Energy Solutions Program;

- 1 • 2012 ServiceOne Award from PA Consulting Group for Excellence in Customer Service;
- 2 • 2012 “Corporation of the Year” for Diversity from the San Diego Regional Supplier
- 3 Diversity Council;
- 4 • 2013 Top Ten Best North American Utilities Award for Smart Grid Development from
- 5 Greentech Media; and
- 6 • 2014 The Greenlining Institute gives SDG&E an “A” in its Supplier Diversity Report Card
- 7 Report.

8 SDG&E is proud of the recognition we have received, yet we know that our focus can never
9 wane, and we are always seeking ways to improve as the industry evolves. One area that has seen
10 significant changes is public safety. In the aftermath of the San Bruno tragedy, the gas industry,
11 legislators, regulators, and stakeholders are fundamentally re-examining current laws, regulations and
12 industry practices to see whether changes can be made to enhance the safety of our industry. We
13 embrace these efforts and have been working with the California Public Utilities Commission
14 (“Commission” or “CPUC”), U.S. Department of Transportation/Pipeline and Hazardous Materials
15 Safety Administration (“DOT/PHMSA”), research groups such as the Gas Technology Institute
16 (“GTI”) and Pipeline Research Council International (“PRCI”), and others in the industry to make
17 changes in a sensible way.

18 Other considerations are specifically regional in nature, such as the risk of operating an electric
19 utility in an area that is susceptible to catastrophic wildfires. As described below and in the Electric
20 Distribution – Capital testimony of John Jenkins (Ex. SDG&E-09) and Electric Distribution – O&M
21 testimony of Jonathan Woldemariam (Ex. SDG&E-10), SDG&E is aggressively seeking ways to
22 continue to improve our electric distribution system in high fire risk areas, including proposals to
23 reduce such risk by hardening overhead distribution infrastructure in the backcountry, continuing our
24 wood-to-steel pole replacement program, going above and beyond compliance requirements,
25 modifying our operations during high risk periods, and undergrounding overhead lines in strategic
26 locations.

27 In addition, California’s energy policy has been increasingly focused on clean energy,
28 greenhouse gas emissions and other environmental issues over the past decade. SDG&E has been at
29 the forefront of these changes, receiving recognition for our leadership. In addition to the awards
30 listed above, we are proud that we have expanded the renewable energy component of SDG&E’s retail
31 load from 3.7% in 2003 to 23.6% in 2013, the largest rate of increase in the State. SDG&E was also
32 the first major investor-owned utility (“IOU”) to commit to California’s 33% renewable energy supply
33 target for 2020.

1 Investing in technologies and services that help advance the use of clean energy by our
2 customers is one of SDG&E's goals. These efforts, for example, have helped facilitate the growth of
3 electric vehicle use among our customers, and as of June of 2014, there are approximately 8,400
4 electric vehicles in San Diego County. We have also seen rapid growth in the number of customers
5 installing solar photovoltaic generation (representing approximately 254 megawatts in nameplate
6 capacity). As of April of 2014, approximately 36,450 customers have installed rooftop solar systems
7 and are using Net Energy Metering ("NEM"). Over the last five years, SDG&E has seen a consistent
8 growth rate of 40% per year in the number of total customers taking service under NEM. In 2013,
9 SDG&E received twice the number of new applications for NEM service than in 2012. SDG&E
10 expects this same level of rapid growth to continue and, for purposes of this GRC, is conservatively
11 projecting continued growth of 40% for 2016 thru 2018, but anticipates that it could be higher. As
12 described below and in the Electric Distribution - Capital testimony of Mr. Jenkins (Ex. SDG&E-09),
13 rising electric vehicle use and distributed generation can change load patterns, reverse the traditional
14 flow of power, and impact available capacity and system protection, which requires system upgrades
15 such as grid management tools. These changes also impact customer service operations. For example,
16 as described below and in the Customer Service testimony of Brad Baugh (Ex. SDG&E-14), the rise in
17 NEM customers, whose billing is unique and variable, is putting additional demands on our billing
18 operations.

19 As a result of this evolving landscape, we have examined the specific changes we expect to
20 occur over the term of this GRC and propose corresponding investments in:

- 21 • Safety and Reliability: The safety of our customers, employees and the communities we
22 serve is a top priority of SDG&E, and we are an industry leader in delivering reliable gas
23 and electric service to our customers. Our GRC proposals will allow us to continue to
24 invest in our gas and electric systems so as to enhance safety, reliability, and security and
25 thereby mitigate risks that could impact our customers, employees, and systems.
- 26 • Customer Service: Providing valuable service to our customers is a key focus. We remain
27 committed to meeting the needs of approximately 3.5 million consumers who are
28 increasingly more diverse in their service demands by, among other things, empowering
29 customers with information and tools to better manage their usage of gas and electricity.
- 30 • Risk Management: SDG&E is focused on taking steps to enhance our policies and
31 practices to better manage risk and systemically demonstrate our continuously evolving
32 focus on risk mitigation. For example, as noted above, SDG&E has focused on hardening
33 our system against fire threats.
- 34 • Environmental Stewardship: We will continue to provide our services in an ecologically
35 responsible manner, complying with an increasing number of regulations and requirements,

1 factoring environmental impacts in our project planning, and investing in technologies that
2 advance clean energy for our customers and the environment.

- 3 • **Supplier Diversity:** We will continue to invest in efforts and programs that enhance
4 supplier diversity, including particular focus on helping our diverse small business
5 suppliers.

6 This GRC also reflects SDG&E's continued effort to be cost-efficient and forward-thinking,
7 such that we are well positioned to consistently deliver safe and reliable gas and electric service to our
8 customers at reasonable rates. SDG&E has developed a post-test year ratemaking mechanism that will
9 provide us with sufficient revenues to meet the challenges we expect to face beyond the 2016 test year,
10 while maintaining incentives to continue searching for operational efficiencies.

