

**PUBLIC UTILITIES COMMISSION**505 VAN NESS AVENUE  
SAN FRANCISCO, CA 94102-3298**FILED**07/27/20  
12:08 PM

July 27, 2020

**Agenda ID #18660**  
**Ratesetting**

TO PARTIES OF RECORD IN APPLICATION 18-11-010:

This is the proposed decision of Administrative Law Judge Ayoade. Until and unless the Commission hears the item and votes to approve it, the proposed decision has no legal effect. This item may be heard, at the earliest, at the Commission's August 27, 2020 Business Meeting. To confirm when the item will be heard, please see the Business Meeting agenda, which is posted on the Commission's website 10 days before each Business Meeting.

Parties of record may file comments on the proposed decision as provided in Rule 14.3 of the Commission's Rules of Practice and Procedure.

The Commission may hold a Ratesetting Deliberative Meeting to consider this item in closed session in advance of the Business Meeting at which the item will be heard. In such event, notice of the Ratesetting Deliberative Meeting will appear in the Daily Calendar, which is posted on the Commission's website. If a Ratesetting Deliberative Meeting is scheduled, *ex parte* communications are prohibited pursuant to Rule 8.2(c)(4)(B).

/s/ ANNE E. SIMON

Anne E. Simon

Chief Administrative Law Judge

AES:mph

Attachment

Decision PROPOSED DECISION OF ALJ AYOADE (Mailed 7/27/2020)

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

Application of Southern California  
Gas Company (U904G) and San Diego  
Gas & Electric Company (U902G) for  
Review of Costs Incurred in Executing  
Pipeline Safety Enhancement Plan.

Application 18-11-010

**DECISION ADOPTING SETTLEMENT AGREEMENT RESOLVING THE  
APPLICATION OF SOUTHERN CALIFORNIA GAS COMPANY (U904G) AND  
SAN DIEGO GAS & ELECTRIC COMPANY (U902G) FOR REVIEW OF COSTS  
INCURRED IN EXECUTING PIPELINE SAFETY ENHANCEMENT PLAN**

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## APPENDIX A

**DECISION ADOPTING SETTLEMENT AGREEMENT RESOLVING THE APPLICATION OF SOUTHERN CALIFORNIA GAS COMPANY (U904G) AND SAN DIEGO GAS & ELECTRIC COMPANY (U902G) FOR REVIEW OF COSTS INCURRED IN EXECUTING PIPELINE SAFETY ENHANCEMENT PLAN**

**Summary**

This decision adopts the Settlement Agreement resolving the joint Application of Southern California Gas Company and San Diego Gas & Electric Company for reasonableness review of approximately \$940 million in costs incurred executing 44 pipeline projects and 39 valve pipeline safety enhancement plan projects presented in the Application. This decision grants the Joint Applicants a total of \$934,607,000 in costs for the projects costs presented for review in this Application by requiring an additional \$4 million in disallowances, incremental to the \$2,133,000 disallowances acknowledged by the Joint Applicants in the Application, and which must be reflected in the associated revenue requirement for each applicant. Finally, this decision grants the Joint Applicants the requested accounting treatment for these costs as proposed in the Application. This proceeding is closed.

**1. Background**

**1.1. Application**

On November 13, 2018, Southern California Gas Company (SoCalGas) and San Diego Gas & Electric Company (SDG&E) (together, Joint Applicants) filed this Application with the California Public Utilities Commission (Commission) for a review of costs incurred in implementing certain Pipeline Safety Enhancement Plan (PSEP) projects. Based on the Application and supporting testimony, the costs submitted for review include approximately \$854.0 million in capital cost and \$86.7 million in operations and maintenance (O&M)

expenditures, and the associated revenue requirement of \$188.3 million and \$22.9 million for SoCalGas and SDG&E, respectively, as follows:<sup>1</sup>

Total Costs by Project (in \$000s, Fully Loaded)				
Completed Project / Cost Category	Project Type	Capital Costs	O&M Costs	Total Costs <sup>2</sup>
30-18 Sections 1 and 3	Replace	\$28,281		\$28,281
33-120 Section 3	Replace	\$7,320	\$120	\$7,440
36-1002	Replace	\$2,035		\$2,035
36-9-09 North Section 1	Replace	\$53,835	\$2	\$53,837
36-9-09 North Section 3	Replace	\$27,244	\$4	\$27,248
36-9-09 North Section 4A and 4B	Replace	\$15,145		\$15,145
36-9-09 North Section 7A and 7B	Replace	\$37,729	\$15	\$37,744
37-07	Replace	\$31,283	\$5	\$31,288
37-18 Sections 1,2,3,4,5	Replace	\$58,054		\$58,054
38-200	Replace	\$8,539	\$23	\$8,562
38-501	Replace	\$22,339	\$7	\$22,346
38-504	Replace	\$5,714	\$7	\$5,721
38-512 Sections 1, 2, 3	Replace	\$30,889	\$1,245	\$32,134
38-514	Replace	\$14,751	\$23	\$14,774
38-931	Replace	\$7,467		\$7,467
41-17	Replace	\$2,744		\$2,744
41-116	Replace	\$227		\$227
41-6000-2	Replace	\$84,857		\$84,857
43-121 North Section 1	Replace	\$15,991		\$15,991
43-121 South	Replace	\$35,844		\$35,844
44-137	Replace	\$27,605	\$16	\$27,621
44-687	Replace	\$5,892	\$10	\$5,902
44-720	Replace	\$10,981	\$9	\$10,990
85 South Newhall	Replace	\$9,880		\$9,880
2000-West Santa Fe Springs Station	Replace	\$9,416		\$9,416
31-09	Test		\$3,651	\$3,651
32-21 Section 1	Test	\$1,083	\$9,289	\$10,372
32-21 Section 2	Test	\$761	\$4,740	\$5,501
32-21 Section 3	Test	\$683	\$3,175	\$3,858

<sup>1</sup> See also, the Settlement Agreement, at 2-4.

<sup>2</sup> Gross costs, disallowance has not been deducted from this column.

