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BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

Application of Southern California Gas Company (U904G) for Authority, Among Other Things, to Update its Gas Revenue Requirement and Base Rates Effective on January 1, 2024.	Application 22-05-015
And Related Matter.	Application 22-05-016

OPENING BRIEF OF THE PUBLIC ADVOCATES OFFICE

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TABLE OF CONTENTS

Page

TABLE OF AUTHORITIES

Page

Cases

California Public Utilities Code

Commission Decisions

Code Federal Regulations

Commission Rules of Practice and Procedure

Public Resources Code

United States Constitution

United States Code

1 INTRODUCTION/SUMMARY OF RECOMMENDATIONS

Pursuant to Rule 13.11 of the Rules of Practice and Procedure of the California Public Utilities Commission (Commission or CPUC), and the schedule[1] set by Administrative Law Judge (ALJ) Manisha Lakhanpal, the Public Advocates Office at the California Public Utilities Commission (Cal Advocates) submits its opening brief on the general rate case (GRC) applications of San Diego Gas & Electric Company (SDG&E)[2] and Southern California Gas Company (SoCal Gas or SCG)[3] for Test Year (TY) 2024. SDG&E and SoCalGas, collectively referred to as the Sempra Utilities, or Sempra, also propose revenue increases for post-test years 2025, 2026 and 2027.

For its 2024 GRC, SCG requests that the Commission authorize a CPUC-jurisdictional base rate revenue requirement of $4.426 billion to be effective January 1, 2024.[4] This represents a $767 million increase in GRC base revenues over the current authorized level of $3.659 billion for 2023. If the Commission adopts SCG's proposals, the utility's ratepayers would experience a four-year cumulative revenue increase of $4.899 billion.[5]

For its 2024 GRC, SDG&E requests that the Commission authorize a CPUC-jurisdictional base rate revenue requirement of $3.022 billion to be effective January 1, 2023.[6] This represents a $475 million increase in GRC base revenues over the current

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[1] *E-mail Ruling Adopting a Modified Procedural Schedule and Addressing Motions to Admit Additional Evidence*, August 4, 2023.

[2] Application (A.) 22-05-016, *Application of San Diego Gas & Electric Company (U 902 M) for Authority, Among Other Things, to Update its Electric and Gas Revenue Requirement and Base Rates Effective on January 1, 2024*.

[3] A. 22-05-015, *Application of Southern California Gas Company (U904G) for Authority, Among Other Things, to Update its Gas Revenue Requirement and Base Rates Effective on January 1, 2024*.

[4] A.22-05-015 at 4.

[5] Exhibit (Ex). CA-01 at 6. For this four-year rate case cycle: (a) the $767 million increase in 2024 would be in effect for four years—2024, 2025, 2026 and 2027; (b) the $295 million increase in 2025 would be in effect for three years—2025, 2026 and 2027; (c) the $266 million increase in 2026 would be in effect for two years—2026 and 2027; and (d) the $415 million increase would be in effect for just one year - 2027.

[6] A.22-05-016 at 4. This figure does not include SDG&E's requested Cost of Capital, which is addressed in another proceeding. *See* D.22-12-031, as corrected by D.23-01-002.

authorized level of $2.547 billion for 2022. If the Commission adopts SDG&E's proposals, the utility's ratepayers would experience a four-year cumulative revenue increase of $3.978 billion.[7]

Cal Advocates recommends that the Commission authorize $4.019 billion in 2024 GRC base revenues for SCG, and $2.818 billion for SDG&E, or the following increases in 2024 relative to SCG's and SDG&E's 2023 authorized revenues:

- Increase SCG's revenue requirement by $360 million (9.8%) relative to its 2023 authorized revenues of $3.659 billion.
- Increase SDG&E's revenue requirement by $271 million (10.6%) relative to the 2023 authorized level of $2.547 billion.

Cal Advocates' test year and post-test year forecasts would result in a four-year cumulative increase of $2.660 billion for SCG[8] and $2.474 billion for SDG&E.[9] Cal Advocates revenue increases for SCG and SDG&E total $3.743 billion less than Sempra's request.

Cal Advocates' recommendations regarding specific cost categories or functional groups are discussed in the relevant sections below. Cal Advocates' post-test year recommendations are discussed in section 45 of this brief.

Figure 1-1 illustrates Cal Advocates' recommended revenue requirement level for 2023 through 2027, compared to SCG's request.

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[7] Ex. CA-01 at 7. For this four-year rate case cycle: (a) the $475 million increase in 2024 would be in effect for four years—2024, 2025, 2026 and 2027; (b) the $364 million increase in 2025 would be in effect for three years—2025, 2026 and 2027; (c) the $339 million increase in 2026 would be in effect for two years—2026 and 2027; and (d) the $308 million increase would be in effect for just one year - 2027.

[8] ($360 million * 4 years) + ($188 million * 3 years) + ($215 million * 2 years) + $225 million.

[9] ($271 million * 4 years) + ($222 million * 3 years) + ($239 million * 2 years) + $247 million.

Figure 1-1

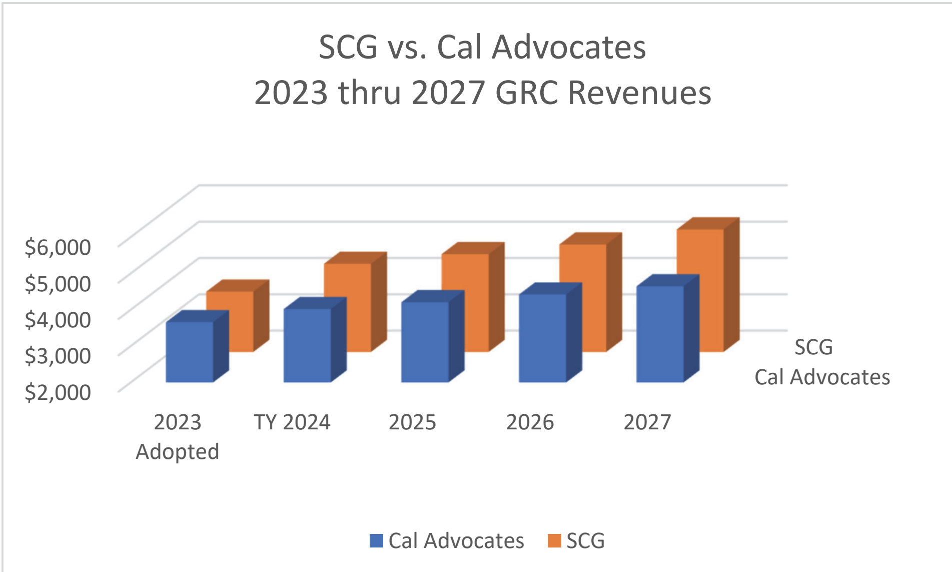
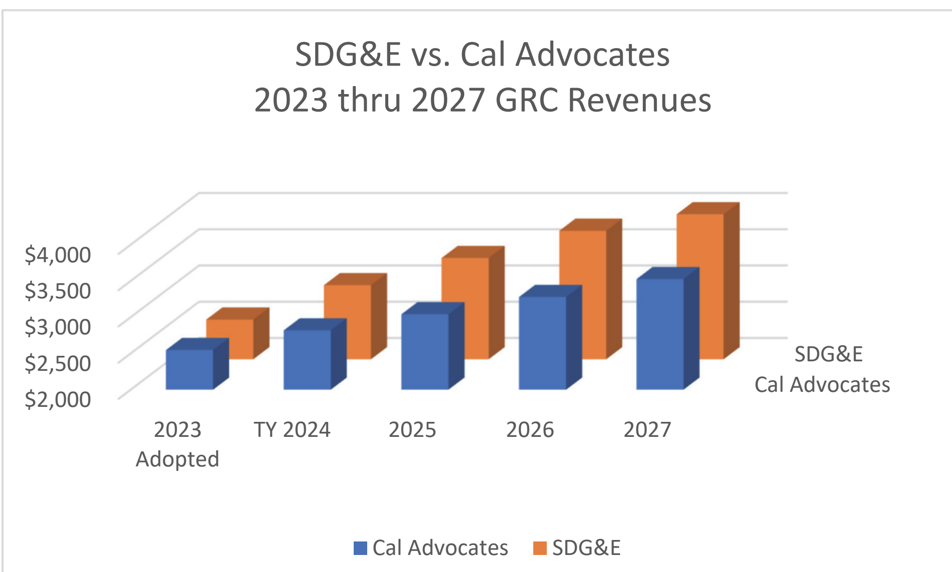


Figure 1-2 illustrates Cal Advocates' recommended revenue requirement level for 2023 through 2027, compared to SDG&E's request.

Figure 1-2



1.1 Gas Operations

1.1.1 SCG Gas Operations

- For Gas Distribution, Cal Advocates recommends $167 million for O&M,. Cal Advocates forecasts capital expenditures of $372 million in 2022, $394 million in 2023, and $371 million in 2024.
- For Gas System Staff & Technology, Cal Advocates accepts SCG's O&M request.
- For Gas Transmission Operations and Construction, Cal Advocates recommends $49 million for O&M. Cal Advocates forecasts capital expenditures of $182 million in 2022, $150 million in 2023, and $105 million in 2024.
- For Gas Engineering, Cal Advocates accepts SCG's O&M request.
- For Pipeline Safety Enhancement Plan (PSEP), Cal Advocates recommends O&M expenses of $53 million. Cal Advocates does not dispute SCG's capital requests.
- For Gas Integrity Management Programs, Cal Advocates recommends O&M non-shared expenses of $163 million. Cal Advocates recommends a different forecast methodology for TIMP, a reduction for DIMP because SCG did not adequately substantiate the increase in DRIP expenses for 2024, and no ratepayer funding for FIMP because ratepayers already fund many of the activities it is proposing to enhance with FIMP.
- Cal Advocates does not oppose SCG's request for Shared expenses.
- Cal Advocates does not oppose SCG's request for Gas Integrity Management Programs capital expenditures.
- For Gas Storage Operations and Construction, Cal Advocates does not take issue with SCG's requested expenses and capital expenditures.
- Cal Advocates opposes SCG's request of $21.6 million in excess cost recovery for its Aliso Canyon Turbine Replacement (ACTR) project.

1.1.2 SDG&E Gas Operations

- For Gas Distribution, Cal Advocates does not oppose SDG&E's O&M expense and capital expenditures requests.
- For Gas System Staff & Technology, Cal Advocates does not oppose SDG&E's O&M expense request.
- For Gas Transmission O&M and Capital, Cal Advocates does not oppose SDG&E's requests.

- For Gas Engineering, Cal Advocates does not oppose SDG&E's capital expenditures request 2022 to 2024.
- For Pipeline Safety Enhancement Plan, Cal Advocates does not oppose SDG&E's requests.
- For Gas Integrity Management Programs, Cal Advocates does not oppose SDG&E's O&M expense and capital expenditure requests.

1.2 Procurement

- For SCG's Gas Acquisition, Cal Advocates does not oppose SCG's TY 2024 O&M non-shared expense forecast.
- For SDG&E's Energy Procurement, Cal Advocates recommends $8.7 million.

1.3 Electric Generation

- For SDG&E's Electric Generation, Cal Advocates recommends $38.9 million in O&M expenses.
- For SDG&E's Electric Generation capital expenditures, Cal Advocates recommends $16.8 million for 2022, $24.8 million for 2023, and $37.5 million for 2024.

1.4 Electric Distribution

1.4.1 Capital Expenditures

- Equipment/Tools/Miscellaneous: Cal Advocates accepts SDG&E's capital expenditures requests.
- Franchise: Cal Advocates accepts SDG&E's capital forecast of $44 million for 2022. For 2023 and 2024, Cal Advocates recommends $60.3 million and $84 million, respectively.
- Mandated: Cal Advocates accepts SDG&E's capital expenditure requests.
- Overhead Pools: Cal Advocates recommends $160.8 million for 2022, $161.1 million for 2023, and $156.2 million for 2024.
- Reliability/Improvements: Cal Advocates recommends $64.2 million for 2022, $73.3 million for 2023, and $108.1 million for 2024.
- Safety and Risk Management: Cal Advocates accepts SDG&E's request for $33.0 million for 2024. For 2022 and 2023, Cal Advocates recommends $21.5 million and $33.2 million, respectively.
- Transmission/FERC Driven: Cal Advocates accepts SDG&E's capital expenditures requests for 2022-2024.

- Cal Advocates recommends that the costs related to 13 capital projects, that were not discussed or justified be removed from the Results of Operations (RO) model.
- Cal Advocates recommends $58.6 million for non-collectible capital expenditures associated with Capacity/Expansion, $78.7 million associated with Materials, and $126.2 million for non-collectible capital expenditures associated with New Business.

1.4.2 O&M Expenses

- Cal Advocates recommends $32.4 million for Electric System Operations.
- Cal Advocates recommends $36.0 million for Electric Regional Operations.
- Cal Advocates recommends $2.8 million for Skills and Compliance Training.
- Cal Advocates recommends $4.8 million for Compliance Management.

1.5 Clean Energy Innovations

- For SCG's Clean Energy Innovations O&M expenses for 2024, Cal Advocates recommends $36.2 million.
- For SDG&E's Clean Energy Innovations, Cal Advocates recommends $5 million for O&M. Cal Advocates recommends a reduction of 50% of SCG's forecast labor increases and a shifting of a portion of equipment costs from expense to capital. For capital expenditures, forecasts $1.4 million in 2022, $0 in 2023, and $0.8 million in 2024.

1.6 Wildfire Mitigation and Vegetation Management

- For SDG&E's Wildfire Mitigation and Vegetation Management, Cal Advocates recommends $162.5 million for O&M expense. For capital expenditures, Cal Advocates recommends $630.9 million for 2024.

1.7 Customer Services

- For SCG's Customer Information System Replacement Program, Cal Advocates recommends $10.0 million for non-shared O&M.
- For SCG's Field and Advanced Meter Operations, Cal Advocates recommends $197.9 million for non-shared O&M, and accepts SCG's request for shared O&M.
- For SCG's Office Operations, Cal Advocates accepts SCG's requests for non-shared O&M and shared O&M.

- For SCG's Information, Cal Advocates accepts SCG's O&M requests for non-shared expenses and shared expenses.
- For SDG&E's Field Operations, Cal Advocates accepts SDG&E request for non-shared O&M.
- For SDG&E's Office Operations, Cal Advocates recommends $26.2 million for non-shared O&M
- For SDG&E's Information, Cal Advocates accepts SDG&E's O&M request for non-shared expenses.

1.8 Supply Management/Logistics and Supplier Diversity.

- Cal Advocates accepts SCG's and SDG&E's O&M requests.

1.9 SDG&E Clean Transportation

- Cal Advocates accepts SDG&E's O&M request. For Clean Transportation capital expenditures, Cal Advocates accepts SDG&E's capital forecast of $0 for 2022 and 2023, and recommends $7.6 million for 2024.

1.10 Fleet Services

- Cal Advocates recommends $61.3 million for SCG's O&M expense.
- Cal Advocates recommends $39.8 million for SDG&E's O&M request.

1.11 Real Estate and Facility Operations

- Cal Advocates accepts SCG's O&M request for $51.3 million. Cal Advocates recommends $37.2 million for SDG&E's O&M request.
- For SCG, Cal Advocates forecasts capital expenditures of $71.9 million in 2022, $66.6 million in 2023, and $62.9 million in 2024. For SDG&E, Cal Advocates forecasts capital expenditures of $64.1 million in 2022, $62.6 million in 2023, and $44.6 million in 2024.

1.12 Environmental Services

- Cal Advocates accepts SCG's and SDG&E's O&M requests.

1.13 Information Technology

- Cal Advocates recommends $97.2 million for SDG&E's O&M expense. Cal Advocates accepts SCG's O&M request.
- For SCG, Cal Advocates forecasts capital expenditures of $248.0 million in 2022, $186.2 million in 2023, and $152.3 million in 2024. For SDG&E, Cal Advocates forecasts capital expenditures of $199.3 million in 2022, $172.3 million in 2023, and $162.0 million in 2024.

1.14 1.14 Cybersecurity

- Cal Advocates recommends $13.8 million for SDG&E's O&M expense. Cal Advocates accepts SCG's O&M request.
- For SCG, Cal Advocates forecasts capital expenditures of $20.6 million in 2022, $23.6 million in 2023, and $23.6 million in 2024. Cal Advocates accepts SDG&E's capital expenditures for 2022-2024.

1.15 1.15 Insurance

- Cal Advocates accepts Sempra's O&M expenses of $400 million.
- Cal Advocates recommends Sempra consider implementing self-insurance if wildfire liability insurance increases in cost above $250 million.
- Cal Advocates recommends that the two-way Liability Insurance Premium Balancing Accounts continue for wildfire liability insurance with certain modifications.

1.16 Compensation and Benefits

- For SCG's Compensation and Benefits programs, Cal Advocates recommends O&M expenses of $205 million.
- For SDG&E's Compensation and Benefits programs, Cal Advocates recommends O&M expenses of $124 million.