11 **II. OVERVIEW OF GRC REQUEST**

12 Our GRC request reflects SDG&E's forecast of revenues needed to continue delivering safe
13 and reliable gas and electric service at reasonable rates and enhance the integrity of our system, while
14 meeting the new challenges we expect to face in the test and post-test years. The projected revenue
15 requirement, rate increases, and expected residential bill impacts from our GRC proposal are discussed
16 in more detail in the Summary of Earnings testimony of Khai Nguyen (Ex. SDG&E-36) and the
17 Revenues at Present & Proposed Rates testimony of Cynthia Fang (Electric, Ex. SDG&E-39) and
18 Gary Lenart (Gas, Ex. SDG&E-40). Post-Test Year testimony is sponsored by Sandra Hrna (Ex.
19 SDG&E-37). The following is a brief summary.

20 **A. Test Year 2016 Revenue Requirement**

21 SDG&E's GRC Application requests that the Commission authorize a combined \$1.911 billion
22 revenue requirement (\$326 million gas and \$1.585 billion electric), to be effective January 1, 2016. If
23 approved, this revenue requirement would be an increase of \$133 million over the estimated 2015
24 revenue requirement. It should be noted that consistent with the direction given to Southern California
25 Edison ("SCE") as the majority owner of the San Onofre Nuclear Generating Station ("SONGS") in
26 SCE's pending GRC (A.13-11-003), SDG&E has removed most SONGS-related costs from this GRC
27 and intends to address ongoing decommissioning costs in other regulatory proceedings before the
28 Commission, as appropriate (see SONGS testimony of Mike De Marco, Ex. SDG&E-12).

29 When the impact of commodity costs and other ratemaking items such as regulatory account
30 balances are included, these increases result in a 2016 system average electric rate revenue decrease of
31 \$18.5 million (-0.5%) and a system average gas rate revenue decrease of \$4 million (or -0.7%), when
32 compared to the estimated revenue requirement for 2015.

1 **B. Post Test Year Ratemaking**

2 SDG&E’s post-test year proposal focuses on the major cost drivers impacting the company.
3 The mechanism includes attrition for two components: operating expenses (including labor wage
4 increases, non-labor costs, and medical expenses) and costs associated with post-test year capital
5 additions. Escalation indices that more closely align with SDG&E’s specific cost drivers are
6 recommended for the operating expenses. The capital addition component of the mechanism uses a
7 seven-year average of additions as a basis for the attrition needed to support SDG&E. The overall
8 mechanism provides a fair opportunity for SDG&E to earn the authorized rate of return and is
9 balanced with effective cost management and ongoing productivity improvements.

10 **C. Bill Impacts**

11 If the 2016 revenue requirement identified above is approved by the Commission, a typical
12 electric residential customer¹ will see a monthly bill decrease of \$0.25 (-0.3%), as compared to
13 estimated rates for 2015. For gas customers, a typical residential customer² will see a monthly bill
14 decrease of \$0.32 (or -0.8%), as compared to estimated rates for 2015. On a combined electric and gas
15 bill, a typical residential customer will see a monthly bill decrease of \$0.57 (-0.4%), as compared to
16 estimated rates for 2015.

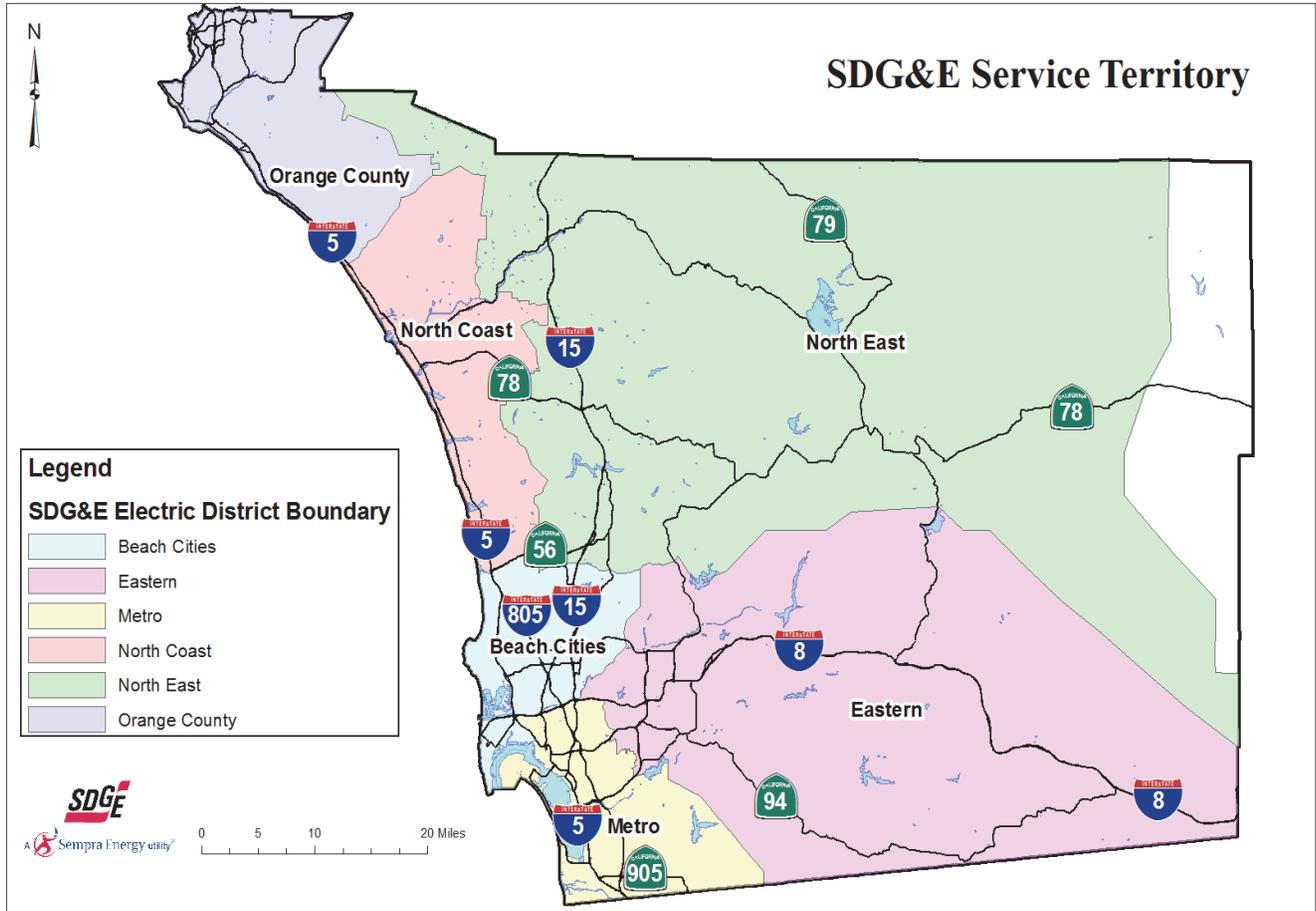
17 **III. OVERVIEW OF OPERATIONS**

18 SDG&E operates and maintains a gas and electric distribution system that provides safe and
19 reliable energy to approximately 3.5 million consumers. As shown in Figure 1, the SDG&E service
20 territory spans more than 4,100 square miles from the California-Mexico border to southern Orange
21 County.