Total Costs by Project (in \$000s, Fully Loaded)				
Completed Project / Cost Category	Project Type	Capital Costs	O&M Costs	Total Costs <sup>2</sup>
37-18-F	Test	\$83	\$7,473	\$7,556
406 Section 3	Test	\$390	\$2,222	\$2,612
2000-C	Test	\$3,086	\$10,867	\$13,953
2001 West-B	Test	\$686	\$4,430	\$5,116
2003 Section 2	Test	\$488	\$2,439	\$2,927
36-9-09 North Section 5A	Test/Replace	\$14,197	\$2	\$14,199
404 Sections 1, 2, 2A, 3, 3A, 4&5, 8A, and 9	Test/Replace	\$13,848	\$12,484	\$26,332
1004	Test/Replace	\$6,899	\$7,121	\$14,020
36-9-09 South	Abandon	\$2,339	\$2	\$2,341
36-9-09 JJ	Abandon	\$1,905	\$2	\$1,907
Kern Wildlife Bundle	Abandon	\$1,888	\$4	\$1,892
Alhambra Station	Valve	\$3,588		\$3,588
Aviation & Boardwalk	Valve	\$7,397		\$7,397
Banning 5000 Bundle	Valve	\$2,410		\$2,410
El Segundo	Valve	\$7,488		\$7,488
Haynes Station	Valve	\$1,750		\$1,750
Honor Ranch Bundle	Valve	\$1,486		\$1,486
Indio	Valve	\$2,853	\$5	\$2,858
Lampson Bundle	Valve	\$9,632		\$9,632
Line 1005 Santa Barbara	Valve	\$516		\$516
Line 1014 Brea Bundle	Valve	\$7,297		\$7,297
Line 1018 Dana Point	Valve	\$734		\$734
Line 1020	Valve	\$1,664		\$1,664
Line 2000 Beaumont Riverside Bundle	Valve	\$2,786		\$2,786
Line 2001 Riverside Bundle	Valve	\$2,479		\$2,479
Line 2001 West Section 10 and 11	Valve	\$1,545		\$1,545
Line 2003 East Bundle	Valve	\$4,436		\$4,436
Line 2003 West Bundle	Valve	\$3,930		\$3,930
Line 225 Valve Bundle	Valve	\$2,575		\$2,575
Line 235-335 East Bundle	Valve	\$3,894		\$3,894
Line 4000 Benson and 7th	Valve	\$1,612		\$1,612
Line 4000 MP 45.36	Valve	\$1,257		\$1,257
Line 4000 MP 53.	Valve	\$1,370		\$1,370
Line 4000 MP 80.08	Valve	\$1,245		\$1,245
Line 4002 Fontana	Valve	\$1,259		\$1,259

Total Costs by Project (in \$000s, Fully Loaded)				
Completed Project / Cost Category	Project Type	Capital Costs	O&M Costs	Total Costs <sup>2</sup>
Line 404 Ventura Bundle	Valve	\$4,646		\$4,646
Line 404-406 Ventura 2016 Bundle	Valve	\$974		\$974
Line 406 Ventura Bundle	Valve	\$3,902		\$3,902
Line 6916 Bundle	Valve	\$2,788		\$2,788
Line 7000 Bundle	Valve	\$1,843		\$1,843
New Desert Bundle	Valve	\$10,523	\$6	\$10,529
Newhall Bundle	Valve	\$15,886		\$15,886
Orange Bundle	Valve	\$5,324	\$2	\$5,326
Questar Taps	Valve	\$1,763	\$5	\$1,768
Rainbow Bundle	Valve	\$5,207		\$5,207
Sepulveda Station	Valve	\$1,038		\$1,038
Facilities Lease (SoCalGas)	Misc		\$6,112	\$6,112
Descoped Projects	Misc		\$746	\$746
Post Completion Adjustments	Misc	\$148	\$1,256	\$1,404
PSRMA PSEP Insurance	Misc	\$305	\$1,656	\$1,961
<b>SoCalGas Total</b>		<b>\$731,948</b>	<b>\$79,175</b>	<b>\$811,123</b>
49-28	Replace	\$46,990		\$46,990
49-15	Replace	\$43,489		\$43,489
49-11	Test	\$4,762	\$2,613	\$7,375
49-13 Sections 1, 2, and 3	Test/Replace	\$19,010	\$4,569	\$23,579
Line 49-28	Valve	\$1,658		\$1,658
Line Bundle	Valve	\$707		\$707
Line 3600 Bundle	Valve	\$5,295		\$5,295
Line 3010 Bundle	Valve	\$276		\$276
Facilities Lease (SDG&E)	Misc		\$363	\$363
Post Completion Adjustments	Misc	(\$115)		(\$115)
<b>SDG&amp;E Total</b>		<b>\$122,072</b>	<b>\$7,545</b>	<b>\$129,617</b>
<b>GRAND TOTAL</b>		<b>\$854,020</b>	<b>\$86,720</b>	<b>\$940,740</b>

The Joint Applicants request that these costs be found reasonable and approved, and that the associated revenue requirements be authorized for full recovery, as proposed in the Application consistent with the Commission decision approving the Joint Applicants' PSEP – Decision (D.) 14-06-007.

On April 10, 2019, the Joint Applicants filed an Amended Application and served amended testimony in support of the Amended Application. In the

Amended Application, the Joint Applicants updated the amount of disallowed Post-1955 PSEP costs to \$1,903,000, revising the total amount of disallowed costs to \$2,130,000, which “minimally” changes the revenue requirement in the original Application.<sup>3</sup> Due to the amendment, all future references to “Application” in the decision is to the April 10, 2019 Amended Application.

## **1.2. PSEP History**

The background of this proceeding is detailed in the Application (*see Amended Application, Section II, at 2-6*), as well as in the protest filed by the Public Advocates Office at the California Public Utilities Commission (Cal Advocates) on December 13, 2018. This Application is the second reasonableness review application for recorded costs submitted by the Joint Applicants to recover costs for extensive pipeline replacement, pipeline strength testing, and valve installation work performed as part of the PSEP that was generally approved by the Commission in D.14-06-007. In that decision, the Commission ordered the Joint Applicants to file two applications by 2018 to review the reasonableness of costs incurred in the program and provided guidance to the utilities concerning the type of information that should be presented in the applications.

The first reasonableness review, submitted in A.16-09-005, requesting recovery of approximately \$195 million in costs, was resolved by D.19-02-004. This is the second reasonableness review application, seeking recovery of approximately \$940 million in costs for 44 pipeline projects and 39 valve projects.

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<sup>3</sup> See the April 10, 2019 Amended Application, at 1, *Footnote 1*.