1.17 Pension and Postretirement Benefits Other than Pension

- Cal Advocates accepts SCG's Pension and PBOP O&M expenses, and SDG&E's Pension and PBOP O&M expenses.
- Cal Advocates does not oppose Sempra's Pension and PBOP funding policies or the continuation of two-way balancing accounts.

1.18 Safety and Risk Management Systems

- For SCG, Cal Advocates recommends $18 million for non-shared O&M expenses. Cal Advocates does not oppose SCG's Shared O&M request.
- For SDG&E, Cal Advocates recommends $15 million for non-shared O&M expenses. Cal Advocates does not oppose SCG's Shared O&M request. Cal Advocate forecasts capital expenditures of $5 million in 2022, $6 million in 2023, and $6 million in 2024.

1.19 People and Culture Department

- For SCG's, Cal Advocates recommends $47 million for non-shared O&M expenses. Cal Advocates does not oppose SCG's Shared O&M request.

- For SDG&E, Cal Advocates recommends $19 million for non-shared O&M expenses. Cal Advocates does not oppose SCG's Shared O&M request.

1.20 Administrative and General

- For SCG Cal Advocates recommends $38 million for non-shared O&M expenses. Cal Advocates does not oppose SCG's shared O&M request.
- For SDG&E, Cal Advocates recommends $29.6 million for non-shared O&M expenses. Cal Advocates does not oppose SCG's shared O&M request.

1.21 Rate Base and Working Cash

For SCG, the Commission should adopt:

- 44.54 revenue lag days, rather than SCG's proposed 46.93 lag days.
- 0.36 billing lag days, rather than SCG's proposed 2.13 lag days.
- 0.14 bank lag days, rather than SCG's proposed 0.8 lag days.

For SDG&E, the Commission should adopt:

- 45.51 revenue lag days, rather than SDG&E's proposed 48.6 lag days.
- 0.91billing lag days, rather than SDG&E's proposed 3.4 lag days.
- 0.22 bank lag days, rather than SDG&E's proposed 0.81 lag days.
- 82.2 expense lag days for federal income taxes (FIT), rather than SDG&E's proposed 2.98 lag days.
- adopt 82.2 expense lag days for California corporate franchise taxes (CCFT), rather than SDG&E's proposed 9.48 lag days.

1.22 Depreciation

- Cal Advocates agrees with Sempra's requested depreciation parameters for longer service life for certain assets but recommends that proposals to shorten the service life for other assets be denied. Instead, Cal Advocates recommends that the service life for those assets be retained at the current levels.
- Cal Advocates opposes Sempra's proposal for changes to the depreciation parameters for net salvage rates because this will unreasonably impose additional costs on ratepayers for future asset removal that may or may not occur. Instead, Cal Advocates recommends that current net salvage depreciation parameters adopted in D.16-06-054 be retained for TY 2024 and the current GRC cycle.

1.23 Customer Forecasts

- For SCG's Residential Single-Family Customers, Cal Advocates recommends 3,810,623 for 2022, 3,828,745 for 2023, and 3,847,512. for TY 2024.
- For SCG's Residential Multi-Family Customers, Cal Advocates recommends 1,850,227 for 2022, 1,860,389 for 2023, and 1,870,704 for TY 2024.
- Cal Advocates does not take issue with SCG's Gas Customer Forecast for Residential Master Meter, Commercial and Industrial customer schedules for TY 2024.
- For SDG&E's Gas Residential Customers, Cal Advocates recommends 876,932 for 2022, 881,963 for 2023 and 887,116 for TY 2024.
- Cal Advocates does not take issue with SDG&E's analysis of Core C&I, NGV, Noncore C&I, and Electric Generation gas customers.
- Cal Advocates recommends, for the next GRC, that both utilities use up-to-date econometric software that is recognized within the industry for forecasting purposes.

1.24 Financial Examination and Miscellaneous Revenues

- Cal Advocates recommends the removal of $381,000 in 2017, $593,000 in 2018, $344,000 in 2019, $117,000 in 2020, and $114,000 in 2021 for the internal audits that SCG asserts are protected by attorney-client privilege.
- Cal Advocates recommends the removal of $233,000 in 2017, $101,000 in 2018, $217,000 in 2019, $546,000 in 2020 and $334,000 for the internal audits that SDG&E asserts are protected by attorney-client privilege.
- Cal Advocates recommends adjustments totaling $827,832 for transactions that occurred in prior years and are not recurring in TY 2024.

1.25 Post-Test Year Ratemaking

- For SCG, Cal Advocates recommends post-test year revenue increases of 3% per year; with adjustments, the increase amounts to $188 million (4.7%) in 2025, $215 million (5.1%) in 2026, and $225 million in 2026 (5.1%).
- For SDG&E, Cal Advocates recommends post-test year revenue increases of 3% per year; with adjustments, the increase amounts to $222 million (7.9%) in 2025, $239 million (7.9%) in 2026, and $247 million in 2026 (7.5%).

- Cal Advocates does not oppose Sempra's request to continue the Z-factor mechanism.
- Cal Advocates agrees with Sempra's proposals that annual rate adjustments to recover the updated revenue requirement adopted in this proceeding be included in an annual Tier 1 advice letter.
- Cal Advocates recommends that the Gas Integrity Management Programs for both utilities, and the Wildfire Mitigation Program for SDG&E, be subject to two-way balancing account treatment with a 110% cap, above which a reasonableness review must be performed before ratepayer funding of those costs.
- Cal Advocates recommends that SCG's CIS Replacement Program be removed from PTY recovery.
- Cal Advocates recommends that SCG's Honor Rancho Compressor Modernization project and SDG&E's Moreno Compressor Modernization project be removed from PTY recovery.
- Cal Advocates recommends that SDG&E's PTY Wildfire Mitigation costs be reduced by 10%.

1.26 Safety & Risk Assessment

- Cal Advocates recommends that the Commission should cap the recovery of:
  - undergrounding at SDG&E's 2024 unit cost forecasts, and
  - covered conductors at SDG&E's 2022 to 2024 average unit cost forecasts.
- Cal Advocates' proposal would eliminate almost 80% of SDG&E's identified wildfire risks in the High-Fire Threat Districts.
- For the next 20% riskiest segments, Cal Advocates recommends a 20 percent reduction off the full unit cost recovery.
- For the bottom 60% riskiest segments, Cal Advocates recommends a 40 percent reduction off the full unit cost recovery. Even if SDG&E hardened all these segments, it would reduce at most 1% of wildfire risks.
- Cal Advocates also recommends capping the total capital expenditure on system hardening for this GRC period. This approach allows flexibility for SDG&E to reallocate money within its system hardening budget to promote efficiency and public safety by allowing SDG&E to harden more power lines at lower costs.

- Because SDG&E does not report granular data on its tree trimming safety program to determine if areas of high risk are being mitigated in a timely manner, Cal Advocates recommends that the Commission require SDG&E to adopt additional reporting measures.
- The Commission should require SDG&E to submit an annual Tier 1 advice letter that includes detailed information related to its vegetation management tree-trimming program.
- SDG&E should be required to show whether SDG&E's tree trimming is being prudently and effectively focused on improving the areas of highest risk within the service territory.

1.27 Political Activities Costs Booked to Ratepayer Accounts

- Cal Advocates recommends adjustments to remove costs related to past political activities that were wrongfully booked to ratepayer accounts. Because SCG has not shown that the costs of its Political Activities were removed from this GRC request, they are the historical costs that ratepayers funded.

2 PROCEDURAL BACKGROUND

SCG and SDG&E filed their respective GRC Applications on May 16, 2022. The applications were consolidated by ALJ ruling on June 8, 2022. Cal Advocates submitted a timely protest to the applications on June 20, 2022. Sempra submitted its reply to Cal Advocates' and other parties' protests and responses on June 30, 2022.

A prehearing conference was held on July 27, 2022. The Assigned Commissioner's Scoping Memo and Ruling (Scoping Memo) was issued on October 3, 2022, and established procedural schedules for Track 1 and Track 2 of the GRC. On October 27, 2022, Sempra filed a motion to amend the procedural schedule adopted in the Scoping Memo. On November 1, 2022, SDG&E served supplemental testimony regarding its Wildfire Mitigation Program. On November 4, 2022, Cal Advocates filed a response in opposition to Sempra's motion to amend the schedule. On November 21, 2022, Sempra served revised testimony. On December 6, 2022, the ALJ issued a ruling that partially modified the Track 1 schedule.

On January 12, 2023, Cal Advocates filed a motion to compel SoCalGas to answer Cal Advocates' Data Requests 19 and 64 and to provide Cal Advocates with remote access to ratepayer accounts in SCG's SAP database. On January 23, 2023, SoCalGas served its response in opposition to Cal Advocates' motion to compel. On January 23, 2023, via email to the ALJ, Cal Advocates requested authorization to file a reply to SCG's response. On January 24, 2023, SoCalGas re-served its response with modifications for non-substantive errors, which was accepted for filing. On January 25, 2023, the ALJ issued an email ruling which granted Cal Advocates' request to file a reply to SoCalGas's response to Cal Advocates' motion to compel; Cal Advocates filed this reply on January 27, 2023. On February 14, 2023, the ALJ issued a ruling that denied in part and granted in part Cal Advocates' motion to compel.

Four remote and two in-person public participation hearings were held in March 2023. On March 27, 2023, Cal Advocates and other intervenors served prepared testimony. On May 12, 2023, parties served concurrent rebuttal testimony. Evidentiary hearings began on June 5, 2023, and concluded on June 29, 2023. Evidentiary hearings on Sempra's update testimony were held on July 17, 2023.

3 EVIDENTIARY STANDARDS AND THE BURDEN OF PROOF

Public Utilities Code Section 451 provides, in part, that "all charges demanded or received by any public utility … shall be just and reasonable."[10] Section 454 provides: "[N]o public utility shall change any rate or so alter any classification, contract, practice or rule as to result in any new rate, except upon a showing before the commission and a finding by the commission that the new rate is justified."[11] Thus, in ratemaking applications such as the instant GRC, the burden of proof is on the applicant utility.[12] The evidentiary standard the applicant utility must meet in establishing that its requests are just and reasonable, is by the preponderance of the evidence.[13]

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[10] Public Utilities Code § 451.

[11] Pub. Util. Code § 454.

[12] *See, e.g,* Decision (D.) 19-05-020, *Decision on Test Year 2018 General Rate Case for Southern California Edison Company*, at 6-7 ("[I]t is undisputed that SCE bears the burden to establish that its requests are just and reasonable.").

[13] D.19-05-020 at 7, citing D.15-11-021 at 8-9.

Intervenors do not have the burden of proving the unreasonableness of the utility's showing.[14] Even where the utility is the only party to have introduced evidence on an issue, it still "must meet its burden of proof to establish by a preponderance of the evidence that its proposal, if adopted, will result in fair and reasonable rates at a just and reasonable rate of return."[15]

Sempra must make this showing for each request in its TY 2024 GRC Application, and this showing must be "substantial affirmative" with "witnesses in support all elements of the application."[16] As discussed in the sections below, where Sempra has not properly justified a request, Cal Advocates has opposed the unsupported request and made its own recommendation based on the evidence in the record.

4 SCOPING MEMORANDUM ISSUES

The general issues identified in the Scoping Memo provide a framework for consideration of Sempra's GRC requests. Cal Advocates addresses Scoping Memo issues throughout this brief in the sections below where Cal Advocates discusses and makes recommendations on specific Sempra requests.

5 TEST YEAR FORECASTING METHODS AND GRC RATEMAKING

Cal Advocates addresses these issues throughout this brief in its specific recommendations on Sempra's GRC requests.

6 POLICY OVERVIEW

The Commission is charged with the responsibility of ensuring that all rates demanded or received by a public utility are just and reasonable: "[N]o public utility shall change any rate ... except upon a showing before the Commission, and a finding by the Commission that the new rate is justified."[17] Thus, the rates adopted by the Commission in the Sempra Utilities' last GRC are presumed to be just and reasonable.

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[14] D.06-05-016 (TY 2006 SCE GRC) at 7.

[15] D.19-05-020 at 7.

[16] *Re Energy Cost Adjustment Clause* (1980) 4 CPUC 2d 693, 701; D92496.

[17] Pub. Util. Code §§ 451, 454.

While Cal Advocates does not oppose many of the projects the Sempra Utilities propose, there are numerous instances of the utilities seeking funding in this GRC for projects for which ratepayer funding was authorized in the last GRC.[18] There are forecasts for expenses that are wildly out of proportion to what the utilities actually spent for the same work since the last GRC.[19] Throughout this brief, Cal Advocates presents its recommendations and explains where and why they differ from Sempra's.

The overarching principle, however, is that if the utilities do not show that their proposed increases are just and reasonable, any increase of any amount is unlawful. As discussed in more detail below, in numerous areas, the utilities have not justified their proposed increases, and the Commission should not adopt them.

7 AFFORDABILITY AND CUSTOMER IMPACTS / ALTERNATIVES

The Commission has an obligation to consider the impact of Sempra's TY 2024 GRC revenue requirement increase on the ability of Sempra's customers to afford Sempra's services. In D.22-08-023, the Commission stated:

> The Commission has the obligation to consider whether utility rates and charges are affordable while also enforcing the mandate of Pub. Util. Code Section 451 to ensure costs authorized and recovered from ratepayers are just and reasonable, consistent with safe and reliable service.[20]

If the Commission approves SCG's requested 2024 revenue requirement , an average non-CARE residential customer (using 36 therms per month) can expect a bill increase of $8.28 per month (or +13.2%), as compared to estimated 2023 rates.[21] If the Commission approves SDG&E's 2024 revenue requirement, a typical electric residential customer will see a monthly bill increase of $8.79 (+5.5%), as compared to estimated rates for 2023.[22] For SDG&E gas customers, a typical residential non-CARE customer

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[18] *See, e.g.*, Fleet Services, discussed in section 24.

[19] *See, e.g.*, Cybersecurity capital expenditures, discussed in section 28.

[20] D.22-08-023, *Decision Implementing the Affordability Metrics*, at 8.

[21] Ex. SCG-01-2R at MSB-5.

[22] Ex. SDG&E-01-R at BAF-13.

will see a monthly bill increase of $9.07 (or +17.5%), as compared to estimated rates for 2023.[23] On a combined electric and gas bill, a typical residential customer will see a monthly 2 bill increase of $17.86 (+8.4%), as compared to estimated rates for 2023.[24] San Diego is, as of February 2023, the most expensive city in the U.S. for electricity rates at $0.475 per kilowatt hour.[25] The impact of this GRC on customers' bills in 2024 is by no means the only rate increases Sempra's ratepayers will have to pay. Both SDG&E and SoCalGas also seek multi-million dollar increases in years 2025, 2026 and 2027. These additional increases are cumulative. In addition to proposed adjustments to Sempra's test year requests, Cal Advocates also makes post-test year recommendations that would mitigate bill impacts.

8 CLIMATE POLICY/SUSTAINABILITY POLICY

Cal Advocates addresses these issues in section 18 of this brief.

9 RISK-INFORMED GRC OVERVIEW

9.1 Risk Management Policy

9.2 RAMP-to-GRC Integration

9.3 Balancing of Costs and Risk Reduction Benefits

9.3.1 SDG&E - Balancing of Cost and Risk Reduction Benefits

Cal Advocates evaluates[26] whether the Commission's adoption of SDG&E's system hardening proposals in this TY 2024 GRC[27] provides reliable and safe service at

[23] Ex. SDG&E-01-R at BAF-13 to BAF-14.

[24] Ex. SDG&E-01-R at BAF-14.

[25] U.S. Bureau of Labor Statistics. (n.d.) *Average energy prices for the United States, regions, census divisions, and selected metropolitan areas*. Retrieved August 4, 2023, from https://www.bls.gov/regions/midwest/data/averageenergyprices_selectedareas_table.htm

[26] Ex. CA-21, at 1-31, A-1, A-2.

[27] Ex. SDG&E-13-2R. These proposals correspond to the following 2022 WMP initiatives: Covered Conductor Installation, Overhead Distribution Hardening (7.3.3.3), Undergrounding of electric lines and/or equipment (7.3.3.16), and Traditional Hardening, Distribution Overhead System Hardening (7.3.3.17.1). See SDG&E's 2022 Wildfire Mitigation Plan (WMP), at 213, 230, and 233, submitted on February 11, 2022.

the lowest possible rate to its customers.[28] SDG&E's wildfire risks in the High-Fire Threat Districts (HFTDs) are concentrated along a small portion of riskiest circuit segments. Cal Advocates therefore recommends that the Commission authorize the following unit cost caps[29] for hardening:

- If SDG&E hardens the top 20% riskiest circuit segments, the Commission should cap the recovery of:
    - undergrounding at SDG&E's 2024-unit cost forecasts, and
    - covered conductor at SDG&E's 2022 to 2024 average unit cost forecasts.