¹ Inland customer winter usage of 500 kWh.

² 28 therms per month.

Figure 1: SDG&E Service Territory



2

Gas Distribution

3 SDG&E's commitment to safety and reliability extends to our gas distribution system, which
 4 consists of a network of approximately 14,600 miles of interconnected gas "mains" and "services."
 5 These mains and services are constructed of both steel and plastic materials in varying diameters, and
 6 are located in most urban and suburban streets within SDG&E's service territory. The primary
 7 function of this distribution pipeline network is to deliver safe and reliable natural gas from SDG&E's
 8 transmission system via approximately 865,300 gas meters. SDG&E maintains a network of 8,000
 9 miles of gas mains operated at either high-pressure (over 60 pounds per square inch ["psi"]) or
 10 medium-pressure (60 psi and below). This system includes numerous valves capable of isolating the
 11 total system into smaller areas for operation, construction and emergency purposes. Through regulator
 12 stations located throughout the system, SDG&E maintains gas pressure and regulates the distribution
 13 system to provide adequate capacity to meet customer needs. The final section of this network is
 14 composed of approximately 6,600 gas service lines that connect the high- and medium-pressure mains

1 to each customer meter.

2 *Electric Distribution*

3 SDG&E safely operates and maintains an electric distribution system that reliably serves
4 approximately 1.4 million meters. SDG&E's system includes 287 distribution substations, 1,016
5 distribution circuits, roughly 230,000 poles, 10,290 miles of underground systems, 6,569 miles of
6 overhead systems, and various other pieces of distribution equipment. There is an average of 1,375
7 customers per circuit with approximately 450,000 trees in the proximity of SDG&E overhead lines
8 maintained through SDG&E's extensive vegetation management program. Approximately 60% of our
9 system is underground, particularly in the urban and suburban areas, a ratio which is much larger than
10 that of the other IOUs. The primary distribution voltage is predominantly 12 kV, with some large
11 areas of 4 kV, which are being converted through attrition and as maintenance conditions warrant.
12 The service territory includes a geographic mixture of urban and rural communities, consisting of 26
13 cities, two counties and 15 major military facilities. These distribution facilities can be found in
14 geographic locations ranging from bay and coastal developments to inland valleys, mountain and
15 desert communities.

16 *Electric Generation/Electric and Fuel Procurement*

17 SDG&E owns and operates two combined-cycle generating facilities (Palomar Energy Center,
18 located in Escondido, CA and Desert Star Energy Center, located in Boulder City, NV) and two
19 peaking plants (Miramar Energy Facility, located in San Diego, CA and Cuyamaca Peak Energy Plant,
20 located in El Cajon, CA). Together, the plants are capable of providing power to approximately
21 750,000 homes in the region.

22 The Electric and Fuel Procurement Department ("E&FP") is responsible for procuring,
23 managing, planning and administrating SDG&E's electric and fuel supply for bundled commodity
24 customers. Bundled commodity customers are those customers that buy the commodity of electricity
25 from SDG&E. Annually, since 2011, the bundled commodity costs have been over \$1 billion dollars.
26 The procurement and administration activities conducted by the E&FP department allow SDG&E to
27 plan for and acquire resources so that least-cost supply is available when needed by commodity
28 customers. As noted above, we have been able to grow the renewable energy component of SDG&E's
29 retail load from 3.7% in 2003 to 23.6% in 2013, the largest rate of increase in the state.

30 *Customer Service*

31 SDG&E serves a population of approximately 3.5 million consumers and (at year-end 2013) is
32 characterized by a mix of approximately 1.25 million residential, 150,000 commercial and industrial,

1 and 6,000 street light meters. We provide safe, reliable and efficient customer service to our
2 customers via the following working groups:

- 3 • Our Customer Services Field organization consists primarily of field technicians who
4 perform services at customer premises, including establishing gas and electric service,
5 conducting appliance checks, investigating reports of gas leaks, shutting off and restoring
6 gas service for fumigation, completing meter and regulator changes and other related field
7 services for customers. Customer Service Field activities are impacted by Smart Meter
8 (reducing the need to field orders for several order types), customer growth, customer
9 turnover, variations in weather and other factors. Field technicians work from five
10 different operating base locations that are dispersed throughout SDG&E's service territory,
11 which spans across all of San Diego County and a portion of Orange County. It is
12 anticipated that field technicians will complete over 300,000 orders at customer premises
13 each year.
- 14 • Our Customer Contact Centers handle over 2.7 million telephone customer contacts per
15 year. SDG&E has two call centers with approximately 164 energy services specialists.
- 16 • Our Branch Offices ("BOs") and Authorized Payment Locations ("APLs") provide in-
17 person bill payment services in seven different BO locations and over 75 contracted APLs.
18 SDG&E BOs and APLs processed over 1.1 million payments in 2013.
- 19 • Customer Services Back-Office functions continue to become more complex with
20 enhanced rate options, credit and collections processes, compliance with regulatory and
21 governmental agencies and systems support for expanded customer self-service options.
- 22 • Our Customer Information groups continue to use research and data analytics to enhance
23 its customer outreach, communication, and education efforts to engage customers in
24 understanding their options and choices.

25 **IV. OPERATIONAL FOCUS**

26 The following is provided as a general description, from a high-level policy perspective, of
27 SDG&E's operational focus as it relates to safety, reliability, customer service, risk management,
28 cyber and physical security, environmental stewardship, supplier diversity and operational efficiency.
29 More details are provided in the testimony and workpapers of individual witnesses.