### **1.3. Parties, Prehearing Conference and Scope**

In accordance with the Commission's Rules of Practice and Procedure (Rules),<sup>4</sup> Cal Advocates; The Utility Reform Network (TURN); Indicated Shippers;<sup>5</sup> and the Southern California Generation Coalition (SCGC) timely filed their respective protests to the Application, and the Joint Applicants timely filed its reply to the protests. Joint Applicants, Cal Advocates, and the Indicated Shippers are the only parties that submitted testimony in this proceeding, and they are referred to as the "active parties" in this proceeding and decision.

On January 16, 2019, a prehearing conference (PHC) was held in this proceeding, and was followed by the February 14, 2019 the Assigned Commissioner's Scoping Memo and Ruling (Scoping Memo) setting forth the category, issues to be addressed, and schedule of the proceeding pursuant to Public Utilities (Pub. Util.) Code § 1701.11 and Commission's Rules.

## **2. Issues in the Proceeding**

As provided in the Scoping Memo, the issues to be determined in this proceeding are:

- i. Whether the costs incurred in executing the PSEP projects presented in this Application are reasonable, and whether the associated revenue requirements should be recovered in rates.<sup>6</sup>
- ii. Whether it is appropriate to recover in rates costs associated with the retesting of pipelines that were tested between 1956 and 1970 when those pipelines have testing

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<sup>4</sup> All references to "Rule" or "Rules" in this decision are to the Commission's Rules of Practice and Procedure, unless otherwise indicated.

<sup>5</sup> For the purpose of this proceeding, members of Indicated Shippers include California Resources Corp., Chevron USA, PBF Holding Company, Phillips 66 Company, and Tesoro Refining & Marketing Company, LLC. (See Protest of Indicated Shippers, at 1.)

<sup>6</sup> This issue includes the analysis of the disallowance calculations, review of the Joint Applicants' records, and review of the Joint Applicants' management decisions.

- records that complied with testing standards at the time of testing.
- iii. Whether the Joint Applicants' regulatory accounting treatment of actual costs associated with the projects in this Application is appropriate.
  - iv. Whether the Joint Applicants' should be authorized to file Tier 1 Advice Letters to incorporate updated revenue requirements associated with PSEP costs determined to be reasonable by the Commission in this application.
  - v. Whether the Joint Applicants should be authorized to recover ongoing authorized capital-related revenue requirements associated with capital expenditure deemed reasonable in this proceeding through a Tier 2 Advice Letter until such costs are incorporated in base rates in connection with the Joint Applicants' subsequent general rate cases.

### **3. Proceeding and Evidentiary Record**

In addition to the Application, protests to the Application and reply to the protests, determination of scope and issues, the Settlement Agreement and Joint Motion for approval, parties' briefs regarding Amortization Issues, among others, the essential record in this proceeding also includes parties' testimony.

Joint Applicants submitted prepared direct testimony from eight witnesses and included workpapers in support of the various requests in the Application. Additionally, the Joint Applicants submitted supplemental testimony with the April 10, 2019 Amended Application. Cal Advocates and Indicated Shippers both served their respective Testimony on June 3, 2019, and the Joint Applicants

served its rebuttal testimony<sup>7</sup> to Cal Advocates and Indicated Shippers' testimony on October 21, 2019.<sup>8</sup>

On November 7, 2019, the Joint Applicants, TURN, Indicated Shippers, SCGC and Cal Advocates filed a "Joint Motion to Enter Exhibits into the Evidentiary Record" (hereinafter, "Motion to Admit Exhibits") stipulating to admit the submitted testimony, and other identified exhibits and workpapers into the evidentiary record of this proceeding. Based on their Motion to Admit Exhibits, the parties requested that the following exhibits and Workpapers to be admitted into the evidentiary record: (1) the Joint Applicants Exhibits "APP-01" through "APP-18" and Confidential Exhibits "APP-15-C" and "APP-16-C"; (2) Cal Advocates' Exhibits "CalAdvocates-01" through "CalAdvocates-07," supporting attachments (SA) to each exhibit, in addition to Confidential "CalAdvocates-04-C," "CalAdvocates-05-C," "CalAdvocates-06-C," "CalAdvocates-07-C," "CalAdvocates-01-SA-C," "CalAdvocates-02-SA-C," and "CalAdvocates-03-SA-C"; and (3) Indicated Shippers' Exhibit IS-01, comprising of its testimony and accompanying schedules. We GRANT this motion, and the submitted testimony, exhibits, workpapers and schedules are admitted into the evidentiary record of this proceeding.

Additionally, in their Motion to Admit Exhibits, the parties requested that certain Confidential Exhibits and Workpapers (each identified with a "C" above), including: Exhibits APP-15-C, APP-16-C, CalAdvocates-01-SA-C,

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<sup>7</sup> The Joint Applicants' rebuttal testimony revised their request by "making another minor adjustment to disallow Post-1955 PSEP costs to \$1,905,000 and revising the total amount of the Joint Applicants' proposed disallowed costs to \$2,133,000" (See Settlement Agreement, at 1 (Section 1(D)))

<sup>8</sup> Cal Advocates proposed approximately \$22.7 million in incremental disallowances on top of those already acknowledged by the Joint Applicants for 10 pipeline projects.

CalAdvocates-02-SA-C, CalAdvocates-03-SA-C, CalAdvocates-04-C, CalAdvocates-05-C, CalAdvocates-06-C, and CalAdvocates-07-C, be placed under seal consistent with the Commission's Rules. The request to place these documents under seal is GRANTED as further provided in the decision below.<sup>9</sup>

#### **4. The Settlement Agreement and Rule 12.1**

##### **4.1. Procedural Events Regarding Settlement**

On November 7, 2019, the Administrative Law Judge (ALJ) vacated the evidentiary hearings dates in this proceeding pursuant to the parties' request, while confirming the post-hearing briefing schedule.

On December 16, 2019, the parties submitted and served notice of settlement conference to be held on December 23, 2019 as required by Rule 12.1(b). On January 7, 2020, the parties informed the Commission that they reached a settlement that was pending finalization.<sup>10</sup>

On March 4, 2020, the Joint Applicants, Cal Advocates, and Indicated Shippers (Settling Parties) filed the "Settlement Agreement Among Southern California Gas Company, San Diego Gas & Electric Company, Indicated Shippers, and The Public Advocates Office" (hereinafter, Settlement Agreement or Proposed Settlement), together with their "Joint Motion for Approval of the Settlement Agreement" (Joint Motion for Approval), both included as Appendix A to this decision.