  Hardening all of the top 20% riskiest segments (1,765 circuit miles) would eliminate almost 80% of SDG&E's identified wildfire risks in the HFTDs.[30] SDG&E forecasts to harden 1,107 circuit miles of the top 20% riskiest segments from 2023 to 2027.[31]

- For the next 20% of the riskiest segments, Cal Advocates recommends a 20% reduction off the full unit cost recovery. The segments at this risk level (1,624 circuit miles) comprise 5.6% of the company's wildfire risk in the HFTDs. SDG&E hardening 60 circuit miles of the next 20% of the riskiest segments from 2023 to 2027.[32]

- For the bottom 60% of the riskiest segments, Cal Advocates recommends a 40% reduction off the full unit cost recovery. Hardening all of these segments (1,561 miles) within the bottom 60% of the riskiest segments would reduce not more than 1% of wildfire risks.[33] SDG&E forecasts hardening 24 circuit miles of the bottom 60% of the riskiest segments from 2023 to 2027.[34]

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[28] Pub. Util. Code § 309.5(a).

[29] That is, capping the cost for each circuit mile of underground or covered conductor installed. The cost recovery should be limited to the lesser of the actual cost or the indicated unit cost cap.

[30] SDG&E's response to PubAdv-SDG&E-MGN-148, Question 8, with attachment.

[31] This includes 797.7 circuit miles of undergrounding.

[32] This includes 28 circuit miles of undergrounding.

[33] SDG&E's response to PubAdv-SDG&E-MGN-148, Question 8, with attachment.

[34] This includes 17.3 circuit miles of undergrounding.

The Commission should authorize SDG&E to recover its costs for hardening circuits based on the number of miles completed because this would resolve the issue of whether SDG&E can ramp up its undergrounding in five years.[35] Authorizing cost recovery on a per mile basis would also minimize any waste of ratepayer resources. Cal Advocates summarizes its recommendation as follows:

Cal Advocates' Recommended Cost Recovery Based on Circuit's Wildfire Risk[36]

Risk-Ranked Circuit Segments in HFTDs (By Decreasing Per-Mile Risk)	Wings 1.0[37]		Undergrounding: Recommended Unit Cost Cap* ($MM/mile)	Covered Conductor: Recommended Unit Cost Cap* ($MM/mile)
	Percentage of SDG&E's Total Wildfire Risk in HFTDs	Total Distribution Circuit Miles		
Riskiest 20% of segments	77.9%	1,765	$2.34	$1.14
Next 20% of segments	5.6%	1,624	$1.87	$0.91
Bottom 60% of segments	1%	1,561	$1.40	$0.68
Unidentified segments	15.5%[38]	Not available[39]	$1.40	$0.68

* That is, cost recovery should be limited to the lower of the actual cost or the indicated unit cost cap.

[35] SDG&E plans on ramping up its pace of undergrounding from 60 mile a year in 2022 to 170 mile a year by 2027. See SDG&E's response to PubAdv-SDG&E-MGN-145, Question 2. Ex. SDGE-13-2R, at 172, indicates SDG&E's 2023 undergrounding forecast to be 80 miles.

[36] SDG&E's response to PubAdv-SDG&E-MGN-148, Question 8, with attachment.

[37] Ex. CA-21 at 3, 21.

[38] SDG&E's response to PubAdv-SDG&E-MGN-148, Question 8, with attachment. SDG&E provides a "Read Me" document, which explains that "The total percentage risk in the table amounts to 84.53%, not 100%. The remaining 15.47% difference is associated with circuit-segments that were unable to have their circuit-segment ids translated from their older represented identifier to their newer one per the latest query of the system..."

[39] SDG&E does not provide the circuit mileage of segments with unidentified risks.

Cal Advocates' Recommended Unit Cost Caps for Undergrounding

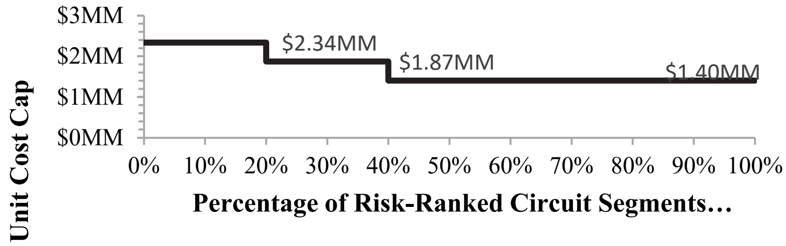
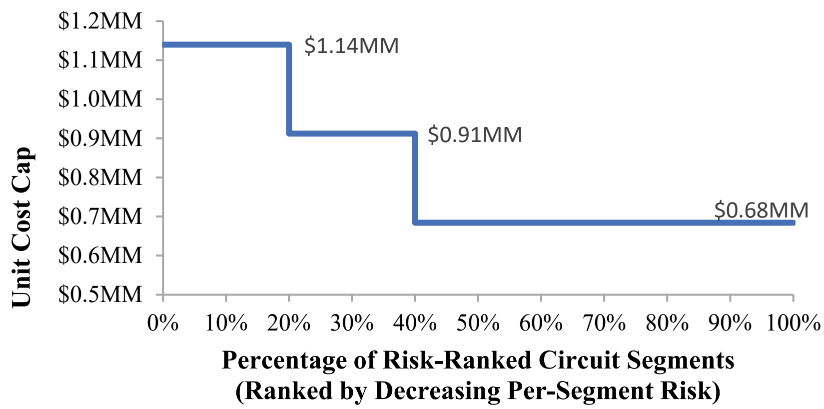


Figure 21-2
Cal Advocates' Recommended Unit Cost Caps for Covered Conductor



In addition, Cal Advocates recommends capping the total capital expenditure on system hardening for this GRC period. The recommended policy framework would cap both the unit costs and the total capital expenditures. This approach allows flexibility for SDG&E to reallocate money within its system hardening budget, which promotes efficiency and public safety by allowing SDG&E to harden more power lines than anticipated if it completes hardening work at lower unit costs than currently forecast, hardens at a faster rate than the forecast, reallocates money from undergrounding to covered conductors, or does all the above.

SDG&E should work within Cal Advocates' recommendation for capital expenditures for system hardening in this GRC and make sure that it completes the forecast work.[40]

SDG&E is ramping up the pace of undergrounding from 60 miles per year in 2022 to 170 miles per year in 2027. To eliminate the concern of whether SDG&E could complete the work as forecast, Cal Advocates recommends that the Commission authorize funding for SDG&E's hardening projects on a per-mile basis. Such unit costs should also account for the wildfire risk of the power lines that SDG&E plans on replacing. For circuit segments with higher modeled wildfire risks, the Commission should allow higher unit cost caps as Cal Advocates recommends.

Cal Advocates' proposed cost structure would link cost recovery to miles of hardening completed and provide higher reimbursement for the riskiest segments. This proposed cost structure comports with SDG&E's obligation to provide safe and reliable service at a reasonable cost ratepayers.by SDG&E states that its GRC undergrounding and covered conductor proposals target hardening the riskiest circuit segments.[41] Cal Advocates agrees with SDG&E's proposed, approach as long as SDG&E actually undergrounds and installs covered conductors to replace the riskiest power lines as presented in this GRC.

It is SDG&E's responsibility to prevent its equipment from sparking ignitions that may lead to catastrophic wildfires. Cal Advocates recommendations that the Commission authorize SDG&E's hardening proposal, but limit cost recovery based on the risk level and miles completed, should help focus the utility maximizing the risk reduction per ratepayer dollar spent on system hardening.

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[40] Please refer to Ex. CA-07 for Cal Advocates' recommendation on the total capital expenditure for system hardening.

[41] Ex. SDGE-13-2R, at JTW-x, which states that "SDG&E will invest in modernizing and hardening its grid using covered conductor and strategically implemented undergrounding efforts. SDG&E has selected and scoped these initiatives to target areas with the highest risk of wildfire and reduce the number of customers impacted by PSPS."

9.4 Safety Management System (SMS): Safety, Risk, and Asset Management

9.4.1 SCG Safety and Risk Management Systems

SCG's Safety Management System (SMS) focuses on three primary areas – employee and contractor safety, customer and public safety, and the safety of the company's gas system. The scope of SCG's SMS includes initial employee training, installation, operation, and maintenance of SCG's utility infrastructure, and providing safe and reliable service to its customers.[42]

9.4.1.1 SCG Safety and Risk Management Systems - O&M

SCG's requests $2.385 million for TY 2024 Safety and Risk Management Systems Shared O&M expenses.[43]

Cal Advocates does not oppose SCG's request.[44]

9.4.1.2 SCG Safety Management Systems - O&M

SCG requests $2.348 million for TY 2024 Safety Management Systems O&M expenses.[45] Cal Advocates does not oppose this request.[46]

9.4.1.3 SCG Risk Management - O&M

SCG requests $4.687 million for TY 2024 Risk Management O&M expenses.[47] Cal Advocates does not oppose this request.[48]

9.4.1.4 SCG Strategy - O&M

SCG requests $1.109 million for TY 2024 Strategy O&M expenses.[49] Cal

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[42] Ex. SCG-27-2R-E at NNM 3-5. The adoption of SCG's SMS in its current structure began in 2019, when SoCalGas reorganized existing safety-focused departments under one consolidated organization, named the Safety Management System organization.

[43] Ex. SCG-27-2R-E at NNM-1.

[44] Ex. CA-14-E at 10.

[45] Ex. SCG-27-2R-E at NNM-21.

[46] Ex. CA-14-E at 11.

[47] Ex. SCG-27-2R-E at NNM-21.

[48] Ex. CA-14-E at 11.

[49] Ex. SCG-27-2R-E at NNM-21.

Advocates does not oppose this request.[50]

9.4.1.5 SCG Continuous Improvement - O&M

SCG requests $1.643 million for TY 2024 Continuous Improvement O&M expenses.[51] SCG's Continuous Improvement department is responsible for performing independent quality assessments for various pipeline safety and compliance activities on gas utility assets, and for gathering information from Incidents, Feedback, and Performance areas.[52] Cal Advocates recommends $1.207 million for SCG's Continuous Improvement O&M expenses, which is $436,000 less than SCG's forecast.[53]

SCG's request of $1.643 million is an increase of $581,000 or 55% over its 2021 adjusted recorded expenses of $1.062 million. Cal Advocates recommends a downward adjustment of $436,000 because SCG failed to justify its incremental request of 55% higher than its 2021 adjusted recorded expenses. SCG's recorded expenses stayed relatively flat between 2019 and 2020 and increased by $173,000 between 2020 and 2021, from $889,000 to $1.062 million. Cal Advocates requested that SCG provide documentation that explained the increase and identified the line-item detail associated with the $173,000 increase but SCG did not adequately respond. SCG's historical data of continuous improvement shows expenses for activities that are one-time, non-recurring costs. Incremental funding every year for continuous improvement activities is not required in the absence of information justifying the increased amount.[54]

SCG confirms that its incremental request for Full-time Equivalents (FTEs) in TY 2024 is not for newly created positions but is associated with FTEs in existing positions. SCG did not provide any verifiable documentation demonstrating that its current staffing

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[50] Ex. CA-14-E at 11.

[51] Ex. SCG-27-2R-E at NNM 36.

[52] Ex. SCG-27-2R-E at NNM 36.

[53] Ex. CA-14-E at 12-14.

[54] Ex. CA-14-E at 12-14.

level was insufficient or unable to address the anticipated increased program activities in TY 2024.[55]

SCG did not provide documentation demonstrating that its 2021 recorded adjusted expenses were insufficient to address its TY 2024 Continuous Improvement activities. SCG's responses to Cal Advocates discovery do not justify additional funding, and lackthe detail needed to properly evaluate these activities. The request also does not consider or incorporate costs already in rates into its TY 2024 forecast. Given that the expenses incurred in 2021 were the highest level over the 2019-2021 historical period, Cal Advocates used the 2021 recorded adjusted expense and normalized SCG's TY 2024 incremental expense forecast of - $0.582 million.[56]

Cal Advocates' recommendation of $1.207 million for Continuous Improvement is a reasonable expense level for TY 2024.

9.4.1.6 SCG Safety Management - O&M

SCG requests $6.525 million for TY 2024 Safety Management O&M expenses.[57] SCG's Safety Management department is responsible for managing employee and contractor safety.[58] Cal Advocates recommends $4.790 million for SCG's Safety Management O&M expenses, which is $1.735 million less than SCG's forecast.[59] Cal Advocates recommends this downward adjustment because SCG's request is a steep increase of $2.707 million or 71% over its 2021 adjusted recorded expenses of $3.818 million. SCG developed its forecast by utilizing its 2021 adjusted recorded expenses plus incremental funding for its Safe Driving Program, Ergonomics Program, Industrial Hygiene Program, Industrial Hygiene Program Expansion, and Contractor Safety Standard Program.[60]

[55] Ex. CA-14-E at 12-14.

[56] Ex. CA-14-E at 12-14.

[57] Ex. SCG-27-2R-E at NNM 42.

[58] Ex. SCG-27-2R-E at NNM 42.

[59] Ex. CA-14-E at 14-18.

[60] Ex. CA-14-E at 14-18.

SCG's incremental request of 71% over 2021 recorded adjusted expense is not justified. SCG's adjusted recorded expenses increased from $3.306 million in 2017 to $4.114 million in 2020 respectively, averaging $3.683 million per year for the four-year period. SCG's adjusted recorded expenses decreased by $296,000 between 2020 and 2021. Cal Advocates requested that SCG provide documentation that explained the increase in expenses and that identified the line-item detail associated with the decrease in expenses related to the $296,000**.** SCG's documentation or historical data shows expenses for some activities that are one-time, non-recurring costs, so that incremental funding every year for these activities is not required.[61]

SCG fails to show that its request has commensurate ratepayer benefits. SCG did not provide documentation demonstrating that its 2021 recorded adjusted expenses level is insufficient to address its TY 2024 activities for Safety Management.

SCG's rebuttal states "Cal Advocates, however, used a 2021 Base Year plus "Normalized" Rate for Emergency Services (2SM001.000), Continuous Improvement (2SM002.000) and Technology & Analytics (2SM005.000), but then used a 2020 Base Year plus "Normalized" Rate for Safety Management (2SM003.000)."[62] Cal Advocates utilized SCG's 2020 recorded adjusted expenses, which is the highest recorded expense level over five-year period (2017-2021), and normalized SCG's TY 2024 incremental expense forecast of $2.706 million to provide additional funding for the proposed activities. SCG was also inconsistent with providing 2021 adjusted recorded expenses for Safety Management Category.[63]

Cal Advocates' recommendation of $4.790 million provides adequate funding for the TY 2024 and is more than SCG's 2020 and 2021 adjusted recorded expense level for its Safety Management activities.[64]

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[61] Ex. CA-14-E at 14-18.

[62] Ex. SCG-227 at NNM-6.

[63] Ex. CA-14-E at 16, n. 36.

[64] Ex. CA-14-E at 18.

9.4.1.7 SCG Emergency Services – O&M

SCG requests $3.027 million for TY 2024 Emergency Services O&M Expenses.[65] SCG's Emergency Services department is responsible for supporting its business operations with first responder outreach and emergency response, preparedness, and recovery.[66] Cal Advocates recommends $2.332 million for SCG's Emergency Services O&M expenses, which is $695,000 less than SCG's forecast.[67] Cal Advocates made this downward adjustment because SCG's incremental request of 51% over 2021 recorded adjusted expense is not justified.

SCG's adjusted recorded Emergency Services O&M expenses fluctuated between 2017 and 2021, averaging $2.186 million per year for the five-year period. SCG's expenses decreased by $732,000 between 2019 and 2021. SCG did not provide any documentation to support its requesfor t$3.027 million for TY 2024 Emergency Services despite Cal Advocates request for such records that identify problems or demonstrate that SCG was unable to meet compliance or operational needs due to the decline in recorded costs.

Cal Advocates asked SCG to provide documentation that explained the increase in Emergency Services O&M expenses between 2020 and 2021 and to identify the line-item detail associated with the increase of $186,000. SCG's documentation or historical data shows expenses for some activities that are one-time, non-recurring costs, and incremental funding every year for these activities is not required.[68]

SCG did not provide documentation demonstrating that its 2021 recorded adjusted expenses were insufficient to address its TY 2024 activities for Emergency Services activities.[69]

Cal Advocates' recommendation of $2.332 million provides adequate funding for

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[65] Ex. SCG 27-WP-R at 95.

[66] Ex. SCG-27-2R-E at NNM-54.

[67] Ex. CA-14-E at 19-22.

[68] Ex. CA-14-E at 19-22.

[69] Ex. CA-14-E at 19-22.

TY 2024 and is more than SCG's 2020 and 2021 adjusted recorded expense level for its Emergency Services activities.