30 **A. Safety**

31 We view safety as a three-pronged effort that requires vigilant attention to (1) employee safety,
32 (2) customer/public safety, and (3) the safety of our gas and electric delivery systems. This focus is

1 driven by our strong safety culture at SDG&E. Our tradition of providing safe and reliable service
2 spans more than 131 years of our company's history and is summarized in our *Commitment to Safety*
3 statement, which is endorsed by our entire senior management team:

4 San Diego Gas & Electric Company's longstanding commitment to safety focuses
5 on three primary areas – employee safety, customer safety and public safety. This
6 safety focus is embedded in what we do and is the foundation for who we are –
7 from initial employee training, to the installation, operation and maintenance of
8 our utility infrastructure, and to our commitment to provide safe and reliable
9 service to our customers.

10 In 2013, our efforts to maintain a strong safety-first culture were subjected to an independent
11 assessment by the National Safety Council, a credible and independent third party non-profit
12 organization and a leading advocate for safety. The evaluation was based on an employee-perceptions
13 study and resulted in a report indicating that SDG&E's safety culture compares very favorably to
14 those of peer utilities and companies.³ Indeed, in comparison to over 580 companies, SDG&E's
15 overall safety barometer score was in the 93rd percentile (top 7% of companies surveyed). The
16 overall benchmark results were very positive and encouraging, and a number of results stand out:

- 17 • 94th percentile for management including safety in job promotion reviews;
- 18 • 94th percentile for safety standard level relative to production standard level;
- 19 • 93rd percentile for supervisors behaving in accord with safe job procedures;
- 20 • 93rd percentile for management setting a positive safety example;
- 21 • 93rd percentile for priority of safety issues relative to production;
- 22 • 93rd percentile for belief that management does more than law requires;
- 23 • 92nd percentile for employees believing that their actions can protect co-
24 workers;
- 25 • 92nd percentile for belief that management is sincere in safety efforts;
- 26 • 92nd percentile for presence of employees well-trained in emergency practices;
- 27 • 91st percentile for supervisors enforcing safe job procedures;
- 28 • 91st percentile for management setting annual safety goals; and
- 29 • 91st percentile for condition of employee morale.

30 Vital to SDG&E's efforts to continue to maintain and expand our safety achievements is adequate
31 funding for support services (e.g., Fleet, Real Estate, Land, Facilities) as well as for employee training,

³ 2013 Safety Barometer Survey Results, San Diego Gas & Electric Company, National Safety Council -March 2013.

1 compensation and benefits and human resources. It takes a highly skilled workforce, as well as
2 mobility and infrastructure, to execute our ambitious safety expectations and efforts.

3 Although our continued focus on safety is embraced and supported by all organizations within
4 our company, there are several areas warranting special attention, including gas and electric
5 operations, which are outlined below.

6 **1. Gas Operations**

7 SDG&E has a strong track record in gas safety that reflects the safety-first culture that is
8 embedded in our company culture at every level. While we are proud of our safety record, we know
9 there are always opportunities to enhance the overall safety of our pipeline system and infrastructure.
10 To maintain our strong track record into the future, we cannot become complacent. We must always
11 strive to do better by applying forward-looking safety strategies, and challenge ourselves to be even
12 more diligent in maintaining the safety of our natural gas system. Our aim is to continuously drive
13 process improvements throughout our pipeline system and operations, to meet or exceed state and
14 federal safety regulations, and to stay abreast of industry leading practices.

15 In this GRC, we seek authorized funding for the maintenance, operation, and replacement of
16 gas infrastructure necessary to maintain our commitment in this area. As discussed in the Gas
17 Distribution testimony of Frank Ayala (Ex. SDG&E-04), for example, we propose funding to continue
18 to survey our gas distribution system for leaks; repair identified main and service line leaks; locate and
19 mark facilities to avoid third party damage; and replace or abandon pipeline facilities (e.g., mains,
20 services, regulating and metering equipment, cathodic protection systems, and electronic equipment)
21 that have reached the end of their useful lives or are experiencing deterioration. Moreover, as
22 discussed in the Pipeline Integrity for Transmission and Distribution testimony of Maria Martinez (Ex.
23 SDG&E-07), SDG&E has furthered its safety goals by retrofitting transmission pipelines in order to
24 utilize in-line inspection technology, with 61% of the integrated Southern California Gas Company
25 (“SoCalGas”)/SDG&E gas transmission system (~2,200 miles) capable of being assessed using in-line
26 inspection tools. Although the cost of retrofitting a pipeline to allow for in-line inspection may be
27 higher than other alternative assessment methods, the information obtained through an in-line
28 inspection about the condition of the pipeline is extensive and can aid in analyzing time dependent
29 threats such as external and internal corrosion. We propose to continue to increase our ability to
30 inspect transmission pipelines using in-line inspection methods, even in non-High Consequence Areas
31 that are not subject to the prescriptive assessment requirements established for transmission pipelines
32 under federal and state regulations. Efforts such as this to exceed minimum system safety

1 requirements demonstrate our strong commitment to continuous improvement and enhanced emphasis
2 on proactive measures that are intended to enhance the safety of our natural gas transmission and
3 distribution systems for our customers and the communities we serve.

4 Additionally, as SDG&E continues to invest in our employees, we seek funding for additional
5 training, qualification and upgraded training facilities. Similarly, as discussed in the Gas Transmission
6 testimony of John L. Dagg (Ex. SDG&E-05) and the Gas Engineering testimony of Raymond K.
7 Stanford (SDG&E-06), we propose funding consistent with historic levels to perform annual leak
8 surveys of all SDG&E transmission pipeline facilities, conduct surveillance of third-party construction
9 activities around the vicinity of buried pipeline facilities, perform locate-and-mark services to identify
10 the location of buried facilities, and proactively replace or abandon aging pipeline facilities. These
11 types of day-to-day system maintenance and replacement activities are essential to achieving the
12 continued safe operation of our gas distribution and transmission facilities.