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<sup>9</sup> The Joint Applicants' July 12, 2019 Motion to Strike portions of CalAdvocates-01 (prepared direct testimony of Mina Botros) served on June 3, 2019 is DENIED without prejudice to any rules of evidence regarding relevancy, materiality and standard for according weight to evidence. **All other motions not specifically addressed in the decision are denied.**

<sup>10</sup> Initially, counsel for Southern California Gas Company (SoCalGas), on behalf of the active parties in this proceeding, (hereinafter "the parties") informed the ALJ, on December 6, 2019, that the parties were exploring settlement and requested that procedural dates regarding post-hearing briefs be reset to afford the parties additional time to advance settlement negotiations.

Based on their Joint Motion for Approval, the Settling Parties explain that their Proposed Settlement represents the culmination of several weeks of settlement discussions among the Settling Parties during the period of late 2019 until the Settlement Agreement was executed, and that this settlement resolves all issues in this PSEP proceeding except for the Amortization Issues. The Joint Applicants' propose to amortize operations and maintenance (O&M) and capital-related revenue requirements recorded in the Joint Applicants' PSEP balancing accounts over a twelve-month period upon approval of Application, while Indicated Shippers proposes that the amortization of capital costs and O&M expenses be extended over twenty years and four years, respectively. The non-settled issue is addressed separately below in Section 6.<sup>11</sup>

Accordingly, the Settling Parties request that the Commission find the Settlement Agreement to be in the public interest, reasonable in light of the entire record, and consistent with the law, and accordingly approve the Settlement Agreement addressing the review of costs the Joint Applicants incurred in executing the PSEP. The Settling Parties request that the settlement should be adopted as a whole, with no modification, because "each provision of the Settlement is dependent on the other provisions of the Settlement; thus modification of any one part of the Settlement Agreement would harm the balancing of interests and compromises achieved in the Settlement," among others.<sup>12</sup> Finally, the Settling Parties request a reduction of comment period on the settlement from 30-day as provided in Rule 12.2 to ten days.

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<sup>11</sup> Joint Motion for Approval, at 1-2.

<sup>12</sup> See Joint Motion for Approval, Section D, at 10.

#### **4.2. Terms of Settlement and Request to Adopt Settlement**

The Settling Parties acknowledge that the matters addressed in the Settlement Agreement, and all agree to fully resolve the issues set forth in this Proceeding as set forth in the Settlement Agreement, except for the Amortization Issues. Accordingly, the Settling Parties jointly seek Commission approval of the following terms as set forth in the Settlement Agreement and summarized below.

- a. The Joint Applicants acknowledge an additional \$4 million (\$4,000,000) disallowance incremental to those disallowances already acknowledged by the Joint Applicants. Hence, the total amount of costs to be approved in this Application is \$940,740,000 (total costs sought for review in this proceeding) minus (-) \$2,133,000 (acknowledged disallowance by the Joint Applicants), minus (-) additional \$4,000,000 (agreed incremental disallowance) = \$934,607,000.
- b. The additional \$4 million disallowance will be applied to the Safety Enhancement Expense Balancing Account (SEEBA).
- c. The \$4 million in incremental disallowance applies entirely to O&M costs AND the disallowance is allocated between SoCalGas and SDG&E on a pro rata basis in line with the request in the Application (approximately 86% and 14%, respectively). The agreed-to disallowance is not retroactive (i.e., does not apply) to any costs previously approved for recovery in any other proceeding.
- d. The Settlement Agreement shall become effective upon issuance of a Commission decision adopting the Settlement Agreement.
- e. SoCalGas and SDG&E will file Tier 1 Advice Letters within 30 days of the effective date of the decision authorizing recovery to incorporate the updated revenue requirements into rates on the first day of the month following Advice Letters submission or in connection with other authorized rate changes implemented by SoCalGas and SDG&E.

- f. The Settlement Agreement shall not be considered precedent in any future proceeding before this Commission unless the Commission expressly provides otherwise, as set forth in Rule 12.5.

**5. Rule 12.1(d) Analysis and Discussion of the Settlement**

Here, we recognize the Commission's long-standing policy favoring resolution of disputes by settlements. This policy supports many worthwhile goals, including reducing litigation costs, conserving scarce resources, and allowing parties to reduce the risk that litigation will produce unacceptable results.<sup>13</sup>

Further, the Commission recognizes that settlements often reflect give-and-take among the Settling Parties, resulting in a series of tradeoffs that constitute an integrated whole. Accordingly, no single settlement provision should be evaluated in isolation. As explained in D.10-04-033, at 9, because compromises and/or settlements are reached among adverse, often knowledgeable and experienced parties involving a range of factual and legal disputes, we look at the entire settlement in assessing the reasonableness of any settlement.

Finally, although the Commission has long favored settlement of disputes, we also follow specific rules regarding approval of settlements as prescribed in Rule 12.1(d). That is, the Commission will only approve a settlement if the settlement is: (a) reasonable in light of the whole record; (b) consistent with law; and (c) is in the public interest. Generally, the parties' evaluation carries material weight in the Commission's review of a settlement.<sup>14</sup>

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<sup>13</sup> D.05-03-022, *mimeo.* at 7-8.

<sup>14</sup> In re Southern California Gas Co. (1999) D.00-09-034, 2000 Cal. PUC LEXIS 694 at \*31.

Here, having reviewed the Settlement Agreement submitted for approval, we conclude that the instant Settlement Agreement satisfies the above criteria, as further discussed below.<sup>15</sup>

### **5.1. Reasonable in Light of the Whole Record**

In reference to Rule 12.1(d), we conclude that the Proposed Settlement is reasonable in light of the whole record in this proceeding. First, we note that the Settling Parties engaged in significant settlement negotiations and discussions and engaged each other about their respective position and issues in this proceeding, resulting in the Settlement Agreement herein submitted for approval.<sup>16</sup> We agree with the parties that the Settlement Agreement represents the collective best efforts of the Settling Parties, and that the Settlement Agreement represents “a mutually agreeable outcome to the proceeding” consistent with Rule 12.1(a).<sup>17</sup>

We find that the parties developed a substantial record in this proceeding since the Joint Applicants initiated this proceeding in November 2018. As discussed in Section 3 of this decision, the record in this proceeding includes the Application, protests to the Application and reply to protests, determination of scope and issues in this proceeding, Settlement Agreement between the parties and Joint Motion for Approval of the Settlement Agreement, briefs on the Amortization Issues, and parties’ testimony, exhibits and workpapers admitted into the evidentiary record.