9.4.1.8 SCG Technology and Analytics Group – O&M

SCG requests $2.181 million for TY 2024 Technology and Analytics Group O&M expenses.[70] SCG's Technology and Analytics Group is responsible for supporting the SMS organization by using data and technology to identify key performance indicators and associated risk factors from various data sources to maintain, promote, and enhance the efficiency and effectiveness of SMS programs and initiatives.[71]

Cal Advocates recommends $1.550 million for SCG's Technology and Analytics Group O&M expenses, which is $631,000 less than SCG's forecast.[72] Cal Advocates' recommendation is based on utilizing SCG's 2021 adjusted recorded expense and SCG's TY 2024 forecast with adjustments for proposed activities. Cal Advocates normalized SCG's labor and non-labor requests to account for additional TY 2024 activities because SCG's responses to Cal Advocates data request lack the detail needed to evaluate SCG's incremental request.[73]

Cal Advocates recommends this downward adjustment because SCG's incremental request of 63% is not justified. SCG does not show any recorded O&M expenses for 2017 and 2018 for its Technology and Analytics activities, and SCG's adjusted recorded expenses were relatively flat between 2020 and 2021, averaging $1.32 million.[74]

Cal Advocates requested additional information on SCG's TY 2024 proposals that would allow Cal Advocates to review, evaluate and independently calculate SCG's TY

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70 Ex. SCG 27-R at NNM 62.

71 Ex. SCG-27-2R-E at NNM-62.

72 Ex. CA-14-E at 22-24.

73 Ex. CA-14-E at 22-24.

74 Ex. CA-14-E at 22-24.

2024 request. SCG did not provide any supporting documentation.[75] SCG objected to Cal Advocates' request to provide documentation demonstrating that its 2021 recorded adjusted expenses were insufficient to address its TY 2024 activities for Technology and Analytics activities or for its incremental request of $842,000.[76] Thus. SCG has failed to support its request for incremental funding.

Cal Advocate's estimate of $1.550 million, based on 2021 adjusted recorded expense and normalized adjustments of SCG's 2024 forecast is reasonable.

9.4.2 SDG&E Safety, Risk, and Asset Management Systems

SDG&E's Safety Management, Risk Management, and Asset Management programs are the key components of SDG&E's Safety Management System.[77] SDG&E's Safety Management System (SMS) provides a standardized approach for managing risk and safety across all assets and operations by implementing processes and risk assessment methodologies that can be consistently applied enterprise wide.[78] The SMS framework creates an integrated approach and a company-wide resource to guide SDG&E's actions, decisions, and behaviors, so that SDG&E efficiently and effectively manages risk and continually improves upon all aspects of its safety performance.[79]

9.4.2.1 SDG&E Safety, Risk and Asset Management Systems Shared - O&M

SDG&E requests $1.249 million for TY 2024 Safety, Risk and Asset Management Systems Shared O&M expenses.[80] Cal Advocates does not oppose this request.[81]

[75] Ex. CA-14-E at 23-24.

[76] Ex. CA-14-E at 23-24.

[77] Ex. SDG&E-31-R at KJD-i.

[78] Ex. SDG&E-31-R at KJD-6.

[79] Ex. SDG&E-31-R at KJD-6.

[80] Ex. SDG&E-31-R at KJD-24.

[81] Ex. CA-14-E at 42.

9.4.2.2 SDG&E Risk and Asset Management Systems Enterprise Risk Management - O&M

SDG&E requests $4.223 million for TY 2024Safety, Risk and Asset Management Systems Enterprise Risk Management O&M expenses for TY 2024.[82] Cal Advocates does not oppose this request.[83]

9.4.2.3 SDG&E Safety, Risk and Asset Management Systems Business Technology Solutions - O&M

SDG&E requests of $2.385 million for TY 2024 Safety, Risk and Asset Management Systems Business Technology Solutions O&M expenses.[84] Cal Advocates does not oppose this request.[85]

9.4.2.4 SDG&E Safety, Risk and Asset Management Systems Energy Risk Management -O&M

SDG&E requests $1.473 million for TY 2024 Safety, Risk and Asset Management Systems Energy Risk Management O&M expenses.[86] Cal Advocates does not oppose this request.[87]

9.4.2.5 SDG&E Safety, Risk and Asset Management Systems Safety - Contractor Safety Services Activities - O&M

SDG&E requests $1.290 million for TY 2024Safety, Risk and Asset Management Systems Safety - Contractor Safety Services Activities O&M expenses.[88] Cal Advocates does not oppose this SDG&E's request.[89]

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[82] Ex. SDG&E-31-R at KJD-24.

[83] Ex. CA-14-E at 44.

[84] Ex. SDG&E-31-R at KJD-59.

[85] Ex. CA-14-E at 44.

[86] Ex. SDG&E-31-R at KJD 50.

[87] Ex. CA-14-E at 44.

[88] Ex. SDG&E-31-R at KJD 22.

[89] Ex. CA-14-E at 44.

9.4.2.6 SDG&E Safety, Risk and Asset Management Systems Safety - Safety Compliance Activities - O&M

SDG&E requests $919,000 for TY 2024 Safety, Risk and Asset Management Systems Safety - Safety Compliance Activities O&M expenses.[90] Cal Advocates does not oppose this request.[91]

9.4.2.7 SDG&E Safety, Risk and Asset Management Systems Safety - Employee Safety Programs and Oversight - O&M

SDG&E requests $488,000 for TY 2024 Safety, Risk and Asset Management Systems Safety - Employee Safety Programs and Oversight O&M expenses for.[92] Cal Advocates does not oppose this request.[93]

9.4.2.8 SDG&E Safety, Risk and Asset Management Systems VP- Risk Management & Chief Compliance Officer - O&M

SDG&E requests $418,000 for TY 2024Safety, Risk and Asset Management Systems VP- Risk Management & Chief Compliance Officer O&M expenses for.[94] Cal Advocates does not oppose this request.[95]

9.4.2.9 Safety, Risk and Asset Management Systems Safety - Electric and Magnetic Field O&M

SDG&E requests $186,000 for TY 2024 Safety, Risk and Asset Management Systems Safety - Electric and Magnetic Field O&M expenses.[96] Cal Advocates does not oppose SDG&E's request.[97]

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[90] Ex. SDG&E-31-R at KJD 22.

[91] Ex. CA-14-E at 44.

[92] Ex. SDG&E-31-R at KJD 22.

[93] Ex. CA-14-E at 44.

[94] Ex. SDG&E-31-R at KJD-50.

[95] Ex. CA-14-E at 44.

[96] Ex. SDG&E-31-R at KJD-22.

[97] Ex. CA-14-E at 44.

9.4.2.10 SDG&E Safety Management Systems - O&M

SDG&E requests $2.303 million for TY 2024 E's Safety Management Systems O&M expenses.[98] SDG&E's Safety Management department is for implementation, management, ongoing review, assessment, and continuous improvement of SDG&E's company-wide Safety Management System.[99]

Cal Advocates recommends $1.400 million for SDG&E's Safety Management Systems O&M expenses, which is $903,000 less than SDG&E's forecast.[100] SDG&E's non-labor expense request is 250% over 2021 recorded adjusted expense and is not justified. Between 2020 and 2021, SDG&E's recorded expenses decreased by $170,000, from $1.034 million to $864,000 in 2021. Cal Advocates requested documentation that would explain the decrease and identify the line-item detail associated with the decrease, but SDG&E failed to provide the documents.[101]

However, SDG&E states that the $170,000 decrease is due to a third-party consulting contract which ceased in July 2021.[102] Since this was a one-time, non-recurring expense incurred in 2020 and early 2021, additional funding in TY 2024 is not necessary for this consultant. The embedded costs that are no longer required for the one-time consultant activities can be reallocated to address proposed TY 2024 activities.[103]

Cal Advocates asked SDG&E to provide supporting documentation and explain how SDG&E calculated the $1.7 million non-labor expense (250% increase relative to 2021) for TY 2024 Safety Management Systems category in Safety, Risk and Asset Management Systems department so that Cal Advocates could evaluate and verify the

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[98] Ex. SDG&E-31-R at KJD-22. SDG&E revised its request from $2.303 million to $1.654 million for TY 2024 in Errata Testimony served in May 2023.

[99] Ex. CA-14-E at 45-48.

[100] Ex. CA-14-E at 45-48.

[101] Ex. CA-14-E at 45-48.

[102] Ex. CA-14-E at 47.

[103] Ex. CA-14-E at 47.

proposed activities and additional funding requested over 2021 recorded expenses. SDG&E did not provide the requested information. SDG&E referred Cal Advocates back to its testimony, Ex. SDG&E-31-R at Table KD-10, of which the lack of detail was the reason Cal Advocates requested additional information in the first place.[104]

SDG&E's testimony states that it developed the forecasts with input from subject matter experts (SMEs) but fails to provide any documentation and specific dollar amounts associated with this request to support reasonableness of the request for $600,000 non-labor expenses in TY 2024. Cal Advocates used the 2021 recorded adjusted expense and normalized SDG&E's TY 2024 non-labor incremental expense request of $1.204 million.[105] Cal Advocates' recommendation of $1.400 million for Safety Management Systems is a reasonable expense level for TY 2024**.**

9.4.2.11 SDG&E Asset Management - O&M

SDG&E requests $2.077 million for its SDG&E's Asset Management O&M expenses for TY 2024.[106]

Cal Advocates recommends $804,000 for SDG&E's Asset Management O&M expenses, which is $1.273 less than SDG&E's forecast of $2.077 million.[107]

Cal Advocates recommends this downward adjustment because SDG&E did not provide any documentation, calculation, and basis showing how it estimated its forecasts. SDG&E also failed to demonstrate why the current staffing level is insufficient to address the anticipated increased program activities in TY 2024. SDG&E's responses do not justify additional funding, and lack the details needed to evaluate its incremental request.[108] Cal Advocates developed its recommendation by utilizing SDG&E's 2021 recorded adjusted expenses plus incremental funding of $111,000 to annualize one Asset Management Risk and Accountability Manager added in

[104] Ex. CA-14-E at 47.

[105] Ex. CA-14-E at 48.

[106] Ex. SDG&E-31-R at KJD 59.

[107] Ex. CA-14-E at 48-52.

[108] Ex. CA-14-E at 48-52.

2021.[109]

Cal Advocates requested that SDG&E provide documentation that explained the $753,000 increase between 2017 and 2018, the $323,000 decrease between 2018 and 2019, the line-item details associated with the $753,000 increase in expenses and $323,000 decrease in expenses. SDG&E did not provide the requested information. SDG&E explains that the increase in 2018 reflects a third-party consultant that was brought in to assist with the assessment of the asset management system and development activities, and the decrease in 2019 was due to shifting a higher percentage of the third-party consultant costs to capital.[110] SDG&E states that the formal Asset Management activities were launched in 2018 and activities ramped up in 2019. However, SDG&E's historical data shows that the O&M costs were relatively flat between 2019-2021.[111]

To verify the shifting of costs to capital, Cal Advocates asked SDG&E to provide the historical capital costs for Asset Management activities. The historical data shows total recorded capital costs of $5,232 in 2019, $15,932 in 2020, and $19,916 in 2021. SDG&E's historical capital cost data does not show the inclusion of the third-party consultant costs to capital in 2019. SDG&E fails to provide adequate supporting documentation for review and analysis that verifies the allocation for O&M decreasing from 2018 due to costs being charged to capital initiatives.[112]

SDG&E's rebuttal, compares Cal Advocates' recommendations and asserts that Cal Advocates made an adjustment to SDG&E's funding request for Asset Management activities, but did not object to the funding request of an equivalent risk management team at SoCal Gas.[113] Cal Advocates' recommendations vary based on the facts. The historical cost data for SDG&E's Asset Management category shows a decrease from

[109] Ex. CA-14-E at 48-52.

[110] Ex. CA-14-E at 50-51.

[111] Ex. CA-14-E at 51.

[112] Ex. CA-14-E at 51.

[113] Ex. SDG&E's-231 at KJD 17.

2018 to 2019 with costs that remained relatively flat between 2019 to 2021,[114] while the historical cost data for SCG's risk management category shows an upward trend.[115]

SDG&E has not justified its request for additional funding and has not demonstrated that it considered and incorporated embedded funding for the same or similar activities into its TY 2024 forecasts. SDG&E's Asset Management activities, including asset compliance, business technology, and data management are not new activities that require additional funding at the level requested. SDG&E did not provide documentation to demonstrate that funding at the level of its 2021 recorded adjusted expenses was insufficient to address SDG&E's TY 2024 activities for Asset Management activities since the expenses incurred in 2021 were the highest expense level recorded over the 2019-2021 historical period.[116]

Cal Advocates' recommendation of $804,000 for Asset Management, based on 2021 recorded adjusted expenses plus incremental funding of $111,000 for one Asset Management Risk and Accountability Manager, is a reasonable expense level for TY 2024.

9.4.2.12 SDG&E Contractor Field Safety Management Overhead Pool - Capital

SDG&E requests $6.300 million, $6.818 million, and $6.817 million for Capital costs associated with the Contractor Field Safety Management Overhead Pool in 2022, 2023, and TY 2024 respectively.[117] SDG&E's capital costs forecasts are for additional contractors, purchase of new enterprise-wide schedule software system, and an expanded contractor safety oversight program.[118]

Cal Advocates' TY 2024 recommendation for Capital costs associated with the Contractor Field Safety Management Overhead Pool is $5.474 million in 2022, $5.992

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[114] Ex. CA-14-E at 48-52.

[115] Ex. CA-14-E at 51.

[116] Ex. CA-14-E at 52.

[117] Ex. SDG&E-31-R at KJD 81.

[118] Ex. SDGE-31-R at KJD-85.

million in 2023 and $5.991 million in TY 2024. Cal Advocates developed its analysis and recommendation by utilizing SDG&E's 2021 estimated contractor oversight cost.[119]

SDG&E's estimate of its total 2021 contractor safety oversight cost, is $5.474 million. The $5.474 million should include the actual recorded charges to the Construction Management Overhead Pool of $1.415 million plus the $4.060 million oversight costs that were directly charged to projects in 2021.[120]

. SDG&E states that it did not track costs related to this capital request.[121]

SDG&E did not provide any documentation showing the need for additional contractors in TY 2024. SDG&E states that it included contract employees in its forecasts, estimating total costs of $6 million that includes vehicle costs and insurance.[122] Cal Advocates requested that SDG&E provide documentation that demonstrates ratepayer benefit for funding these non-labor expenses, such as vehicle costs and insurance for contractors. SDG&E did not provide the requested documentation. Therefore, Cal Advocates recommends removing SDG&E's incremental request from TY 2024 forecasts.[123]

Cal Advocates utilized SDG&E's estimated total 2021 contractor safety oversight costs for its recommendation, which results in capital costs of $5.474 million in 2022, $5.992 million in 2023, and $5.991 million in TY 2024 for Contractor Field Safety Management Pool.[124]

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[119] Ex. CA-14-E at 53-56. SDG&E revised its request from $6.3 million for 2022, 6.818 million for 2023, and 6.817 million for 2024 to $2.2 million for 2022, 2.373 million for 2023, and 2.372 million for 2024 in Errata Testimony submitted in May 2023.

[120] Ex. CA-14-E at 54-55.

[121] Ex. SDG&E-31-CWP-E at 5.

[122] Ex. CA-14-E at 55.

[123] Ex. CA-14-E at 55.

[124] Cal Advocates forecast for SDG&E's Contractor Field Safety Management Pool is based on SDG&E's forecasts $6.3 million for 2022, 6.818 million for 2023, and 6.817 million for 2024 filed in Aug-2022, Ex. SDG&E-31-R.

9.4.3 SDG&E Safety Management System (SMS) - Safety and Risk Management

Cal Advocates recommends[125] that the Commission adopt the following vegetation management safety proposals as part of the decision resolving SDG&E's TY 2024 GRC programs. Specifically, Cal Advocates evaluates whether SDG&E's vegetation management proposals provide reliable and safe service at the lowest possible rate to its customers.[126]

SDG&E's vegetation management programs should be driven by accurate risk assessment and by adherence to standards set in General Order (GO) 95.[127] While SDG&E has experienced few ignitions and wildfires in recent years,[128] vegetation contact with conductors remains a significant risk factor for outages and wildfires.[129] Cal Advocates finds that SDG&E needs to improve reporting on its vegetation management efforts to support effective risk management and accountability for results.

SDG&E does not report enough granular data on its tree trimming safety program to determine if areas of high risk are being mitigated in a timely manner. Also, with respect to the tree trimming projections within High Fire Threat Districts (HFTDs), SDG&E does not describe the extent to which SDG&E's tree trimming projections rely on SDG&E meeting its undergrounding goals.

The Commission should require SDG&E to adopt additional reporting measures, including the submission of annual Tier 1 advice letters that show whether SDG&E's tree

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[125] Ex. CA-22 at 1-8.

[126] Pub. Util. Code § 309.5(a).

[127] Pursuant to General Order 95, Rule 35 Vegetation Management and Appendix E: Guidelines to Rule 35.

[128] CA-21 at 28. See Figure 21-11 - Three Large California Electric Utilities' Rate of Ignitions Greater than 100 acres.