13 **2. Electric Operations**

14 Safety is also a key driver in our approach to electric operations, as demonstrated by our strong
15 track record in this area. Fire risk is particularly heightened in areas of our service territory
16 characterized by inland valleys and mountainous areas with smaller communities, lower density
17 development and significant wildland areas. Many of these areas are served by an older overhead
18 electric distribution system (comprised mainly of wooden poles) that is subject to the most extreme
19 weather in the service territory. Due to the 2007 wildfires, it became increasingly evident that the
20 safety and operational challenges brought on by the extreme Santa Ana wind conditions in these areas
21 had to be dealt with as a top priority. Fire risk is extremely high during such conditions, and the
22 consequences of a fire can be catastrophic to the community and cause severe damage and disruption
23 to the electric distribution system.

24 Accordingly, SDG&E has focused on and is continuing to aggressively seek ways to improve
25 the operations and maintenance of the electric distribution system in these high fire threat zone areas,
26 especially as it relates to high fire risk Santa Ana conditions. Significant progress has already been
27 made. As described in the Electric Distribution – Capital testimony of Mr. Jenkins (Ex. SDG&E-09)
28 and the Electric Distribution – O&M testimony Mr. Woldemariam (Ex. SDG&E-10), SDG&E is
29 proposing to make additional significant capital investments to further reduce wildfire risk and
30 enhance safety by hardening overhead distribution infrastructure in the backcountry, continuing our
31 wood-to-steel pole replacement program, enhancing inspections above and beyond compliance
32 requirements, modifying our operations during high risk periods, and undergrounding overhead lines

1 in strategic locations. In order to continue enhancing the safety of the community and maintain the
2 integrity of the electric distribution system, SDG&E seeks the resources necessary to meet these fire-
3 related challenges and implement steps that will result in further progress toward achieving a more
4 fire-safe system, which is a common goal shared by employees, regulators, customers and the public at
5 large.

6 With respect to safety training, SDG&E has had a Behavior Based Safety (“BBS”) program
7 since 2002. As described in the testimony of Mr. Woldemariam (Ex. SDG&E-10), the BBS program
8 changes individual safety behaviors by applying principles of positive reinforcement and giving
9 immediate feedback. Behavior management and culture management are necessary safety tools and
10 essential for the electric division to make gains in safety performance and to help ensure that
11 employees return home safely to their families each day. SDG&E has had great success with this
12 program and plans to continue the development of its employee safety leaders through the
13 implementation of additional analytical tools available from BBS to establish and maintain a strong
14 safety-focused culture.

15 **B. Reliability**

16 SDG&E is an industry leader in delivering reliable power to our customers, and the continued
17 reliability of the gas and electric systems is a primary focus of our operations. As described below,
18 SDG&E’s forecasted activities in this area are based on our experience with maintaining and/or
19 modernizing infrastructure, leveraging technology, and planning for the region’s future energy needs.

20 **1. Gas Operations**

21 SDG&E is committed to providing safe and reliable natural gas service at a reasonable cost. In
22 order to maintain our strong reliability track record, SDG&E proposes O&M and Capital spending
23 consistent with historic trends to help mitigate the risk of customer outages or loss of service. As
24 discussed in the testimony Mr. Ayala (Ex. SDG&E-04), areas of routine spending that affect reliability
25 in Gas Distribution include: locate and mark; leak survey; leak repairs; measurement and regulation;
26 main, service, and regulator station replacements; and pressure betterment installations. Locating and
27 marking gas facilities is completed to avoid third party dig-ins that may interrupt gas service to our
28 customers. Through leak surveys, leaks are identified so that they can be classified and scheduled for
29 leak repair before they affect the safety or reliability of the main or service line. Measurement and
30 regulation activities include inspecting and maintaining measurement and regulation equipment, and
31 repairing or replacing the equipment, as necessary. Through pipeline and regulator station
32 replacements, infrastructure that is aging, corroding, or defective is proactively replaced before it can

1 impact gas reliability. Pressure betterment installations are performed when there is insufficient
2 capacity or pressure to meet load growth, in order to maintain system reliability and service to all
3 customers. Similar system maintenance and pipeline replacement activities are described in our Gas
4 Transmission (Mr. Dagg, Ex. SDG&E-05) and Gas Engineering (Mr. Stanford, Ex. SDG&E-06)
5 testimony.

6 **2. Electric Operations**

7 SDG&E has been recognized as being an industry leader for its very reliable electric system.
8 In addition to the “Best in the West” awards for eight consecutive years since 2005, as noted above,
9 SDG&E also received PA Consulting Group’s National Award for Outstanding Reliability
10 Performance in 2010. In order to fulfill our strong commitment to delivering safe and reliable power
11 to our customers, SDG&E must continue to adapt to California’s changing energy landscape. As
12 noted above, the electric industry is undergoing changes unlike any period in its history, including a
13 significant expansion of distributed generation and growth in the use of electric vehicles. SDG&E is
14 striving to meet this challenge by investing in technologies that advance clean energy for our
15 customers and the environment.

16 It is important to note, however, that newer technologies can change loading patterns, reverse
17 the traditional flow of power, and impact available capacity and system protection. Accordingly, as
18 described by Mr. Jenkins (Ex. SDG&E-09), SDG&E is proposing to meet these challenges by seeking
19 funding for grid sensing and situational awareness technologies and grid management tools to help
20 address the complexities associated with integrating distributed energy resources and electric vehicles.
21 These projects will improve SDG&E’s ability to safely and reliably mitigate voltage fluctuations
22 resulting from intermittent power generation and incorporate the increasing load of charging electric
23 vehicles. These projects will also improve the detection and isolation of faults, immediately restore
24 service to as many customers as possible, and provide information about outages in real-time.
25 SDG&E also plans to enhance reliability for our customers by making investments to reduce the
26 frequency and duration of outages, particularly in the more inland areas, including funding to replace
27 underground cables that have failed or are likely to fail based on the electric-reliability-circuit analysis
28 or the cable failure data.