We agree with the parties that, in light of the whole record in this proceeding, the Proposed Settlement produces a reasonable outcome that

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<sup>15</sup> Rule 12.1(d); See also D.07-05-060.

<sup>16</sup> See Joint Motion for Approval, at 8-9.

<sup>17</sup> Joint Motion for Approval, at 9.



effectively resolves the issues presented, and that the Settlement Agreement duly and appropriately relied upon the evidentiary record, including fourteen chapters of testimony, several accompanying workpapers and exhibits submitted by the Joint Applicants; Cal Advocates' three chapters of testimony and accompanying workpapers; and Indicated Shippers' one chapter of testimony and accompanying schedules. Through their November 7, 2019 Motion to Admit Exhibits, the Settling Parties jointly agreed to move these exhibits into the evidentiary record in support of their settlement.

Accordingly, we conclude that the record in this proceeding contains sufficient information for the Commission to evaluate and judge the reasonableness of the Settlement Agreement, and we find that the Settlement Agreement is reasonable in light of the whole record in this proceeding.

## **5.2. Consistent with Law**

Based on our review of the Application and this record, we do not find any element of the Settlement Agreement that is inconsistent with the Public Utilities Code, Commission decisions or directives, or the law.

To the contrary, the Settling Parties represent that, in agreeing to the terms of the Settlement Agreement, they considered relevant statutes and Commission decisions and believe that the Settlement Agreement is fully consistent with those statutes and prior Commission decisions.<sup>18</sup> Further, we find that the Settling Parties complied with Rule 12.1 regarding settlements, in that the parties held a duly noticed formal settlement conference as required by Rule 12.1(b) which resulted in the execution of a Settlement Agreement that resolved all but

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<sup>18</sup> Joint Motion for Approval, at 9.

one of the issues in this proceeding. Accordingly, we conclude that the Proposed Settlement in this proceeding is consistent with the law.

### **5.3. In the Public Interest**

Generally, a settlement that “commands broad support among participants fairly reflective of the affected interests” and “does not contain terms which contravene statutory provisions or prior Commission decisions” meets the “public interest” criterion.<sup>19</sup> In this proceeding, all of the active parties who took positions on the issues covered by the Settlement Agreement are signatories to the Settlement Agreement and jointly requested its approval. Accordingly, there is no opposition to the terms of the Settlement Agreement. The parties indicate that the Settlement Agreement represents a reasonable compromise of their respective positions.

Additionally, we find that the costs sought to be recovered in this proceeding are incurred by Applicant in executing PSEP projects that aid public safety and serve the public interest. Lastly, we find that the Settlement Agreement, if adopted by the Commission, will avoid the cost of further litigation, and frees up Commission resources for other proceedings. The Settlement Agreement frees up the time and resources of other parties as well, so that they may focus on other Commission proceedings. Accordingly, we conclude that the resolution of issues in the Settlement Agreement to the satisfaction of parties’ divergent interests indicates that the overall result is in the public interest as required by Rule 12.1(d).

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<sup>19</sup> See D.10-06-015, *mimeo*, at 11-12, citing D.92-12-019, *mimeo*, at 7.

#### **5.4. Conclusion**

Based on our review of the Settlement Agreement and the entire record in this proceeding, we conclude that the Parties complied with the requirements of Rule 12.1(b), in that prior to signing the Settlement Agreement, the Settling Parties convened at least one conference with notice and opportunity to participate provided to all parties for the purpose of discussing settlements in the proceeding.

We conclude that the proposals presented in the Settlement Agreement for approval are just and reasonable and that – with the exception of the Amortization Issues – the Settlement Agreement fairly and adequately addressed all issues presented in this proceeding, including the issues listed in Section 2 above. Accordingly, we conclude that the Settlement Agreement conforms to Commission standards and Rule 12.1 and further conclude that, as discussed above, the Settlement Agreement herein presented for approval, is reasonable in light of the whole record, consistent with law, and in the public interest as required by Rule 12.1(d). Accordingly, the Settlement Agreement should be approved and adopted, without modification.

#### **6. The Disputed Amortization Issues**

The Settlement Agreement entered into between the parties resolves all issues in this proceeding except for the counterproposals by the Applicants and Indicated Shippers (Disputing Parties) on the duration of the amortization of the \$143 million in PSEP costs that SoCalGas seeks to recover in this proceeding (hereinafter, Amortization Issues). As represented by the Disputing Parties, the disputed Amortization Issues in this proceeding is as follows:

- Whether the Joint Applicants' proposals to amortize O&M and capital-related revenue requirements recorded in the Joint Applicants' PSEP balancing accounts over a twelve-

month period upon approval of their Application; or whether Indicated Shippers' proposals that the amortization of capital costs and O&M expenses be extended over twenty years and four years, respectively should be authorized by the Commission.<sup>20</sup>

In regards to the Amortization Issues, the Applicants and Indicated Shippers requested and were granted leave to submit opening and reply briefs.<sup>21</sup> On January 30, 2020, the Joint Applicants and Indicated Shippers timely submitted their respective opening briefs on the unresolved Amortization Issues, and on February 14, 2020, timely filed their reply briefs as directed by the Commission. Indicated Shippers' briefs addressed only SoCalGas' portions of PSEP costs.

### **6.1. Discussion and Analysis**

For relevant background, SoCalGas seeks to recover deferred revenue requirements associated with 44 pipeline projects and 39 bundled valve PSEP projects in this Application,<sup>22</sup> including recovery of \$143 million in costs.<sup>23</sup> According to SoCalGas, the \$143 million capital-related revenue requirement cost component includes: depreciation, property taxes, return on invested capital, and related income taxes<sup>24</sup> incurred over the period of February 2013 through

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<sup>20</sup> See Joint Motion for Approval, at 1-2; and Joint Applicants Opening Brief, at 2.

<sup>21</sup> See the December 23, 2019, ALJ's ruling extending the deadlines for opening and reply briefs to January 16, 2020, and February 14, 2020, respectively; and the ALJ's January 16, 2020 ruling further extending the deadline for opening briefs to January 30, 2020, pursuant to the joint request of the parties.