[129] SDG&E reports 15 outage events in 2022 caused by vegetation contacts in High Fire Threat Districts (HFTDs), as well as nine such events in 2021 and six such events in 2020. See SDG&E's Wildfire Mitigation Plan (WMP) Quarterly Data Report for the Quarter 4 of 2022, Table 2, Metric 1.d., submitted February 1, 2023. Available from the Office of Energy Infrastructure Safety at https://www.sdge.com/2022-wildfire-mitigation-plan, docket #2022-GIS-DRS (https://efiling.energysafety.ca.gov/Lists/DocketLog.aspx?docketnumber=2022-GIS-DRS) at https://efiling.energysafety.ca.gov/eFiling/Getfile.aspx?fileid=53361&shareable=true

trimming program effectively addresses high risk areas as required by GO 95. Adopting Cal Advocates' proposed additional reporting requirements would support more transparency and better insight into how SDG&E is mitigating the greatest areas of wildfire risk. Adopting the proposed additional reporting requirements would also heighten accountability and support adherence to the requirements of GO 95.

Cal Advocates recommends that the Commission require SDG&E to submit an annual Tier 1 advice letter that includes the following detailed information related to its vegetation management tree-trimming program:

> The Tier 1 advice letter should report SDG&E's work progress towards its multi-year tree-trimming forecast.
>
> As part of reporting "work in progress," SDG&E should also include specifically where undergrounding projects have been completed and how the completed work has impacted the need for tree trimming on those circuit segments.
>
> In the Tier 1 advice letter, SDG&E should report how many trees were trimmed and how many were removed in the previous calendar year. These totals should be broken down by quarter of the year and further disaggregated by HFTD Tier.
>
> In the same Tier 1 advice letter, SDG&E should explain how it is adjusting its tree trimming programs to maintain focus on addressing high risk circuit segments, even as risk conditions change due to both SDG&E's actions (e.g., system hardening initiatives) and external conditions such as climate change.
>
> SD&E should submit this Tier 1 advice letter for each year of this GRC period. The advice letter should be submitted by February 15 and should provide complete data for the preceding calendar year.
>
> The Tier 1 advice letter should be submitted to and disposed of by the Commission's Safety Policy Division.

10 GAS DISTRIBUTION

10.1 SoCalGas

10.1.1 Non-Shared Locate and Mark Expenses

For SCG's Gas Distribution O&M expense, Cal Advocates recommends $166.92 million[130] for TY 2024, compared to SCG's request of $168.29 million.[131] Cal Advocates does not oppose SCG's TY 2024 forecasts for the following categories: Field Support; Leak Survey; Main Maintenance; Service Maintenance; Tools, Fittings and Materials; Leakage; Measurement and Regulation; Cathodic Protection; Asset Management; Operations and Management; Regional Public Affairs; and Field Service Leadership and Assessment.[132] Cal Advocates does not contest the reasonableness of $4.6 million in O&M expenses associated with the Mobilehome Park Utility Upgrade Program.[133]

For Locate and Mark expenses, Cal Advocates recommends $19.7 million for TY 2024, compared to SCG's request of $21.3 million. Table 10-1 shows SCG's 2017-2021 actual recorded, adjusted-recorded and 2024 adjusted forecasts, and Cal Advocates' recommendation for TY 2024:

Table 10-1
SCG Gas Distribution
Non-Shared Locate & Mark O&M Expenses
2017-2021 Recorded and 2024 Forecasts
(in Thousands of 2021 Dollars)

Recorded						Forecast	
	2017	2018	2019	2020	2021	Cal Advocates Recommmended 2024	SCG Proposed 2024
ACTUAL	$ 12,060	$ 12,605	$ 14,026	$15,045	$ 16,283		
ADJUSTED	$ 15,704	$ 16,003	$ 17,585	$18,181	$ 19,092	$ 19,793	$ 21,301

Source: Ex. SCG-04-WP-R-2E at 32, 35.

130 Ex. CA-02-E, Report on the Results of Operations for San Diego Gas & Electric Company Southern California Gas Company Test Year 2024 General Rate Case, SCG Gas Operations (Part 1) Errata, at 2.

131 Ex. SCG-04-R-E, Revised Prepared Direct Testimony of Mario A. Aguirre (Gas Distribution) Errata, at MAA 1; Ex. SCG-04-WP-R-2E at 1.

132 Ex. CA-02-E at 1.

133 Ex. CA-02-E at 1.

Locate and Mark work primarily involves locating and marking SCG's underground pipelines, conducting job observations, performing pothole operations, and performing depth checks.[134] SCG's forecast is based on a three-year (2019-2021) linear trend method.[135] SCG expects an increase in activities due to the requirements of Senate Bill (SB) 661, the Dig Safe Act of 2016, and SB 297, the Wade Kilpatrick Gas Safety and Workforce Adequacy Act of 2021.[136]

SCG's test year forecast of $21.3 million represents an increase of $2.2 million over the 2021 adjusted-recorded amount of $19.1 million.[137] In discovery, Cal Advocates asked SCG to provide additional supporting documentation for the $2.2 million increase.[138] In response, SCG simply referred Cal Advocates to SCG's testimony and workpapers. SCG also characterized SB 661 and SB 297 as "additional regulations that emphasize the need to obtain [Underground Service Alert (USA)] tickets before excavating."[139] SB 661 and SB 297 were enacted in 2016 and 2021, respectively, and are not new requirements. SCG's adjusted forecast for 2022 accounts for the changing levels of activity associated with SB 661 and SB 297, which were in effect as of 2021. Accordingly, Cal Advocates recommends the 2022 adjusted forecast amount of $19.7 million for TY 2024.

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[134] Ex. SCG-04-R-E at MAA-28; Ex. SCG-04-WP-R-2E at 31.

[135] Ex. SCG-04-R-E at MAA-32; Ex. SCG-04-WP-R-2E at 31.

[136] Ex. SCG-04-R-E at MAA-30:

> In 2016, the California Governor signed SB 661, named the Dig Safe Act of 2016, which added enforcement to the digging law by establishing the California Underground Facilities Safe Excavation Board. The Board is authorized to take action against those parties who violate the excavation law under California Code Section 4216….
>
> In 2021, SB 297, Subsurface Installations: Penalties, was passed, which enacts the Wade Kilpatrick Gas Safety and Workforce Adequacy act of 2021. SB 297 prescribes a civil penalty of up to $100,000 to be imposed on an operator or excavator who knowingly and willfully violates provisions relating to excavations and subsurface installations and damages a gas or hazardous liquid pipeline subsurface installation in a way that results in the escape of any flammable, toxic, or corrosive gas or liquid.

[137] Ex. SCG-04-WP-R-2E at 32.

[138] SCG Response to PubAdv-SCG-MPS-023, Q 1 b).

[139] SCG Response to PubAdv-SCG-MPS-023, Q 1 b).

10.1.2 Locate and Mark Balancing Account

SCG requests a two-way Locate and Mark Balancing Account (LMBA), due to new regulations (SB 297) that SCG asserts will increase the amount of locate and mark activities to a degree that is currently uncertain.[140]

Cal Advocates opposes SCG's request for a two-way LMBA. As previously discussed, both SB 661 and SB 297 were in effect as of 2021.[141] Cal Advocates' test year forecast, which is based on Sempra's most recent adjusted 2022 forecast, provides adequate funding for activities related to SB 661 and SB 297 and other locate and mark activities.[142]

10.1.3 Control Center Modernization Project Capital Expenditures

Table 10-2 compares Cal Advocates' and SCG's 2022-2024 Gas Distribution capital expenditure forecasts:[143]

Table 10-2
SCG Gas Distribution
Capital Expenditures for 2022-2024
(in Thousands of Dollars)

	Cal Advocates Recommended			SCG Proposed		
	2022	2023	2024	2022	2023	2024
Total	$ 371,786	$ 394,355	$ 370,525	$ 388,786	$ 413,355	$ 391,525

Source: Ex. SCG-04-CWP-R at 1.

Cal Advocates does not oppose SCG's Gas Distribution capital expenditures test year requests for the following categories: New Business, Pressure Betterments, Main Replacements, Service Replacement, Main and Service Abandonments, Regulator Stations, Cathodic Protection Capital, Pipeline Relocations-Freeway, Pipeline Relocations-Franchise, Meter Protection, Other

[140] Ex. SCG-04-R-E at MAA-31 to MAA-32.

[141] Ex. SCG-04-R-E at MAA-31.

[142] Ex. CA-02-E at 8-9.

[143] Ex. CA-02-E at 3.

Distribution Capital Projects, Measurement and Regulation Devices, Capital Tools, Field Capital Support and Remote Meter Reading for TY 2024.[144] Cal Advocates does not contest the reasonableness of $180.4 million in capital expenditures associated with the Mobilehome Park Utility Upgrade Program.[145]

As discussed below, Cal Advocates takes issue with SCG's capital expenditures forecasts for the Control Center Modernization (CCM) Distribution Project.

According to SCG, the purpose of its CCM project is to construct a new, modernized Gas Control facility that will include advanced technology and be sized to accommodate the expanding workforce needed to monitor, maintain, and respond to data transmitted by the over 9,800 new and existing field assets and incidents on a continuous basis.[146]

SCG used a zero-based forecast method developed for this cost category and requests $23.5 million for 2022, $26.4 million for 2023, and $21.5 million for TY 2024.[147] Cal Advocates recommends $17.0 million for 2022, $19.0 million for 2023 and $21.0 million for TY 2024.

When asked in discovery to provide the status of the CCM project as of January 2023, SCG provided two pages of narrative description, yet no actual cost data supporting the project's progress for 2022.[148] In another discovery request, Cal Advocates asked which areas need to be completed before and after the CCM Building is completed and fully functional.[149] SCG responded that after the CCM Building is commissioned,[150] equipment will need to be installed through 2028, which means that

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[144] Ex. CA-02-E at 2.

[145] Ex. CA-02-E at 2.

[146] Ex. SCG-04-CWP-R at 90.

[147] Ex. SCG-04-CWP-R at 92.

[148] SCG Response to PubAdv-SCG-MPS-097, Q 1 b), i.

[149] SCG Response to PubAdv-SCG-MPS-061, Q 1 b) and c).

[150] Ex. CA-02-E at 10.

notall of the Distribution Field Assets must be completed for the Gas Control Center to be functional.[151]

Thus, the CCM Distribution Project will continue through 2028. SCG requests a total of $71.4 million for 2022-2024. SCG first proposed the CCM project in its TY 2019 GRC application (A.17-10-007) as the Distribution Operations Control Center project, for which the Commission authorized $37.9 million in funding in D.19-09-051.[152] SCG spent $267,000 in 2019, $5.6 million in 2020, and $4.1 million in 2021. SCG's adjusted-recorded cost of $15.0 million for 2021 is less than half the amount authorized in the 2019 GRC. Cal Advocates recommends funding at more reasonable levels than proposed by SoCalGas: $17.0 million for 2022, $19.0 million for 2023, and $21.0 million for TY 2024. SCG has already received ratepayer funding for this project and has not justified its requested increases for 2022-2024.

10.2 SDG&E

10.2.1 SDG&E Gas Distribution Non-Shared Expenses

SDG&E requests Distribution Expenses of $41.845 million in TY 2024, which is a 15% increase over the Base Year (BY) 2021 level of $36.545 million.[153] Cal Advocates does not oppose SDG&E's forecast.[154]

SDG&E also proposes the creation of the LMBA, a two-way balancing account for L&M expenses, because it claims the extent of increased expenses for L&M activities is difficult to predict.[155] Cal Advocates has reviewed the data provided by SDG&E to support the forecasted increase in expenses. As stated above, Cal Advocates takes no issue with SDG&E's forecast, but Cal Advocates opposes SDG&E's request to create the

[151] SCG Response to PubAdv-SCG-MPS-061, Q 1 b) and c).

[152] SCG Response to PubAdv-SCG-MPS-061, Q 1 a) and attachment PAO-SCG-061-MPS_Attach_1a_2a_6880.

[153] Ex. CA-04 at 9.

[154] Ex. CA-04 at 9.

[155] Ex. SDG&E-04-R-E at LPK-33.

LMBA for the same reasons it opposes SCG's LMBA request.[156] Cal Advocates addresses SCG's proposal to create the LMBA in section 10.1.2, above.

10.2.2 SDG&E Gas Distribution Capital Expenditures 2022-2024

SDG&E requested Gas Distribution capital expenditures of $132.6 million in 2022, $135.3 million in 2023, and requests $122.8 million in TY 2024.[157] This is a decrease below the BY 2021 level of $140.2 million.[158] SDG&E forecasts an increase above 2021 expenditures for New Business capital projects of $11.045 million for 2022, with 2023 and 2024 expenditures near or below historical average capital costs.[159] The 2022 increase is due to $11.909 million for two collectible projects at the U.S. Marine Corps' Camp Pendleton base.[160]

Although SDG&E's 2022 capital forecast is higher than historical project costs for New Business, Cal Advocates does not oppose SDG&E's lower forecast for TY 2024, as natural gas building restrictions are slowly being integrated throughout California.[161]

SDG&E also proposes the creation of a LPCMA to record capital-related costs associated with projects that are intended to qualify as collectible but are later deemed by a court to be non-collectible from third-party customers.[162] As discussed in section 20.1.2 of this brief, Cal Advocates opposes SDG&E's request for an LPCMA balancing account.

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[156] Ex. CA-04 at 10; CA-02-E.

[157] Ex. CA-04 at 12.

[158] Ex. CA-04 at 12.

[159] Ex. CA-04 at 12.

[160] Ex. CA-04 at 12. Collectible projects are funded by the entity that requests the work, not by ratepayers.

[161] Ex. CA-04 at 14-15.

[162] Ex. SDG&E-4-R at LPK-70.

11 GAS SYSTEM STAFF AND TECHNOLOGY

11.1 SoCalGas

SCG requests $23.6 million in Gas System Staff and Technology O&M expenses for TY 2024. Cal Advocates does not oppose this request.[163]

11.2 SDG&E

11.2.1 SDG&E Gas Systems Staff & Technology Non-Shared Expenses

SDG&E requests Gas System Staff and Technology expenses of $0.901 million for TY 2024.[164] This is an increase of $0.789 million over 2017-2021 historical average expenses, and $0.806 million above 2021 levels.[165] SDG&E is forecasting an increase in expenses for its Public Awareness Program and Damage Prevention Strategies, which are programs intended to reduce third-party excavation damage to SDG&E's pipeline infrastructure.[166] SDG&E's Public Awareness Program is federally mandated, pursuant to 49 C.F.R. § 192.616.[167] Federal regulations require utilities with buried pipeline infrastructure to educate the public, government organizations, and persons engaged in excavation activity on damage prevention activities regarding underground pipeline infrastructure in order decrease the risk of excavation damage.[168]

Cost drivers for Damage Prevention activities include commercial and industrial centers submitting tickets for pipeline L&M activities, along with an increase in excavation projects for new public and private sector construction.[169] The increase in ticket volume is expected to directly increase SDG&E's need for additional resources as the damage prevention program grows.[170] SDG&E will be analyzing excavation data to

[163] Ex. CA-02-E at 3.

[164] Ex. SDG&E-05 at WR-1.

[165] Ex. CA-04 at 16.

[166] Ex. CA-04 at 16.

[167] 49 C.F.R. § 192.616.

[168] Ex. CA-04 at 16; 49 C.F.R. § 192.616.

[169] Ex. CA-04 at 16.

[170] Ex. CA-04 at 16.

identify trends and develop action plans aimed at reducing excavation damage.[171] Cal Advocates does not oppose SDG&E's forecast.

12 GAS TRANSMISSION OPERATIONS AND CONSTRUCTION

12.1 SoCalGas

12.1.1 Gas Control Shared Expenses

SCG requests $52 million in Gas Transmission Operations and Construction O&M expenses for TY 2024, while Cal Advocates recommends $49 million.[172]

Cal Advocates does not oppose SCG's Non-Shared O&M forecasts for TY 2024 for the following categories: Pipeline and Instrumentation Operations, Compressor Station Operations, Compressor Station Operations, Cathodic Protection, Technical Services, Storage Products Manager, and Control Center Modernizations.[173]

Cal Advocates does not oppose SCG's Shared O&M forecasts for TY 2024 for the following categories: Director of Gas Transmission, FOM Compressor Station, Governance and Compliance, Transmission and Storage, Capacity Products Support, Gas Scheduling, Gas Transmission Planning, and SCADA Operations.[174]

Cal Advocates does not object to SCG's request to close the Core Gas Balancing Memorandum Account (CGBMA) by the end of 2023.[175]

Cal Advocates takes issue with SCG's forecast for Gas Control expenses. Control Room Monitoring and Operation activities consist of continuous operation of the transmission pipeline system in a real-time control room environment.[176] Historically, Gas Control manages and operates both the SCG and SDG&E gas transmission pipeline network.[177]

[171] Ex. CA-04 at 16.

[172] Ex. CA-02-E at 4.

[173] Ex. CA-02-E at 4.

[174] Ex. CA-02-E at 4.

[175] Ex. CA-02-E at 4.

[176] Ex. SCG-06-2R-E, Second Revised Prepared Direct Testimony of Rick Chiapa, Steve Hruby, and Aaron Bell (Gas Transmission Operations and Construction) Errata, at CHB-54.

[177] Ex. SCG-06-2R-E at CHB-55.