29 **C. Customer Service**

30 SDG&E understands that for customers to make wise decisions regarding their energy use they
31 must have access to information about their energy consumption, energy prices, and tools to manage
32 and control their use. SDG&E’s customers encompass a wide range of market segments with varying

1 levels of market knowledge understanding and communications needs. Accordingly, as reflected in
2 the Customer Service testimony of Mr. Baugh (Ex. SDG&E-14), we are expanding and enhancing
3 how SDG&E delivers solutions to our customers through targeted channels using research and data
4 analytics. We make it a priority to actively engage customers by listening to them, gathering and
5 incorporating their feedback, modifying processes, and delivering services, solutions, and tools to
6 meet individual customer needs. Our goal is to become our customers' "Trusted Energy Advisor" by
7 offering integrated and personalized solutions, giving them more choice, convenience, and control of
8 how they interact with us and manage their energy use while continuing to maintain safe, efficient,
9 effective, and reliable customer service.

10 SDG&E is also dedicated to providing customers with more choices in their energy pricing
11 plans and program options that will allow them to select the best rate that meets their lifestyle or
12 business needs. The Smart Pricing Program ("SPP") was a major step forward in that it offers
13 residential and small business customers new time varying rate options, giving them more choice of
14 when they use and how they pay for energy. In addition to SPP, SDG&E has several proposals
15 targeted at preparing residential customers for rate reform and the transition to time-of-use pricing
16 plans. For example, SDG&E intends to conduct an extensive outreach and education campaign as it is
17 critical that residential customers be prepared and informed of changes to their pricing options.

18 The NEM option available to customers is also changing the way we provide service. As
19 noted above, the growth in NEM customers has been significant and NEM billing is more labor
20 intensive due to the complexity of NEM. As explained by Mr. Baugh, there are currently four
21 different NEM tariff options and the utilities continue to see changes with NEM billing, including
22 those reflected in Commission Decision ("D.") 14-03-041 which established a transition period of 20
23 years for existing NEM customers as of July 1, 2017 (or earlier if the 5% NEM cap is reached) and
24 D.14-05-003 which permits energy storage devices to be paired/interconnected with NEM facilities
25 and, as such, receive the benefits of NEM. These ongoing changes and growth of NEM continue to
26 impact customer service resource requirements.

27 Information technology has also revolutionized customer service in the energy industry.
28 Starting with the deployment of Smart Meters, SDG&E customers have access to information about
29 how and when they use energy, what contributes to their energy bill, and, most importantly, how they
30 can better manage and control their energy use to meet their needs. As a result, SDG&E has been
31 connecting its customers to an array of smart energy solutions – tools, programs and services – that
32 will help them better understand and control how they are using energy and assist them in creating

1 their own energy plan to ultimately save them money and energy. Moreover, through multiple
2 communication channels (from mobile applications [“apps”] to social media and web-based
3 technology), SDG&E is responding to customers’ expectations for more convenient interactions
4 through modern communication channels. SDG&E is continuously enhancing these channels to
5 streamline the experience and expand the available offerings.

6 Regarding efforts to improve safety through customer service, as described in the Customer
7 Services Field testimony of Sara Franke (Ex. SDG&E-13), SDG&E has continued to improve the time
8 it takes to respond to customer reports of gas leaks. In support of our safety-first culture, SDG&E is
9 also proposing to spend additional time while on customer premises to educate customers about the
10 new legal requirement and importance of installing carbon monoxide detectors, as well as demonstrate
11 (using new wireless mobile data terminals) safety and other information available to customers on
12 SDG&E’s website.

13 SDG&E also takes customer privacy very seriously and has established both an Office of
14 Customer Privacy and has designated the Vice President of Customer Services to be SDG&E’s Chief
15 Customer Privacy Officer. We have worked diligently to engrain customer privacy into our system
16 designs, relationships with third parties, business controls, and day-to-day work habits. Employees
17 have been trained and are reminded of the importance of customer privacy and their role in ensuring
18 the privacy of our customers’ information.

19 **D. Risk Management**

20 SDG&E is taking steps to more systemically demonstrate our continued focus on managing
21 risk. In 2012, the Commission recognized that the regulatory emphasis on least-cost rate making
22 needs to change, and that greater emphasis must be placed on safety and security risks.⁴ We support
23 the Commission’s efforts to bring to the GRC process an added focus on safety and security risks.
24 Although the principles, policies and practices for integrating safety and security risk into the GRC
25 process are still evolving, we have taken steps in this GRC to expand upon existing risk management
26 processes, and build a strong Enterprise Risk Management organization. In 2014, SDG&E appointed
27 Diana Day to the new position of Vice President of Risk Management. Ms. Day reports to me, and in
28 her new role she is responsible for expanding our risk management governance, policies and practices
29 and integrating risk management, asset management and investment planning.

⁴ Letter from Paul Clanon, CPUC Executive Director, dated March 5, 2012, to Tom Bottorff, PG&E Senior VP, Regulatory Affairs.

1 We take the integration of risk management, asset management and investment planning very
2 seriously. Ms. Day's testimony on Risk Management and Policy (Ex. SDG&E-02) describes our
3 current risk management practices, our vision and commitment to evolve those practices, and the
4 investments necessary to move toward an integrated Enterprise Risk Management organization.
5 Further, the testimony of Douglas Schneider (Ex. SDG&E-03), SoCalGas' Vice President of Gas
6 Engineering and System Integrity, describes the risk policy for gas operations, and provides in greater
7 detail our systematic risk management efforts in key gas operational areas. Similarly, the testimony of
8 David Geier (Ex. SDG&E-03), SDG&E's Vice President of Electric Transmission and System
9 Engineering, describes the risk policy for electric operations and details the systematic risk
10 management efforts in key electric operations. SDG&E's appointment of an Enterprise Risk
11 Management officer and inclusion of three officer testimonies addressing risk in this GRC
12 demonstrate that our leadership is committed to achieving leading risk management practices.

13 **E. Cyber and Physical Security**

14 As part of our continued focus on managing risk, SDG&E is enhancing cyber and physical
15 security, which involves both gas and electric operations and has become a significant source of
16 attention and interest in recent years. Publicly disclosed attacks on customer information and critical
17 infrastructure have been the focus of inquiry and appropriate attention in Sacramento and in
18 Washington, D.C. Recent events such as the cyber attack at a major retailer (that resulted in the theft
19 of customer credit card details and other customer data) and the attack at PG&E's Metcalf Substation
20 highlight an ever-increasing risk to our industry. The operational demand for information and
21 physical security services and capabilities for the safety and security of our customers, employees and
22 communities is growing at a historic rate. Increases in operational security costs drive investments in
23 people, process, and technology to combat the constant and ongoing presence of threats targeting the
24 energy industry.