<sup>22</sup> Amended Application, at 9.

<sup>23</sup> Indicated Shippers Opening Brief, at 5.

<sup>24</sup> Exhibit IS-01, at 7:19-20.

July 2018,<sup>25</sup> and will include \$45 million in O&M expense;<sup>26</sup> and carrying costs on capital and depreciation accruing) from 2013 through 2018 “prior to ratebasing the new assets – over a 12-month period.”<sup>27</sup>

Indicated Shippers contends that while it supports the proposed settlement in this proceeding and the proposed scope of cost recovery for the PSEP costs, the Commission has an important opportunity to protect customers from a rate spike through a longer term amortization of those costs in rates.<sup>28</sup> More specifically, Indicated Shippers argues that this five-year (2013 through 2018) “accelerated recovery time” for costs recovery, as proposed by Applicants, will lead unnecessarily to a sharp rate increase of approximately 16.8 percent within a one-year period for noncore customers especially.<sup>29</sup> Additionally, Indicated Shippers observed that: 1) the percentage increases proposed in this PSEP vary substantially among customer classes,<sup>30</sup> as shown in Indicated Shippers’ Opening Brief, Table 1; and 2) this increase is compounded by multiple rate cases that occurred in 2019.<sup>31</sup>

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<sup>25</sup> Exhibit IS-01, at 7:21-22; and See Indicated Shippers Opening Brief, at 5.

<sup>26</sup> Indicated Shippers Opening Brief, at 4 (*citing* Application at 18, Table 4).

<sup>27</sup> See Indicated Shippers’ Opening Brief, at 1-2.

<sup>28</sup> Indicated Shippers’ Opening Brief, at 1.

<sup>29</sup> Exhibit IS-01 at 2.

<sup>30</sup> That is, core customer rates will increase by approximately 5.2 percent, while noncore customer rates will increase by approximately 16.8 percent –ranging from 11.7 to 22.8 percent across the various categories among the noncore classes, according to Indicated Shippers. (*See* Indicated Shippers’ Opening Brief, at 3.)

<sup>31</sup> According to Indicated Shippers, based on the calculations of its consultant/witness (Maurice Brubaker), “the increases for noncore customers in concert with the SoCalGas Triennial Cost Allocation Proceeding, in docket A.18-07-024, and the SoCalGas General Rate Case, in docket A.17-10-008, would amount to an 85 percent rate increase cumulatively,” *citing* Exhibit IS-01, at 3:3-4:2. (*See* Indicated Shippers’ Opening Brief, at 3.)

Finally, Indicated Shippers argues that SoCalGas' treatment of the 2013 through 2018 capital-related costs (carrying charges and deferred depreciation) runs contrary to traditional ratemaking principles. According to Indicated Shippers, "these capital-related costs in the revenue requirement do not include the actual asset, but instead: ongoing charges on the PSEP capital-related expenditures from the time of the incurrence of the capital costs until the capital is included in rate base and the revenue requirement is included in base rates in the next General Rate Case."<sup>32</sup> Accordingly, Indicated Shippers argues that, in normal ratemaking practice, these capital-related carrying charges and depreciation that accrue prior to the time that an investment is fully evaluated should be considered as part of the cost of the asset, capitalized with it and amortized over a period longer than 12 months.<sup>33</sup>

In its Reply Brief, among others, Indicated Shippers took issues with Joint Applicants' assertion in its opening brief that extending the amortization schedule "will have the unintended effect of increased interest costs charged to ratepayers,"<sup>34</sup> and SoCalGas' dismissing the rate shock concerns of noncore customers, while "positing that the PSEP partial cost recovery eliminates the need for any further mechanisms."<sup>35</sup> According to Indicated Shippers, "it is more important to avoid a rate spike in a single year than avoiding minimal compounding for a longer amortization."<sup>36</sup> Accordingly, Indicated Shippers

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<sup>32</sup> Indicated Shippers' Opening Brief, at 5, *citing* Exhibit IS-01, at 8:1-4.

<sup>33</sup> Exhibit IS-01, at 8:17-20, adding that "these types of costs are often considered "Construction Work in Progress" which is capitalized at the time an asset is placed in rate base." (Indicated Shippers' Opening Brief, at 5.)

<sup>34</sup> Joint Applicants' Opening Brief, at 4.

<sup>35</sup> Indicated Shippers' Reply Brief, at 2 (*citing* Joint Applicant's Opening Brief, at 4).

<sup>36</sup> Indicated Shippers Opening Brief, at 5; and Reply Brief, at 1-2.

requests that the Commission find that the need to mitigate needless rate shock outweighs the utility's desire for an accelerated cost recovery,"<sup>37</sup> and further find that: 1) the capital-related costs incurred from 2013-2018 be rolled into ratebase with other capital costs and recovered over the life of the asset; and 2) the O&M expenses incurred from 2013-2018 should be amortized over a four-year period.<sup>38</sup> Indicated Shippers contends that these changes will both ensure full cost recovery of the PSEP costs while mitigating the rate spike that would otherwise occur.

We have evaluated Indicated Shipper's and the Joint Applicants' arguments and positions as presented in their respective briefs on the Amortization Issues, and we conclude that extending the amortization schedule for these costs is not warranted in this proceeding, and such extension may deviate from Commission precedents. Accordingly, we reject Indicated Shipper's proposals to amortize capital costs and O&M expenses over twenty years and four years, respectively, and adopt the Joint Applicants treatment of these cost as proposed in the Application, as further discussed below.

First, we note that Indicated Shippers has not challenged the reasonableness of the PSEP costs in this proceeding, or the allocation of costs among customer classes - but has instead raised issues with the Joint Applicants' proposed amortization of O&M and capital costs.<sup>39</sup>

Second, we find that Indicated Shippers cited no persuasive legal or decisional authority in support of its arguments for extending the amortization timelines for capital costs over twenty years, and O&M expenses for four years.

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<sup>37</sup> Indicated Shippers' Reply Brief, at 1.

<sup>38</sup> See Indicated Shippers' Opening Brief, at 4-5 (*citing* Exhibit IS-01 at 7:15-16)

<sup>39</sup> See Joint Applicants' Opening Brief, at 3-4.