SCG used the base year recorded methodology to develop its forecast, to which the anticipated costs for incremental hires were added, for a total labor and non-labor forecast of $6.7 million for TY2024.[178]

Cal Advocates requested supporting documentation for the incremental cost, which SCG failed to provide.[179] SCG initially proposed the CCM project in its TY 2019 GRC as the Distribution Operations Control Center project and identified deployment activities beyond 2019.[180] SCG has stated that not all the activities will be completed when Gas Control begins occupying the new Control Center facility in 2024, and SCG will continue to deploy and integrate transmission assets into the Gas Control Center through 2028.[181] Adjusted 2022 forecast spending captures the level of activity for the Gas Control room. Cal Advocates proposes using the adjusted 2022 forecast of $4.1 million as the basis for a reasonable funding level for TY 2024.[182]

12.1.2 CCM Project Capital Expenditures

For Gas Transmission Operations and Construction capital expenditures, SoCalGas proposes $182.5 million for 2022, $150.7 million for 2023, and $106.6 for 2024. Cal Advocates recommends $182.5 for 2022, $150.2 for 2023, and $104.9 for 2024.

Cal Advocates does not oppose SCG's for TY 2024 forecasts for: New Pipeline, Pipeline Replacements, Pipeline Relocation-Freeway, Pipeline Relocation-Franchise/Private/Row, Compressor Stations, Cathodic Protection, Measurement and Regulation Stations, Security and Auxiliary Equipment, Building and Improvements, Capital Tools, and Compressor Station Modernization.[183]

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[178] Ex. SCG-06-WP-R-E at 131.

[179] PAO-SCG-098-MPS_Q5b_9606.

[180] SCG Response to PubAdv-SCG-MPS-061, Q 1 a) and attachment PAO-SCG-061-MPS_Attach_1a_2a_6880.

[181] SCG Response to PubAdv-SCG-MPS-061, Q 1 b) and c).

[182] Ex. CA-02-E at 14.

[183] Ex. CA-02-E at 5.

Cal Advocates takes issue with SCG's capital forecast for Control Center Modernization. The CCM project's cost is related to the field assets that will be deployed on the SCG transmission system, specifically Optical Pipeline Monitoring (OPM) stations and High Consequence Area (HCA) methane sensors.[184] The CCM project will include the installation of three OPM stations and 140 HCA methane sensors on transmission pipelines through the 2024 Test Year.[185] Installation of the OPM station is a continuation of activities authorized in SCG's 2019 GRC, where SCG first submitted the CCM project for the Commission's approval of ratepayer funding. The OPM station supports the installation of optical pipeline sensing line activities on new or replaced transmission lines.[186]

SCG's forecast methodology is zero-based because the CCM project does not have adequate historical costs to accurately reflect full deployment non-labor costs that will be seen in 2022, 2023 and 2024.[187] SCG proposes $2.04 million for 2022, $2.6 million for 2023. and $3.7 million for TY 2024.[188]

Cal Advocates asked SCG to identify which CCM projects must be completed before and after the CCM building is fully operational.[189] SCG responded that the installation and integration of these transmission field assets need not be completed for the Gas Control Center to be functional, and deployment and integration activities will continue through 2028.[190]

[184] Ex. SCG-06-CWP-R-E at 131.

[185] Ex. SCG-06-CWP-R-E at 131.

[186] Ex. SCG-06-2R-E at CHB-83.

[187] Ex. SCG-06-CWP-R-E at 131.

[188] PAO-SCG-061-MPS_Attach_1a_2a_6880.

[189] SCG Response to PubAdv-SCG-MPS-061, Q 1 b) and c).

[190] SCG Response to PubAdv-SCG-MPS-061, Q 1 b) and c):

> The activities described in this workpaper reference began deployment prior to the commissioning of the new CCM building and will continue through the end of 2028.
>
> Specifically, while some of the OPM stations and methane sensors will have been deployed, not all activities will be completed when Gas Control begins occupying the

The Commission authorized $9.9 million in ratepayer funds [191] pursuant to the decision resolving SCG's 2019 GRC, but SCG spent a mere fraction of the amount authorized in 2019.[192] SCG recorded actual spending of $542,000 for 2018, $17,000 for 2019, $43,000 for 2020, and $249,000 for 2021.[193] Thus, Cal Advocates recommends $2.04 million for 2022, $2.04 million for 2023, and $2.04 million for TY 2024.

12.2 SDG&E Gas Transmission O&M and Capital

12.2.1 SDG&E Gas Transmission Non-Shared Expenses

SDG&E requests Gas Transmission Expenses of $5.103 million for TY 2024.[194] This is a cumulative decrease of $0.06 million below 2021 recorded expenses and below 2017-2021 historical costs.[195] Gas transmission and construction comprise the projects and activities that support SDG&E's gas transmission cost categories of pipeline instrumentation and compressor station operations, such activities include: Pipeline and instrumentation activities include operating and maintaining cathodic protection systems, L&M services, maintenance of equipment valve control stations, customer delivery points, pipeline monitoring, metering, odorization equipment, and data communications between SDG&E and SCG.[196] Compressor station operations costs are incurred from the operations and maintenance of SDG&E's Moreno Compressor Station facility and related infrastructure.[197] The primary cost driver for the compressor station operations work category is labor expenses for employees executing activities at this facility.[198]

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new Control Center facility in 2024. SoCalGas will continue to deploy and integrate these transmission assets into the Gas Control Center through 2028.

[191] PAO-SCG-061-MPS_Attach_1a_2a_6880.

[192] D.19-09-051.

[193] Ex. SCG-06-CWP-R-E at 130-134.

[194] Ex. CA-04 at 19.

[195] Ex. SDG&E-06-E at RC-SH-13, Table RC-SH-7.

[196] Ex. SDG&E-06-E at RC-SH-8-RC-SH-9, Table RC-SH-5.

[197] Ex. CA-04 at 19.

[198] Ex. CA-04 at 19.

Cal Advocates does not oppose SDG&E's forecast.[199] Cal Advocates found SDG&E's forecast to be in line with historical transmission O&M expenses, and therefore takes no issue with SDG&E's TY 2024 forecast.[200]

12.2.2 SDG&E Gas Transmission Capital Expenditures 2022-2024

SDG&E requests Gas Transmission capital expenditures of $28.826 million in 2022, $11.619 million in 2023, and $11.706 million in TY 2024.[201] The TY 2024 request is $4.874 million below 2021 expenditures of $16.58 million.[202] The increase in 2022 expenditures is due to a collectible pipeline replacement project totaling $17.294 million; this amount is included in the total capital expenditures forecast, but as a collectible cost, is not considered in the requested revenue requirement.[203] Capital projects included in gas transmission costs are compressor station maintenance and replacement, cathodic protection, measurement and regulator station replacement and installation, security and auxiliary equipment, capital tools, and pipeline replacement expenditures.[204]

Included in the 2022-2024 forecast is the installation of new cathodic protection equipment to meet federally mandated safety regulations in transmission pipelines.[205] Cal Advocates does not oppose SDG&E's forecast.

SDG&E also requests creation of an LPCMA to record capital-related costs. SDG&E seeks authorization to create the LPCMA and then record capital-related costs that are intended to qualify as collectible and recovered from a third party, but later deemed to be non-collectible from third-party customers. As discussed in section 19.2 of this brief, Cal Advocates opposes SDG&E's LPCMA request.

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[199] SDG&E data request response, PAO-SDGE-055-CQU_3893, Q.1.

[200] Ex. CA-04 at 20.

[201] Ex. SDG&E-06-E at RC-SH-24, Table RC-SH-13.

[202] Ex. CA-04 at 21, Table 4-16.

[203] Ex. CA-04 at 21.

[204] Ex. SDG&E-06-E at RC-SH-8-RC-SH-9.

[205] Ex. CA-04 at 21.

13 GAS ENGINEERING

13.1 SoCalGas

13.1.1 Expenses

SCG requests $33.04 million total in Gas Engineering shared and non-shared expenses for TY 2024.[206] Cal Advocates does not oppose this request.[207]

Cal Advocates does not oppose SCG's Morongo Rights of Way Memorandum Account (MROWMA).[208]

13.1.2 Capital Expenditures

For Gas Engineering capital expenditures, SCG forecasts $18.9 million for 2022, $18 million for 2023, and $24.1 million for 2024.[209] Cal Advocates recommends $18.9 million for 2022, $18 million 2023, and 21.1 million for 2024.

Cal Advocates does not oppose SCG's capital forecasts for Engineering Tools and Equipment, and Land Rights.[210]

As discussed below, Cal Advocates takes issue with SCG's TY 2024 capital forecast for Supervision and Engineering Overhead Pool (Budget Code 9080).

SCG's Budget Code 9080 provides a pool for Supervision and Engineering overhead charges to be made on a direct basis to this capital category that are then reassigned to various budget categories on an indirect basis.[211] SCG developed its forecast using a three-year average method to capture labor expenses and made an upward adjustment of $3 million in 2024 "to account for the settling of the cost related to

[206] Ex. SCG-07-R, Revised Prepared Direct Testimony of Maria T. Martinez (Gas Engineering), at MTM-2; Ex. SCG-07-WP-R at 1.

[207] Ex. CA-02-E at 5-6.

[208] Ex. CA-02-E at 5.

[209] Ex. SCG-07-CWP-R at 1.

[210] Ex. CA-02-E at 6.

[211] Ex. SCG-07-R at MTM-39, Ex. SCG-07-CWP-R at 32.

Construction organization that began in 2020."[212] SCG proposes $15.8 million for 2022, $15.8 million for 2023, and $18.8 million for TY 2024.[213]

Cal Advocates asked SCG in discovery for details and supporting documentation, such as contracts and invoices, to justify the $3.0 million increase for TY 2024. SCG failed to provide supporting documentation or calculations.[214] SCG has not justified the $3 million incremental amount for TY 2024. Therefore, Cal Advocates recommends $15.8 million for 2022, $15.8 million for 2023, and $15.8 million for TY 2024.[215]

13.2 SDG&E

13.2.1 SDG&E Gas Engineering Capital Expenditures 2022-2024

SDG&E requests Gas Engineering capital expenditures of $0.29 million in 2022-2024.[216] This is a decrease of $0.05 million below the 2017-2021 historical average of $0.34 million, and $0.04 million below 2021 expenditures of $0.33 million.[217] Cal Advocates does not oppose SDG&E's forecast.[218]

14 PIPELINE SAFETY ENHANCEMENT PLAN (PSEP)

14.1 SoCalGas

14.1.1 SCG Non-Shared Expenses

Cal Advocates recommends $53.359 million for SCG's PSEP O&M expenses. This amount is $855,000 lower than SCG's request of $54.214 million for 2024.[219] Table 14-1 below shows the 2017-2021 recorded O&M expenses that comprise the two work activities under the PSEP.

Table 14-1

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[212] Ex. SCG-07-R at MTM-40, Ex. SCG-07-CWP-R at 33.

[213] Ex. SCG-07-CWP-R at 34.

[214] SCG Response to PubAdv-SCG-MPS-099, Q 3 c) and d).

[215] Ex. CA-02-E at 19.

[216] Ex. SDG&E-07-CWP-R at 4.

[217] Ex. CA-04 at 24, Table 4-18.

[218] Ex. CA-04 at 24.

[219] Ex. CA-03, Report on the Results of Operations for San Diego Gas & Electric Company Southern California Gas Company Test Year 2024 General Rate Case, SCG Gas Operations (Part 2), at 2.

SCG Pipeline Safety Enhancement Plan Non-Shared O&M Expenses
2017-2021 Recorded and 2024 Forecasts
(in Thousands of 2021 Dollars)

Description	**2017**	**2018**	**2019**	**2020**	**2021**	**SCG 2024**	**Cal Advocates 2024**	**SCG> Cal Advocates**
Hydro-Tests	$16,318	$12,575	$26,591	$33,782	$63,966	$50,682	$50,682	$0
Misc. Costs	-$9,766	$5,888	$5,936	$3,038	$508	$3,532	$2,677	$855
TOTAL O&M	**$6,552**	**$18,463**	**$32,527**	**$36,820**	**$64,474**	**$54,214**	**$53,359**	**$855**

Source: Ex. SCG-08-WP at 2, 5 and 16.

The total O&M expense request for TY 2024 for SCG's PSEP is $54.214 million.[220] The recorded 2021 base year PSEP O&M expenses amount is $64.474 million.[221] Of the requested 2024 forecast, SCG requests $50.682 million to perform hydrotests.[222] The remaining $3.532 million of SCG's request is for Miscellaneous Costs.[223]

Cal Advocates recommends $53.359 million in O&M expense for SCG's PSEP for 2024. Cal Advocates does not oppose SCG's request of $50.682 million for hydrotests. However, Cal Advocates takes issue with SCG's request for Miscellaneous Costs of $3.532 million. Cal Advocates' recommendation results in a downward adjustment of $855,000 for Capital Delivery Technology, which is a cost category under Miscellaneous Costs.

Cal Advocates recommends $2.677 million for SCG's TY 2024 Miscellaneous Costs, which is $855,000 lower than SCG's request of $3.532 million.[224] Cal Advocates' recommendation is based on SCG's statement that one of its Miscellaneous Costs

[220] Ex. SCG-08 at BGK-iv.

[221] Ex. SCG-08-WP at 2. In SCG's testimony, Ex. SCG-08 at BGK-2, the utility states that the 2021 recorded expense is $64.082 million.

[222] Ex. SCG-08 at BGK-02.

[223] Ex. SCG-08 at BGK-02.

[224] Ex. CA-03 at 8.

components, Capital Delivery Technology, is non-recurring.[225] SCG states, "These costs are expected to be spent mainly in 2024 with minimal trailing costs in the Post-Test Years."[226]

A breakdown of SCG's request of $1.140 million in O&M expense for Capital Delivery Technology for 2024 is presented in Table 14-2 below.[227]

[225] SCG's response to Cal Advocates' data request, SoCalGas-2024 GRC MDR-SECTION B, Question 11.

[226] SCG's response to Cal Advocates' data request, SoCalGas-2024 GRC MDR-SECTION B, Question 11.

[227] Ex. SCG-08-WP at 1918.

Table 14-2
SCG's 2023 Miscellaneous Costs

MISCELLANEOUS COST	O&M COSTS (2024)
ALLOWANCE FOR PIPELINE FAILURES	$0
CAPITAL DELIVERY TECHNOLOGY COSTS	$1,140,185
CONSTRUCTION LABOR COSTS	$2,392,230
TOTAL COSTS	$3,532,415

Source: Ex. SCG-8-WP at 1918.

Cal Advocates does not oppose the request as such. However, Cal Advocates recommends that the Commission normalize SCG's request over the four-year GRC cycle to reflect the O&M costs more accurately in rates. The normalization of SCG's request results in an O&M amount of $285,000 for 2024 and for each year of the years in this GRC cycle. The normalization of the Capital Technology Costs leads to a reduction in SCG's Miscellaneous Cost from $3.532 million to $2.677 million which is an overall decrease of $855,000 from SCG's 2024 request.

Thus, for 2024, Cal Advocates recommends $53.359 million for PSEP O&M compared to SCG's request of $54.214 million.

14.1.2 Capital Expenditures

The scope of SCG's PSEP capital expenditures is divided into two phases, each of which is further subdivided into two parts, resulting in four separate phases: Phase 1A, Phase 1B, Phase 2A and Phase 2B.[228] For its PSEP capital expenditures, SCG requests $141.509 million[229] for 2022, $101.920 million for 2023, and $73.810 million for

[228] Ex. CA-03 at 9.

[229] On March 13, 2023, SCG provided 2022 recorded adjusted data. The 2022 recorded adjusted capital expenditures were $108.970 million. Due to timing, Cal Advocates did not have time to incorporate this recorded figure into its forecast and R/O Model but recommends that it be adopted for 2022.

2024.[230] SCG's PSEP capital expenditure forecasts include pipeline replacement, abandonment, derate, and valve enhancement projects.[231]

Cal Advocates does not oppose SCG's capital expenditure requests for 2022-2024.[232]

14.2 SDG&E

14.2.1 SDG&E PSEP Non-Shared Expenses

SDG&E is requesting rate recovery of $1.21 million in O&M expenses for Pipeline Safety Enhancement Plan (PSEP) projects incurred between August 2014 and July 2019.[233] The Commission mandated the PSEP program in D.14-06-007 with the objectives of enhancing public safety, minimizing customer impacts, and maximizing cost-effective safety instruments.[234] The Commission approved SDG&E's proposed PSEP in June 2014, but did not pre-approve costs to implement projects, and two previous reasonableness review applications, A.16-09-005 filed in 2016 and A.18-11-010 filed in 2018, were submitted by SDG&E to recover costs for other pipeline safety projects not included in this reasonableness review.[235] SDG&E's requested recovery costs were not included in the 2019 GRC or the 2017 Forecast Application.[236] Therefore, Cal Advocates does not oppose SDG&E's request.[237]

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[230] Ex. SCG-08-CWP-E at 1-2.

[231] Ex. SCG-08 at BGK-25.

[232] Ex. CA-03 at 9-11.

[233] Ex. CA-04 at 26; Ex. SDG&E-08, at NGK-1.