25 Cybersecurity closely affects customer privacy,⁵ as discussed in the Information Technology
26 testimony of Stephen Mikovits (Ex. SDG&E-19), and information technology staff must have very
27 specialized and sophisticated skill sets, which requires ongoing training to enhance our employees'
28 knowledge and techniques and keep pace with the ever-changing tools and methodologies used by

⁵ Although related to cybersecurity, customer privacy efforts are discussed elsewhere in SDG&E's testimony because in addition to good security, privacy also considers transparency (i.e., notice), customer choices, and mandated requirements to share customer information with third parties. SDG&E's privacy efforts are described above in the Customer Service section and in more detail in the Customer Service testimony of Mr. Baugh (Ex. SDG&E-14).

1 cyber adversaries. As explained by Mr. Mikovits, operational technology investments are necessary to
2 maintain operational capabilities/infrastructure and gather the intelligence required to ensure the
3 technologies stay relevant in the protection and security monitoring of systems and infrastructure.
4 Ongoing process and policy improvements in key areas will help the company prepare to address
5 security incidents, vulnerabilities, and risk management activities. These activities are required to
6 enable workforce education and facilitate compliance with regulatory, legal, and industry leading
7 practices. Moreover, as described in the testimony of Mr. Woldemariam (Ex. SDG&E-10),
8 cybersecurity is particularly relevant to grid and substation operations and must be updated to comply
9 with new North American Electric Reliability Corporation Critical Infrastructure Protection (“NERC-
10 CIP”) and CPUC rules.

11 Regarding physical security efforts, as discussed in the testimony of Mr. Jenkins (Ex. SDG&E-
12 09), physical security at substations is the subject of new NERC rules regarding critical infrastructure,
13 which require the installation of new or upgraded security systems (*e.g.*, video surveillance and
14 intrusion detection equipment, access control and centralized security software). SDG&E is taking
15 such steps to bolster physical security at its substations. As described in the testimony of Mr. Dagg
16 (Ex. SDG&E-05) and Mr. Stanford (Ex. SDG&E-06), similar efforts are planned for hardening
17 security at a critical SDG&E gas compressor station, including reinforcement to the perimeter security
18 as well as installation of monitors and enhanced motion sensors.

19 Regarding vehicle safety, included in the Fleet Services testimony of Carmen Herrera (Ex.
20 SDG&E-16) is a request for funds to pay for retrofitting the SDG&E fleet of over-the-road vehicles
21 with backup cameras and backup sensors to help reduce the number of backup incidents. This effort
22 will bring the fleet in early compliance with the National Highway Traffic Safety Administration
23 standard requiring manufacturers to install rear-view visibility systems in light duty vehicles by 2018.⁶

24 **F. Environmental Stewardship**

25 Investing in technologies that advance clean energy for our customers and the environment is
26 one of SDG&E’s primary goals. In addition to playing a key role in the increased use of electric
27 vehicles and rooftop solar systems in San Diego, SDG&E is committed to being a responsible
28 environmental steward and operating in compliance with all applicable environmental laws and
29 regulations. According to the U.S.D.A. Forest Service, the San Diego region is a “hotspot” for
30 biodiversity and threatened and endangered species management, and the region has more rare,
31 threatened, and endangered species than any comparable land area in the continental United States.

⁶ 49 CFR Part 571 (2014).

1 As such, SDG&E complies with more than 400 federal, state, and local environmental laws protecting
2 natural resources (such as threatened or endangered animals and plants), air quality, water quality,
3 cultural resources, waste and hazardous materials. As described in the Environmental testimony of
4 Scott Pearson (Ex. SDG&E-18), SDG&E subjects its construction, operations and maintenance
5 activities and projects that may impact the environment to a multi-disciplinary environmental review
6 to ensure compliance.

7 SDG&E is proud of the recognition we have received for our environmental performance and
8 stewardship. We have received numerous awards in the areas of climate leadership, supply chain
9 greening, and water conservation, including:

- 10 • 2013 US EPA Climate Leadership Award for Supply Chain Leadership;
- 11 • 2013 San Diego Industrial Environmental Association (“IEA”) Awards:
 - 12 ○ Water Conservation Award for our water conservation program at SDG&E
 - 13 substations
 - 14 ○ Environmental Sustainability Program Award from the IEA and the County of
 - 15 San Diego for our Environmental Sustainability Programs; and
- 16 • 2012 US EPA Climate Leadership Award for Organizational Leadership.

17 SDG&E remains committed to cost-efficient initiatives and efforts that avoid or minimize our
18 environmental impacts, including in such areas as greenhouse gas emissions, water usage reduction,
19 greening the supply chain, and promoting the use of alternative fuel vehicles, including electric
20 vehicles, through our support of grid integrated charging.

21 **G. Supplier Diversity**

22 SDG&E will continue to invest in efforts and programs that enhance our supplier diversity,
23 consistent with General Order (“GO”) 156. Among other things, GO 156 sets forth a goal that at least
24 21.5% of a utility’s supplier spend must be with women-owned, minority and disabled veteran
25 businesses enterprises (“WMDVBEs”). SDG&E is proud to have surpassed this goal for the last six
26 years, and achieved an over 40% spending level in 2013. SDG&E’s strong supplier diversity is
27 attributable to the dedication of employees known as “Supplier Diversity Champions” who manage
28 spending efforts in their respective departments. SDG&E values the long-term relationships with our
29 WMDVBE partners because many of them reflect the community we serve. More importantly, over
30 the years, we have found that building and maintaining relationships with a wide variety of suppliers
31 can result in cost savings, innovation and improved products and services for our customers.