Third, we find that in D.16-08-003, the Joint Applicants were authorized to recover annually fifty percent (50%) of the revenue requirements associated with actual PSEP costs recorded in their respective balancing accounts,<sup>40</sup> and have been doing so since 2017. Further we find that, consistent with D.16-08-003, the 50% interim cost recovery was intended to address potential concern of rate shock for customers when these costs are finally reviewed for reasonableness and incorporated into rates and that therefore the issue of rate normalization should have been mitigated.

Based on its Opening Brief (at 6-7), we find the Joint Applicants persuasive in their argument that: 1) the activity recorded to the balancing account only reflects “capital-related costs” (including depreciation, returns and taxes) incurred since the PSEP asset was placed in service and not the entire capital related costs over the life of the assets; 2) recovery of capital expenses on these assets is already depreciated based on the depreciable book life of the PSEP asset, as authorized by SoCalGas’ 2016 General Rate Case decision, which for pipelines is over 60 years;<sup>41</sup> and 3) amortizing the already incurred capital-related costs over an additional 20 years, would not be consistent with the period that ratepayers are benefiting for the use of the PSEP asset.<sup>42</sup> Accordingly we accept Joint Applicants’ argument that SoCalGas’ proposed 12-month amortization of capital-related costs recorded in the balancing account is essentially a cost recovery “true-up” to be collected from ratepayers, and the future, ongoing capital-related costs incurred would be recovered on a concurrent basis from ratepayers over the remaining useful life of these PSEP.

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<sup>40</sup> D.16-08-003, at 15 (Ordering Paragraphs 2 and 3).

<sup>41</sup> Joint Applicants’ Opening Brief, at 6 (*citing* D.16-06-054, at 273-274).

<sup>42</sup> Joint Applicants’ Opening Brief, at 6 (*citing* Exhibit APP-11, at 3).



## **6.2. Conclusion**

In conclusion, we agree with Joint Applicants: 1) that granting Indicated Shippers requests herein may be inconsistent with the standard amortization of other regulatory balancing accounts and basic accounting principles;<sup>43</sup> (2) that Indicated Shippers' position appears to ignore the fact that a portion of PSEP costs have already been included annually in rates, subject to this reasonableness review, as a way of addressing potential rate shock concerns raised by Indicated Shippers in its briefs and testimony; and c) that Indicated Shippers' proposed amortization schedule will increase interest costs charged to ratepayers.<sup>44</sup>

Accordingly, Indicated Shippers' amortization proposals in this proceeding are rejected and denied, and the Joint Applicants' amortization proposals are adopted.<sup>45</sup>

## **7. Comments on Proposed Decision**

The proposed decision of the ALJ in this matter was mailed to the parties in accordance with Section 311 of the Public Utilities Code and comments were allowed under Rule 14.3 of the Commission's Rules of Practice and Procedure. Comments were filed on \_\_\_\_\_, and reply comments were filed on \_\_\_\_\_ by \_\_\_\_\_.

## **8. Assignment of Proceeding**

Martha Guzman Aceves is the assigned Commissioner and Adeniyi A. Ayoade is the assigned Administrative Law Judge in this proceeding.

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<sup>43</sup> See Exhibit APP-11, at 3.

<sup>44</sup> Joint Applicants' Opening Brief, at 5-7; Exhibit APP-11, at 3-4.

<sup>45</sup> See Joint Applicants' Opening Brief, at 4; and Exhibit APP-09, at 2-3.

**Findings of Fact**

1. On November 13, 2018, SoCalGas and SDG&E filed this Application for the review of costs incurred by both in implementing PSEP projects identified in Section 1.1 of this decision.

2. The PSEP costs submitted for review includes approximately \$854.0 million in capital cost, \$86.7 million in O&M expenditures, and the associated revenue requirement of \$188.3 million and \$22.9 million for SoCalGas and SDG&E, respectively.

3. Cal Advocates, TURN, Indicated Shippers, and SCGC are the only parties in this proceeding.

4. The Joint Applicants, Cal Advocates, and the Indicated Shippers submitted testimony in this proceeding, and accordingly they are referred to as the “active parties” in this proceeding.

5. On November 7, 2019, the parties jointly filed a Motion to Admit Exhibits in this proceeding, stipulating to admit certain identified exhibits into the record of this proceeding.

6. On December 23, 2019, the parties held a duly noticed settlement conference in this proceeding pursuant to Rule 12.1, which resulted in the execution of a settlement agreement in this proceeding.

7. On March 4, 2020, the active parties submitted a Settlement Agreement together with their Joint Motion for Approval.

8. The proposed settlement resolves all issues in this PSEP proceeding except for the Amortization Issues briefed by the Joint Applicants and Indicated Shippers and resolved in Section 6 of this decision.

9. The Settlement Agreement is consistent with law, applicable statutes and prior Commission decisions.

10. The Settling Parties complied with relevant statutes and Commission decisions by convening a settlement conference with notice and opportunity to participate provided to all parties for the purpose of discussing settlements in the proceeding prior to signing the settlement as required by Rule 12.1(b).

11. The Settlement Agreement is reasonable in light of the whole record in this proceeding, as the Settlement Agreement is supported by substantial record developed in this proceeding, including the Application, prepared testimony, the Settlement Agreement and Joint Motion for Approval, as further detailed in Section 5.2 above.

12. There has been sufficient opportunity in accordance with Commission rules for all parties to review and discuss the Settlement Agreement.

13. The record in this proceeding contains sufficient information for the Commission to evaluate and judge the reasonableness of the Settlement Agreement.

14. The Settlement Agreement is in the public interest as it provides more certainty to customers regarding treatment of costs associated with the PSEP projects which were incurred by the Joint Applicants in executing PSEP projects that aid public safety and serves public interest.

15. The Settlement Agreement is in the public interest because it produces a reasonable outcome that fairly, effectively and reasonably resolves all but one issue in the Application; avoids costs of further litigation; and frees up Commission and parties' resources for other proceedings.

16. The Settlement Agreement resulted from significant settlement negotiations between the parties; and the resolution of all but one issue in the proposed settlement to the satisfaction of parties' divergent interests suggests that the overall result is in the public interest as required by Rule 12.1(d).

17. There is nothing in the Settlement Agreement that is inconsistent with Public Utilities Code Sections, Commission decisions or directives, or the law in general.