[234] D.14-06-007, *Decision Implementing a Safety Enhancement Plan and Approval Process for San Diego Gas & Electric Company and Southern California Gas Company; Denying the Proposed Cost Allocation for Safety Enhancement Costs; and Adopting a Ratemaking Settlement*, June 12, 2014, at 1, 6-7; Issued in Application (A.)11-11-002.

[235] Ex. SDG&E-08 at NGK-6.

[236] Ex. CA-04 at 26.

[237] Ex. CA-04 at 26.

14.2.2 SDG&E PSEP Capital Expenditures 2022-2024

SDG&E is requesting to recover $239.176 million in PSEP capital expenditures incurred primarily between August 2014 and July 2019.[238] Cal Advocates does not oppose SDG&E's forecast.[239]

15 GAS INTEGRITY MANAGEMENT PROGRAMS

15.1 SoCalGas

15.1.1 Non-Shared Expenses

SCG requests $221.876 million in O&M expenses for its Integrity Management Programs for 2024.[240] This is an increase of $56.089 million or 34% above the recorded base year amount of $165.778 million.[241]

Cal Advocates' corresponding TY 2024 recommendation for SCG's Integrity Management Programs is $160.896 million. Cal Advocates' recommendation is $60.980 million lower than SCG's request of $221.876 million.

Table 15-1 below provides a breakdown of the cost elements that make up the 2017-2021 recorded and 2024 forecasts for SCG's Gas Integrity Management Programs.

Table 15-1
SCG Gas Integrity Management Programs Non-Shared O&M Expenses
2017-2021 Recorded and 2024 Forecasts
(in Thousands of 2021 Dollars)

Desc.	2017	2018	2019	2020	2021	SCG 2024	Cal Advocates 2024	SCG> Cal Advocates
TIMP	$49,934	$71,153	$81,307	$111,404	$103,657	$135,433	$92,954	$42,479
DIMP	$42,175	$46,973	$44,934	$48,370	$45,321	$53,159	$49,611	$3,548
SIMP	$18,492	$15,128	$14,658	$18,674	$16,800	$16,675	$16,675	$0
FIMP	$0	$0	$0	$0	$0	$14,953	$0	$14,953
GSEP	$0	$0	$0	$0	$0	$1,656	$1,656	$0
TOTAL O&M	**$110,601**	**$133,254**	**$140,899**	**$178,448**	**$165,778**	**$221,876**	**$160,896**	**$60,980**

Source: 2017-2021 data from Ex. SCG-08-WP at 5, 21, 34, 44 and 56. SCG 2024 forecast from Ex. SCG-08 at AK-TS-27, Table KS-9.

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[238] Ex. SDG&E-08 at NGK-14, NGK-15.

[239] Ex. CA-04 at 29-30.

[240] Ex. SCG-09 at AK-TS-27.

[241] Ex. SCG-09 at AK-TS-27.

15.1.1.1 Transmission Integrity Management Program (TIMP)

SCG requests $135.433 million in O&M expenses for its TIMP in 2024.[242] This amount is $31.776 million or 31% above the 2021 base year amount of $103.657 million.[243] Cal Advocates takes issue with SCG's request because it is excessive and inadequately supported. Cal Advocates recommends $92.954 million, which is $42.480 million lower than SCG's request.[244]

- **Overview of SCG's TIMP Request**

TIMP O&M expenses are for work activities to comply with federal regulations per 49 CFR § 192, Subpart O – Gas Transmission Pipeline Integrity Management. SoCalGas states that it:

> is required to continually identify threats to transmission pipeline located in HCAs [High Consequence Areas], determine the risk posed by these threats, schedule and track assessments to address threats within prescribed timelines, collect information about the condition of the pipelines, take actions to minimize applicable threats and integrity concerns to reduce the risk of a pipeline failure, and report findings to regulators.[245]

SCG's TIMP O&M expenses are balanced in the TIMP Balancing Account (TIMPBA) along with SCG's capital expenditures.[246] Under the TIMPBA mechanism, for overspending up to the 35% threshold, SoCalGas must submit a Tier 3 advice letter to seek recovery of the under-collected balance associated with expenditures up to the 35% threshold. For overspending 21% greater than or equal to the 35% threshold, SoCalGas must file a separate reasonableness review application to request recovery.[247]

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[242] Ex. SCG-09 at AK-TS-27.

[243] Ex. SCG-09 at AK-TS-27.

[244] Ex. CA-03 at 13-18.

[245] Ex. SCG-09 at AK-TS-27.

[246] Ex. SCG-38-R at RMY-17. The TIMPBA is a two-way balancing account and includes a 35% threshold to differentiate filing a Tier 3 Advice Letter or separate reasonableness review application to request recovery of an under collected balance.

[247] Ex. SCG-38-R at RMY-17.

- **SCG's Assessment and Remediation Unit Cost Is Excessive**

> SCG requests $135.434 million, or 31 percent, above the base year level for TIMP O&M expenses for 2024. SCG's forecast is primarily based on an "expansion of scope as a result of the GTSR Part 1 (e.g., outside-of-HCA assessments and material verification)."[248] SCG observes that: "The GTSR Part 1, titled Pipeline Safety: Safety of Gas Transmission Pipelines: Maximum Allowable Operating Pressure (MAOP) Reconfirmation, Expansion of Assessment Requirements, and Other Related Amendments, was issued in October of 2019 [and]…GTSR Part 2, titled Pipeline Safety: Safety of Gas Transmission Pipelines: Discretionary Integrity Management Improvements, is expected to be published in June of 2022.[249]

Cal Advocates does not take issue with SCG's proposed scope of TIMP for 2024. It appears that SCG will be assessing fewer miles of pipelines in 2024 compared to the 2017-2021 period. From 2017 to 2021, the number of miles of pipelines SCG assessed ranges from 206 to 639 miles per year. For 2024, SCG proposes to assess 277 miles. Table 15-2 below compares the 2024 forecast and historical miles assessed in HCA and Non-HCAs.[250]

[248] Ex. SCG-09 at AK-TS-35.

[249] Ex. SCG-09 at AK-TS-vi.

[250] Ex. CA-03 at 14.

Table 15-2
SCG's TIMP—Number of Miles Assessed in HCAs and Non-HCAs from 2017-2021 and 2024 Forecast

Miles of Pipeline Assessed			
	HCA	Non-HCA	Total
2017	74	132	206
2018	195	152	347
2019	272	367	639
2020	203	258	461
2021	208	256	464
2024	169	108	277

Source: 2017-2021 from SCG's response to data request PubAdv-SCG-DAO-035 (PAO-SCG-035-DAO_SCG-9_3846), Q.2(c). 2024 data from Ex. SCG-09-WP at 17.

SCG also requests fewer assessments in the Test Year compared to the five-year average number of assessments from 2017-2021. SCG forecasts performing a total of 36 assessments: 20 In Line Inspections (ILI) and 16 External Corrosion Direct Assessments (ECDA).[251] From 2017 to 2021, SCG performed on average 42 assessments each year and recorded 54 in 2021, as shown below in Table 15-4, SCG's TIMP Expenses by Primary Assessment Method.

While the number of miles to be assessed and the number of assessments forecasted for completion in 2024 is lower than the base year level, SCG's O&M request has increased above the base year level for two primary reasons. SCG's O&M request increased by $8.281 million due to new regulations, and increased by $15.919 million for regular assessments and remediation.[252] Table 15-3 below compares the SCG 2024 request to the base year level by cost element.

[251] SCG's response to data request PubAdv-SCG-DAO-035 (PAO-SCG-035_SCG-9_3846), Q.9.

[252] Ex. CA-03 at 15.

Table 15-3
A Comparison of SCG's TIMP Base Year and Test Year Forecast by Cost Element

Line	TY 2024 NSS O&M Forecast (000's)	2021 Adjusted-Recorded	2024 Estimate	Forecast Method
1	**Assessment & Remediation**	$79,697	$95,616	Refer to Question 6 and 7
2	**Assessment & Remediation – New Regulations**	$0	$8,281	Data assumptions and projections
3	**Preventative & Mitigative Measures**	$4,619	$6,842	SME determination
4	**Data & GIS**	$10,880	$11,972	SME determination
5	**Program Management & Support**	$6,081	$10,308	SME determination
6	**Risk & Threat**	$2,380	$2,415	SME determination
		$103,657	**$135,434**	

Source: SCG's response to data request PubAdv-SCG-DAO-035 (PAO-SCG-035_SCG-9_3846), Q.9, Attachment.

Based on a review of the costs, Cal Advocates takes issue with SCG's request to increase O&M expenses by $15.919 million for assessment and remediation costs for 2024. When compared to historical unit costs, the SCG 2024-unit cost to perform the assessment and remediation is significantly higher, yet SCG has not adequately supported the increased unit cost.[253]

Table 15-4 below presents the number of TIMP assessments by type, the recorded costs, and unit cost for ILI and ECDA for 2017 to 2021, and SCG's 2024 request.

Table 15-4
SCG's TIMP Expenses by Primary Assessment Method
(In '000s of Dollars)

Year	In-Line Inspection Expenses	# of ILI Assessment & Remediation	ILI Unit Cost	ECDA Expenses	# of ECDA Assessment & Remediation	ECDA Unit Cost	TOTAL Assessment & Remediation Expenses	ILI and ECDA Blended Unit Cost
2017	$23,259	16	$1,454	$9,633	13	$741	$32,892	$1,134
2018	$45,884	26	$1,765	$3,173	9	$353	$49,057	$1,402
2019	$56,352	35	$1,610	$2,855	28	$102	$59,207	$940
2020	$80,667	21	$3,841	$6,383	8	$798	$87,050	$3,002
2021 *		27			27		$79,697	$1,476
2024	$78,400	20	$3,920	$17,216	16	$1,076	$95,616	$2,656

Source: 2017-2021(*) data from SCG's responses to data request PubAdv-SCG-DAO-035 (PAO-SCG-035_SCG-9_3846), Q.2(a)(b). Year 2021 cost data for ILI and ECDA do not match the aggregate number and are not included herein. 2024 data from data request PubAdv-SCG-DAO-035 (PAO-SCG-035_SCG-9_3846), Q.9, Attachment.

253 Ex. CA-03 at 16.

Based on SCG's historical data from 2017 to 2021, as shown in the table above, SCG's ECDA cost is significantly higher than previous years. For 2024, SCG's unit cost for ECDA is $1.076 million per assessment. On average, the 2017-2020 ECDA unit cost is $498,000 per assessment, or less than half of the 2024 forecast amount.. In one data request response to Cal Advocates, SCG's 2021 data shows an ECDA unit cost at $211,000.[254] SCG has failed to adequately explain why the 2024-unit cost for ECDA is significantly higher than previous years.[255]

SCG's request for ILI unit cost is also inadequately supported. As shown in the table above, the SCG ILI unit cost for 2024 is significantly higher than historical levels. The four-year average (2017-2020) ILI unit cost is $2.167 million compared to SCG's 2024 request of $3.920 million. In one response to a data Cal Advocates request , SCG provided the 2021 ILI unit cost of $236,000.[256] SCG has failed to adequately support its ILI unit cost forecast .[257]

Although the Gas Transmission Safety Rule (GTSR) Part 1 mandates that operators expand assessments into areas outside of HCAs (49 CFR § 192.710),[258] SCG states that "SoCalGas previously conducted assessments under the TIMP on areas outside of HCAs both as a best safety practice and in compliance with 49 CFR § 192, Subpart O." This is not a new work activity for the Test Year but is something that SCG has been addressing. SCG has been assessing pipelines in both HCAs and Non-HCAs, as shown above in Table 15-2, SCG's TIMP—Number of Miles Assessed in HCAs and Non-HCAs from 2017-2021.

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[254] SCG's response to data request PubAdv-SCG-DAO-035 (PAO-SCG-035_SCG-9_3846), Q.2(a) in which SCG reports the 2021 recorded amount of $5.684 million for 27 ECDAs. $5.684 million/27=$211,000.

[255] Ex. CA-03 at 17.

[256] SCG's response to data request PubAdv-SCG-DAO-035 (PAO-SCG-035_SCG-9_3846), Q.2(a) in which SCG reports the 2021 recorded amount of $6.383 million for 27 ILIs. $6.383 million/27=$236,000.

[257] Ex. CA-03 at 17.

[258] Ex. SCG-09 at AK-TS-27.

Based on inadequate support for the increase in unit costs of ILI and ECDA work activities, Cal Advocates recommends using the base year ILI and ECDA blended unit cost of $1.476 million per assessment to determine the 2024 forecast. Cal Advocates' recommended unit cost incorporates the most recent data available in this proceeding, 2021, and excludes outlier cost data from years 2019 and 2020, as shown in the table above.[259]

Cal Advocates accepts SCG's request to perform 36 assessments and remediations for 2024. Using the $1.476 million per assessment and remediation and applying this blended unit cost to 36 assessments, yields a total of $53.136 million for 2024.

Cal Advocates' overall recommendation for TIMP is $92.954 million compared to SCG's request of $135.434 million. Cal Advocates' recommendation is $42.480 million lower than SCG's 2024 forecast and is based on a lower amount for assessment and remediation cost for routine assessment and remediation work. Cal Advocates does not take issue with SCG's proposed increase to comply with new regulations or with any other cost elements.[260] A comparison of the various cost elements between Cal Advocates and SCG for 2024 is shown in the table below.

Table 15-5

Cal Advocates's Recommendation and SCG's TIMP O&M 2024 Forecast (000's)					
Line		**2021 Adjusted-Recorded**	**SCG's 2024 Forecast**	**Cal Advocates' 2024**	**SCG>Cal Advocates**
1	Assessment & Remediation	$79,697	$95,616	$53,136	$42,480
2	Assessment & Remediation – New Regulations	$0	$8,281	$8,281	$0
3	Preventative & Mitigative Measures	$4,619	$6,842	$6,842	0
4	Data & GIS	$10,880	$11,972	$11,972	0
5	Program Management & Support	$6,081	$10,308	$10,308	0
6	Risk & Threat	$2,380	$2,415	$2,415	0
	TOTAL	**$103,657**	**$135,434**	**$92,954**	**$42,480**

[259] Ex. CA-03 at 18.

[260] Ex. CA-03 at 18.

15.1.1.2 Distribution Integrity Management Program

SCG requests $53.159 million in O&M expenses for the Distribution Integrity Management Program (DIMP) for 2024.[261] This is an increase of $7.838 million or 17% above the base year amount of $45.321 million.

Cal Advocates takes issue with SCG's request for DIMP for 2024. In particular, Cal Advocates recommends no increase for the Distribution Riser Inspection Program (DRIP) expenses because this cost component is not adequately supported.. The DRIP request is $17.334 million of SCG's 2024 total DIMP request of $53.159 million. Cal Advocates' recommendation is $49.611 million, which reflects a downward adjustment of $3.547 million to SCG's $53.159 million request.[262]

. . See Table 15-6 below for a summary of the various cost components that make up the DIMP O&M expenses.

Table 15-6

SCG Distribution Integrity Management (DIMP) Programs 2017-2021 Recorded Expenses and 2024 Forecast In 2021 $ (000's)							
		2017	**2018**	**2019**	**2020**	**2021**	**2024**
DREAM S	Total	$4,033	$3,105	$3,190	$5,153	$3,767	$5,280
	FTE	21.9	42.7	47.1	18.7	13.4	18.5
DRIP	Total	$16,517	$16,359	$14,908	$14,497	$13,787	$17,334
	FTE	38.8	38.7	31.7	30.7	35.8	42.5
GIPP	Total	$2,101	$2,449	$2,738	$1,540	$713	$1,153
	FTE	12.3	19.5	22.4	3.9	2.4	4.1
SLIP	Total	$11,047	$10,463	$10,861	$11,726	$12,728	$ 15,066
	FTE	22.4	20.5	19.7	17.4	14.3	15.5
Other	Total	$8,477	$14,597	$13,238	$15,455	$14,325	$14,325.00
	FTE	42.4	70.9	59.3	64.9	61.9	n.a.
Total DIMP	Total	$42,175	$46,973	$44,934	$48,370	$45,321	$53,159
	FTE	137.8	192.3	180.2	135.6	127.8	142.5

Source: 2017-2021 data from SCG's response to data request PubAdv-SCG-DAO-053 (PAO-SCG-053-DAO_5760), and 2024 data from Ex. SCG-09-WP at 23-24.

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[261] Ex. SCG-09-WP at 21.

[262] Ex. CA-03 at 19-21.

SCG's DRIP started in 2013 and focuses on the remediation of corrosion on anodeless risers. SCG remediates approximately 200,000 units per year as part of the DRIP[263] and anticipates completion of the DRIP by 2029.[264]

SCG has not proposed an increase in the level of DRIP remediation for 2024 but nevertheless seeks higher DRIP expenses. Cal Advocates disputes the increase in DRIP expenses because SCG has not provided adequate support for the reasons it claims for the increased DRIP expenses:

(1) higher contract rates, and (2) DIMP management costs. .