1 To further develop these relationships, in this GRC, the Supplier Diversity organization has
2 aimed to expand outreach efforts with all WMDVBEs, especially in underutilized areas. Consistent
3 with heightened CPUC focus in these areas, Supplier Diversity has and is proposing to continue to
4 increase small business forums (co-hosted by the CPUC) and technical assistance programs, resulting
5 in increased mentoring and capacity building. SDG&E will also continue to focus and support
6 WMDVBEs in key capital projects, such as the Pipeline Safety Enhancement Project (“PSEP”) and
7 Pipeline Integrity. Furthermore, the Supplier Diversity team is proposing a program to build stronger
8 relationships with non-WMDVBE suppliers and identify opportunities for increased WMDVBE
9 participation in supply chain sustainability. These efforts should help facilitate the growth of
10 WMDVBEs, which is important to the economic development of the region.

11 **H. Operational Efficiency**

12 Improved operational efficiency will allow SDG&E to streamline costs and maximize
13 efficiency while continuing to deliver safe and reliable service to our customers. We believe that
14 continuous improvement and looking for ways to serve our customers more efficiently is critical to
15 how we run our business. Accordingly, departments across SDG&E routinely undertake efforts
16 designed to improve processes and enhance productivity. Continuous improvement tools and
17 techniques such as benchmarking, process mapping and enhancement, and technological advances
18 have helped foster operating efficiencies. For example, our proposed net reduction in Customer
19 Services Field funding reflects process changes we are making to mail initial collection notices to
20 customers, rather than delivering them in person, in addition to other efficiency improvements
21 described in Ms. Franke’s testimony (Ex. SDG&E-13). In the Customer Services testimony of Mr.
22 Baugh (Ex. SDG&E-14), he describes how SDG&E is managing costs through technology
23 investments in its Customer Contact Center. For example, calls are being directed to self-service by
24 improvements in our Interactive Voice Response system as well as reductions in call handle time by
25 providing our Energy Services Specialists with more consolidated and tailored customer information
26 and data. Mr. Baugh also describes how our Advanced Metering Operations organization is benefiting
27 by the introduction of advanced data analytics and data visualization technology that allows for better
28 network monitoring and exception management. These improved operational efficiencies will help
29 SDG&E continue to deliver valued customer service.

1 **V. IMPLEMENTATION ON JANUARY 1, 2016**

2 Implementing our 2016 GRC in a timely manner will help SDG&E continue delivering safe
3 and reliable service to customers at reasonable rates and initiate the important projects detailed in our
4 case. Thus, one of our principal goals from a procedural perspective is to urge the Commission to
5 reach a timely GRC decision so that SDG&E can implement new rates on January 1, 2016. Our 2012
6 GRC was implemented over 15 months after the start of the test year. We realize this is a
7 collaborative effort on the part of SDG&E, interested parties, and the Commission. For our part,
8 SDG&E is filing its GRC Application approximately one month earlier than in past GRCs. In terms of
9 cost presentation, SDG&E presents and supports forecasted costs on a directly-incurred basis instead
10 of on a book expense basis, which should simplify the review of those costs. SDG&E has also
11 standardized capital workpapers such that there is now uniformity between O&M and capital. Further,
12 SDG&E has already received Commission approval to eliminate in this GRC a total productivity
13 factor study,⁷ thereby reducing those witness areas in this GRC.

14 SDG&E is committed to keeping the GRC schedule on track, and respectfully asks the
15 Commission to keep all parties on that track. Even though some parties may consider delays as the
16 new norm, from SDG&E's perspective, delays are disruptive to our customers and our business and
17 are looked upon unfavorably by the credit rating agencies, all of which impacts our ability to begin
18 projects, undertake proposed work, and to implement new rates to customers without a rate-shock
19 effect.

20 **VI. CONCLUSION**

21 SDG&E remains strongly committed to delivering safe and reliable energy, through a safety-
22 first culture. We are dedicated to taking steps to more systemically demonstrate our continued focus
23 on risk management and to investing in technologies that advance clean energy for our customers and
24 the environment. However, we must have the proper resources necessary to meet the needs of the
25 communities we serve. With the proper resources, we will continue to take steps to enhance our
26 customer service, including using technology to bring greater choice and empowerment to our
27 customers and greater operational efficiency to our business. We will also continue to take the steps
28 necessary to successfully procure renewable energy from a wide variety of sources and will integrate
29 these resources, many of which are intermittent resources, onto our grid in a manner that maintains
30 safety and reliability. We will also continue our efforts to be good stewards of the environment by
31 reducing environmental impacts and fully complying with all environmental laws and regulations.

⁷ D.14-03-008 (in re: A.10-12-005/6).

1 Finally, we will continue our efforts with respect to our workforce and suppliers such that we reflect
2 the increasingly diverse face of California and maintain our historical role of providing economic
3 opportunity.

4 This concludes my prepared direct testimony.

5

1 **VII. WITNESS QUALIFICATIONS**

2 My name is Steven D. Davis. My business address is 8306 Century Park Court, San Diego,
3 California, 92123-1593. Since January of 2014, I have served as President and Chief Operating
4 Officer of SDG&E. I started my career with SDG&E in 1980. During this time, I have held a number
5 of leadership positions across the Sempra Energy family of companies.

6 Most recently, I was Senior Vice President of External Affairs for Sempra Energy, where I
7 oversaw corporate external affairs, including governmental and regulatory affairs, communications,
8 issues management, and the corporate secretary and sustainability functions. Prior to that, I served as
9 Vice President of Investor Relations, Corporate Communications and Community Partnerships, where
10 I was responsible for Sempra Energy’s shareholder and investor communications as well as all
11 corporate communications, branding, reputation management, community relations activities and web
12 functions. Before that, I was Senior Vice President of External Relations and Chief Financial Officer
13 for SDG&E and SoCalGas. I also served as Senior Vice President of Customer Service and External
14 Relations for SDG&E and SoCalGas and Vice president of Distribution Operations for SDG&E.
15 Other executive assignments have included Division Manager of Customer Operations and Division
16 Manager of Governmental and Administrative Services.

17 I hold a bachelor’s degree in business administration (accounting) from San Diego State
18 University, where I graduated with honors.

19 I am currently a board member on the Executive Committee and chairman of the Audit
20 Committee for the Campanile Foundation at San Diego State University, a board member of the
21 California Chamber of Commerce, and serve on the advisory boards of San Diego Senior Community
22 Centers and the San Diego Burn Institute.

23 Finally, I have previously testified in numerous local, state and federal proceedings.
24