18. The Joint Applicants' proposals to amortize \$143 million in capital-related and O&M revenue requirements associated with certain PSEP costs incurred between February 2013 through July 2018, as recorded in the Joint Applicants' PSEP balancing accounts, over a twelve-month period upon approval of the Application is consistent with Commission precedents, is reasonable, and consistent with D.16-08-003 wherein the Commission authorized the Joint Applicants to recover an annual maximum of fifty percent of their revenue requirements associated with actual PSEP costs recorded in their respective balancing accounts since 2017 as a way of addressing potential concern of rate shock for the Joint Applicants' customers when the costs are submitted for reasonableness review and approval, and incorporated into rates as in this Application and fully discussed in Section 6.1 above. The parties request to place confidential exhibits and workpapers, including Exhibits APP-15-C, APP-16-C, CalAdvocates-01-SA-C, CalAdvocates-02-SA-C, CalAdvocates-03-SA-C, CalAdvocates-04-C, CalAdvocates-05-C, CalAdvocates-06-C, and CalAdvocates-07-C under seal consistent with the Commission's Rules.

### **Conclusions of Law**

1. The Settlement Agreement, set forth in Appendix A to this decision, meets the Commission's standards for approval prescribed in Rule 12 of the Rules of Practice and Procedure, in that it is (a) reasonable in light of the whole record, (b) consistent with law, and (c) in the public interest.

2. Consistent with the Ordering Paragraphs adopted herein, the Settlement Agreement should be approved and adopted in its entirety without modification.

3. Each issue set forth in Section 2 of this decision should be resolved consistent with the Settlement Agreement, except the Amortization Issues.

4. The Joint Applicants should be authorized to amortize O&M and capital-related revenue requirements recorded in the Joint Applicants' PSEP balancing accounts over a twelve-month period upon approval of their Application consistent with Commission precedents and D.16-08-003, as proposed in the Application.

5. The Settlement Agreement does not constitute precedent for any future proceeding or issues to be brought before the Commission.

6. In order to give effect to the Settlement Agreement expeditiously, this decision approving the Settlement Agreement should be made effective today.

7. SoCalGas and SDG&E should be required to file Tier 1 Advice Letters within 30 days of the effective date of the decision authorizing recovery to incorporate the updated revenue requirements into rates on the first day of the month following the submission of the Advice Letters or in connection with other authorized rate changes implemented by SoCalGas and SDG&E.

8. The parties' request to place confidential exhibits and workpapers, including Exhibits APP-15-C, APP-16-C, CalAdvocates-01-SA-C, CalAdvocates-02-SA-C, CalAdvocates-03-SA-C, CalAdvocates-04-C, CalAdvocates-05-C, CalAdvocates-06-C, and CalAdvocates-07-C under seal should be granted.

9. This proceeding should be closed.

## **O R D E R**

**IT IS ORDERED** that:

1. The Settlement Agreement set forth in Appendix A to this decision is approved and adopted in its entirety.

2. The Southern California Gas Company and San Diego Gas & Electric Company joint Application for a review of costs incurred in implementing certain Pipeline Safety Enhancement Plan (PSEP) projects is granted subject to the terms of the Settlement Agreement set forth in Appendix A to this decision, and as specifically set forth in the Ordering Paragraphs below.

3. Consistent with the Settlement Agreement, Southern California Gas Company and San Diego Gas & Electric Company shall acknowledge an additional \$4 million (\$4,000,000) disallowance incremental to those disallowances already acknowledged by the Joint Applicants in their Application.

4. Consistent with the Settlement Agreement set forth in Appendix A to this decision, the total costs approved in this decision are \$934,607,000 (calculated as \$940,740,000 in total costs sought for review in this proceeding; minus (-) \$2,133,000 (acknowledged disallowance in the Application); and minus (-) additional \$4,000,000 (agreed-to incremental disallowance per Settlement Agreement between the parties)).

5. The additional \$4 million disallowance agreed to by Southern California Gas Company and San Diego Gas & Electric Company in the Settlement Agreement set forth in Appendix A to this decision shall be applied to the Safety Enhancement Expense Balancing Account.

6. The additional \$4 million in incremental disallowance agreed to by Southern California Gas Company and San Diego Gas & Electric Company in the Settlement Agreement set forth in Appendix A to this decision shall apply entirely to operations and maintenance costs AND the disallowance shall be allocated between the two utilities on a pro rata basis in line with the request in the Application (approximately 86% and 14%, respectively). This agreed-to

disallowance shall not be retroactive or apply to any costs previously approved for recovery in any other proceedings.

7. The Settlement Agreement shall become effective upon issuance of a Commission decision adopting the Settlement Agreement.

8. Within 30 days of the effective date of the decision authorizing recovery, Southern California Gas Company and San Diego Gas & Electric Company shall respectively file a Tier 1 Advice Letter in order to incorporate the updated revenue requirements authorized into rates on the first day of the month following the submission of the Advice Letters or in connection with other authorized rate changes implemented by Southern California Gas Company or San Diego Gas & Electric Company.

9. The Settlement Agreement shall not be considered precedent in any future proceeding before this Commission unless the Commission expressly provides otherwise, as set forth in Rule 12.5 of the Commission's Rules of Practice and Procedure.

10. Southern California Gas Company and San Diego Gas & Electric Company are authorized to amortize Operations and Maintenance and capital-related revenue requirements recorded in the Joint Applicants' Pipeline Safety Enhancement Plan balancing accounts over a twelve-month period upon approval of the Application as proposed.

11. The parties' request to place confidential exhibits and workpapers, including Exhibits APP-15-C, APP-16-C, CalAdvocates-01-SA-C, CalAdvocates-02-SA-C, CalAdvocates-03-SA-C, CalAdvocates-04-C, CalAdvocates-05-C, CalAdvocates-06-C, and CalAdvocates-07-C under seal is granted for a period of three years from the date of this decision. During this three-year period, this information contained in these exhibits, attachments and

workpapers shall not be publicly disclosed except on further Commission order or Administrative Law Judge ruling. If any of the moving parties believes that it is necessary for this information to remain under seal for longer than three years, each may file a new motion showing good cause for extending this order by no later than 30 days before the expiration of this order.

12. Application 18-11-010 is closed.

This order is effective today.

Dated \_\_\_\_\_, at San Francisco, California.



**APPENDIX A**

**SETTLEMENT AGREEMENT AND JOINT MOTION  
FOR APPROVAL OF THE SETTLEMENT AGREEMENT.**