Cal Advocates requested that SCG provide supporting documents to justify an increase in higher contract costs and to show how SCG determined the number of Full-time Equivalent employees.[265] SCG's response failed to explain how the increases were determined or provide support for higher contractor costs.

Because SCG did not adequately substantiate the increase in DRIP expenses for 2024, the Commission should reject SCG's requested increase of $3.547 million for 2024. Cal Advocates' recommended adjustment results in an overall forecast of $49.611 million for 2024 compared to SCG's request of $53.159 million for DIMP.[266]

15.1.1.3 Facilities Integrity Management Program

SCG requests $14.953 million for 2024 to implement a new integrity program called Facilities Integrity Management Program (FIMP).[267] SCG states that it will begin FIMP safety and integrity work activities in 2024 and will include facilities such as storage fields, compressor stations, renewable natural gas compression facilities, pressure limiting stations and natural gas vehicle fueling stations in the scope of FIMP.[268] FIMP

[263] Ex. SCG-09 at AK-TS-39.

[264] Ex. SCG-09 at AK-TS-39.

[265] SCG's response to data request PubAdv-SCG-DAO-053 (PAO-SCG-053-DAO_5760), Q.3(b).

[266] Ex. CA-03 at 20-21.

[267] Ex. SCG-09 at AK-TS-27.

[268] Ex. SCG-09 at AK-TS-52.

O&M activities include inspections, remediation, and other associated activities.[269] Cal Advocates opposes SCG's test year request of $14.953 million and recommends zero funding for FIMP as discussed below.

SCG's The activities SCG proposes for FIMP should be a part of the utility's routine operation and maintenance work activities. SCG testimony proposes that FIMP "include the development and implementation of comprehensive inspection programs for various types of equipment such as fixed equipment…"[270] and should "enhance data collection and data management activities on its facilities equipment."[271] However, SCG has presented no convincing evidence to support the establishment of a separate program to perform these activities. which would lead to an unnecessary increase in rates with no commensurate increase in ratepayer benefit.[272]

Ratepayers already provide SCG funding through rates to perform many of the activities SCG proposes to enhance with FIMP. For example, as part of the proposed FIMP, SCG requests funding to assess and collect data from 28 "pressure vessels" at its Natural Gas Vehicle stations.[273] SCG is presently receiving funding in rates to perform routine vessel inspections as part of the utility's Gas Engineering group's work activities.[274] SCG asserts that the existing Gas Engineering program and FIMP differ because "FIMP intends to perform inspections and assessments on the pressure vessels programmatically on a more regular basis."[275]

Another example of a proposed FIMP activity that ratepayers already fund though their existing rates is SCG's request for FIMP funding to inspect electrical equipment at

[269] Ex. SCG-09-WP at 44.

[270] Ex. SCG-09 at AK-TS-52.

[271] Ex. SCG-09 at AK-TS-52.

[272] Ex. CA-03 at 21-22.

[273] Ex. SCG-09-WP at 53.

[274] SCG's response to data request PubAdv-SCG-DAO-036 (PAO-SCG-036_SCG-9_3854) Q.1(c).

[275] SCG's response to data request PubAdv-SCG-DAO-036 (PAO-SCG-036_SCG-9_3854), Q.1(c).

four aboveground storage facilities.[276] Maintenance and inspection activities are presently funded as part of SCG's Gas Storage in rates.[277] Similar to SCG's request for FIMP funding of pressure vessel inspections, the primary difference between the existing operation and maintenance programs and FIMP appears to be that "FIMP intends to perform inspections and assessments programmatically on a more regular basis."[278] SCG has not adequately demonstrated that FIMP should be a stand-alone incremental program, as opposed to enhancing existing programs as necessary [279]

SCG has not provided convincing evidence to support FIMP's existence as a standalone program in 2024. SCG claims that its Gas Distribution, Gas Transmission and Gas Storage departments will be using existing procedures to perform inspections in 2022 and 2023 that will be used to inform the development of FIMP, and that these pilot projects will be used to develop standardized procedures for FIMP.[280] SCG also proposes to "…use existing databases, including the Enterprise Asset Management data lake, to collect and integrate data from multiple sources."[281] By proposing to use existing departments and resources to perform inspections and collect data, and by using existing procedures to develop FIMP, SCG has not adequately demonstrated that ratepayers should be funding a separate program with additional redundant/duplicate costs such as program management and data management costs.[282]

SCG's requested FIMP costs are inadequately supported. SCG's workpapers include a spreadsheet containing a cost breakdown of the requested $14.593 million for FIMP, but SCG failed to substantiate many of the cost elements.[283] While SCG claims

[276] Ex. SCG-09-WP at 53.

[277] SCG's response to data request PubAdv-SCG-DAO-036 (PAO-SCG-036_SCG-9_3854), Q.2(d).

[278] SCG's response to data request PubAdv-SCG-DAO-036 (PAO-SCG-036_SCG-9_3854), Q.2(d).

[279] Ex. CA-03 at 22-23.

[280] Ex. SCG-09 at AK-TS-52.

[281] SCG's response to data request PubAdv-SCG-DAO-036 (PAO-SCG-036_SCG-9_3854), Q.5.

[282] Ex. CA-03 at 23.

[283] SCG's response to data request PubAdv-SCG-DAO-036 (PAO-SCG-036_SCG-9_3854).

that it developed many of the FIMP costs using third-party estimates and subject matter experts' input, SCG presented no materials to confirm these costs. SCG also claims that some unit costs were based on historical cost, but provided no further information or support to identify the program or timeframe from which these costs were derived.[284]

The Commission should reject SCG's request for FIMP. SCG has failed to present convincing evidence for the establishment of an incremental program with additional costs that would unnecessarily burden ratepayers with few, if any, commensurate benefits that could not be achieved through existing programs. Cal Advocates recommends the removal of $14.953 million from the SCG's FIMP forecast for 2024.[285]

15.1.1.4 Facilities Integrity Management Plan Balancing Account

SCG also requests that FIMP O&M expenses be balanced and recorded in a new Facilities Integrity Management Program Balancing Account (FIMPBA).[286] "SoCalGas proposes to create the FIMPBA as a two-way, interest-bearing balancing account recorded on SoCalGas's financial statements. The purpose of the FIMPBA is to record the difference between the authorized revenue requirement to be adopted in the TY 2024 GRC and actual expenses associated with the Facilities Integrity Management Program."[287]

Cal Advocates opposes SCG's request for the two-way balancing account for FIMPBA. Creation of the FIMPBA should be rejected as unnecessary. However, if the Commission is inclined to authorize a cost recovery mechanism for FIMP, Cal Advocates recommends that the FIMPBA mechanism be the same as that of the Transmission Integrity Management Program Balancing Account (TIMPBA).[288]

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[284] Ex. CA-03 at 23.

[285] Ex. CA-03 at 24.

[286] Ex. SCG-09 at AK-TS-55.

[287] Ex. SCG-38-R at RMY-18.

[288] Ex. CA-03 at 24.

The TIMPBA is a two-way balancing account that includes a 35% threshold to differentiate filing a Tier 3 Advice Letter or separate reasonableness review application to request recovery of an under-collected balance. For overspending up to the 35% threshold, SoCalGas must file a Tier 3 Advice Letter to seek recovery of the under-collected balance associated with expenditures up to the 35% threshold. For overspending greater than or equal to the 35% threshold, SoCalGas must file a separate reasonableness review application to request recovery. If SCG underspends any authorized amount, it must refund the balance back to ratepayers.[289] The FIMPBA, if adopted, should have a similar threshold.

15.1.1.5 Gas Safety Enhancement Programs Balancing Account

SoCalGas requests authorization to establish a two-way Gas Safety Enhancement Programs Balancing Account (GSEPBA) to track and recover actual costs incurred to comply with new gas safety regulations. According to SCG, if the balance in the GSEPBA exceeds the forecast due to unanticipated activities or scope, such as the issuance of additional new federal or state regulations, recovery of account balances above authorized levels could be requested through a Tier 2 advice letter filing.[290] For the GSEPBA, SoCalGas proposes to use the same cost recovery mechanism (i.e., 35% of total authorized expenditures threshold) as its TIMPBA.

While Cal Advocates does not take issue with the request to establish a two-way GSEPBAthe Commission should not authorize cost recovery through the submission of a Tier 2 advice letter. Instead, Cal Advocates recommends that the Commission require submission of a Tier 3 advice letter to recover GSEPBA costs. A Tier 3 advice letter enables more scrutiny to determine whether costs are properly incurred and recorded and must be resolved through a Commission resolution and offers greater protection to ratepayers. Requiring submission of a Tier 3 advice letter is consistent with the cost recovery method of the TIMPBA. SCG has not presented adequate support to justify the

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[289] Ex. CA-03 at 24-25.

[290] Ex. SCG-09 at AK-TS-62 and Ex. SCG-38-R at RMY-19.

use of a less stringent method to recover cost overruns. Submission of a Tier 3 advice provides ratepayers more protection than submission of a Tier 2 advice letter..[291]

15.1.2 Shared Expenses

SCG requests $2.499 million in shared O&M expenses for 2024.[292] This amount is $379,000 higher than the 2021 recorded amount of $2.120 million.[293] Cal Advocates does not oppose SCG's request of shared expenses for Gas Integrity Management Programs.[294]

15.1.3 Capital Expenditures

SCG's requests Gas Integrity Management Programs capital expenditure forecasts of $426.5 million for 2022, $461.8 million in 2023, and $537.9 million for 2024.[295] Cal Advocates does not oppose these requests.[296]

15.2 SDG&E

15.2.1 SDG&E Gas Integrity Management Programs Non-Shared Expenses

SDG&E requests Gas Integrity Management Programs O&M expenses of $12.768 million in TY 2024.[297] SDG&E's forecast is an increase of $2.3 million, which is 24% more than 2017-2021 historical average expenses.[298] Gas integrity management activities reduce risk to the gas system through the process of identifying, evaluating, and reducing pipeline integrity risks for SDG&E's gas system.[299]

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[291] Ex. CA-03 at 25.

[292] Ex. SCG-08 at AK TS-69.

[293] Ex. SCG-08 at AK TS-69.

[294] Ex. CA-03 at 4.

[295] Ex. SCG-09-WP at 1. On March 13, 2023, SCG provided 2022 recorded adjusted data. The 2022 recorded adjusted capital expenditures totaled $322.304 million. Due to timing, Cal Advocates did not have time to incorporate the revised amount into its forecast and R/O Model but recommends that this recorded figure be adopted for 2022.

[296] Ex. CA-03 at 25-26.

[297] Ex. SDG&E-09-R at AK-TS-7, Table KS-2.

[298] Ex. CA-04 at 31-32, Table 4-22.

[299] Ex. CA-04 at 31.

Cal Advocates does not oppose SDG&E's requests for gas integrity management project expenses.[300]

15.2.2 SDG&E Gas Integrity Management Programs Capital Expenditures 2022-2024

SDG&E requests Gas Integrity Management Programs capital expenditures of $81.7 million in 2022, $86.9 million in 2023, and $107.1 million in TY 2024.[301]

Cal Advocates does not oppose SDG&E's request gas integrity management project capital expenditures.[302]

16 GAS STORAGE OPERATIONS AND CONSTRUCTION (SOCALGAS ONLY)

16.1 Expenses

SCG requests $47.443 million in non-shared O&M expenses for Gas Operations and Construction for 2024.[303] The base year recorded amount is $43.106 million. SCG requests $339,000 in shared O&M expenses for 2024.[304] This amount is $28,000 lower than the 2021 recorded amount of $367,000.[305]

Cal Advocates does not oppose SCG's 2024 request for Gas Storage Operations and Construction O&M expenses.[306]

16.2 Capital Expenditures

Cal Advocates does not take issue with SCG's 2022-2024 request for Gas Storage Operations and Construction capital expenditures. However, Cal Advocates opposes SCG's request of $21.6 million in excess cost recovery for its Aliso Canyon Turbine Replacement (ACTR) project. Cal Advocates recommends $9.5 million, a reduction of $12.6 million.

[300] Ex. CA-04 at 33.

[301] Ex. CA-04 at 33-34, Table 4-24.

[302] Ex. CA-04 at 35.

[303] Ex. SCG-10 at LTP-SH-13.

[304] Ex. SCG-09 at LTB-SH-iv.

[305] Ex. SCG-09 at LTB-SH-iv.

[306] Ex. CA-03 at 4-5, 27.

Table 16-1 compares Cal Advocates' recommendation and SCG's request for 2022-2024 Gas Storage Operations and Construction capital expenditure forecast:

Table 16-1
SCG Gas Storage Operations and Construction
Capital Expenditures for 2022-2024
(in Thousands of Dollars)

Description	Cal Advocates Recommended			SCG Proposed[307]		
	2022	2023	2024	2022	2023	2024
Total	$206,195	$163,279	$146,550	$206,195	$163,279	$146,550

SCG requests $206.195 million, $163.279 million, and $146.550 million for the years 2022-2024.[308] In 2021, SCG recorded $186.764 million in expenditures for Gas Storage Operations and Construction. Cal Advocates does not oppose SCG's capital expenditures request.[309]

16.2.1 Alison Canyon Turbine Replacement Project

Cal Advocates takes issue with SCG's request for recovery of $21.6 million in excess costs for its ACTR project.[310]

SCG requests $21.6 million in capital expenditures for cost overruns in the replacement of its ACTR project which went into operation on May 17, 2018.[311] SCG states, "The final cost for ACTR was $21.600 million over the total cost approved for recovery in [the] 2019 GRC decision."[312] The Commission authorized the recovery in rates of excess costs for the ACTR through SCG's Aliso Canyon Memorandum Account subject to a reasonableness review.[313]

[307] Ex. SCG-10-R at LTB-SH-1.

[308] Ex. SCG-10 at LTP-SH-19.

[309] Ex. CA-03 at 5-6, 27.

[310] Ex. CA-03 at 27-30.

[311] Ex. SCG-10 at LTP-SH-37.

[312] Ex. SCG-10 at LTP-SH-37.

[313] Ex. SCG-10 at LTP-SH-37.

The Commission should limit SCG's recovery cost overruns associated with the ACTR project to $9.5 million, which is $12.6 million lower than SCG's request of $21.6 million .. Cal Advocates takes issue with SCG's request for two cost elements associated with the ACTR. One is for the cost element titled "Company Labor" and the other is for "Indirects."

A breakdown of the $21.6 million in ACTR cost overruns is presented in following table.

Table 16-2
Alison Canyon Turbine Replacement Project Excess Costs

WORKPAPER TITLE	**IN SERVICE DATE**
Total Cost	5/17/2018

PROJECT COST (in $1,000,000)	**Variance**
Central Compressor Station	$5.0
Substation & Electrical Infrastructure	$1.2
Buildings	-$0.4
Environmental	$0.1
Company Labor	$1.8
Other	$2.0
Indirects	$11.8
Total	**$21.6**

Source: SCG's response to data request PubAdv-SCG-DAO-091 (PAO-SCG-091-DAO_8711), Q.3(a).

The Commission should reject SoCalGas's request for $1.8 million for "Company Labor" because the utility did not hire any FTEs specifically for the ACTR project. SoCalGas states that it shifts qualified FTEs between projects depending on resource demand at any given time.[314] The project saw a year over year decrease in hours charged and associated FTEs from 2018 through 2020.

[314] SCG's response to data request PubAdv-SCG-DAO-091 (PAO-SCG-091-DAO_8711), Q.3(c).

The Commission should not authorize SoCalGas's request for $11.8 million for "Indirects." Instead, the amount should be reduced by $2.2 million for Overheads. A summary of the categories of "Indirect" costs are shown in the table below.

Table 16-3
SCG ACTR Cost Overrun—Indirect Costs
(in '000s of Dollars)

WORKPAPER TITLE Indirects	**IN SERVICE DATE** 5/17/2018
ACTR	
PROJECT COST (in $1,000,000)	**Variance**
SoCalGas Overheads	$2.2
AFUDC	$8.4
Property Taxes	$1.3
Total	**$11.8**

Source: SCG's response to data request PubAdv-SCG-DAO-091 (PAO-SCG-091-DAO_8711), Q.3(a).

Overheads are costs that represent more static costs that do fluctuate in the same way as variable costs, such as for fuel. Overhead costs pertain to general business functions, such as facility costs, rents, utilities, and government fees. Overhead costs are generally ongoing and not directly attributed or directly chargeable to any business activity. Generally, Overhead expenses that apply to labor include: benefits; paid time off; building services; Information Technology device services; fleet; indirect labor; payroll taxes; and operational management and support. Overhead costs are ongoing, non incremental costs that are necessary for SCG's day-to-day operations. Cal Advocates recommends a $2.2 million adjustment to ACTR Indirects because Overhead costs are already included in ratebase.[315]

Notwithstanding Cal Advocates' objections regarding Company Labor and Indirects as related to SCG's request for $21.6 million, Cal Advocates recommends that

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[315] Ex.CA-03 at 29.

the Commission approve the sole recovery of $9.5 million. This is because, according to SCG, the balance as of March 31, 2022, is $9.5 million under-collected.[316]

17 PROCUREMENT

17.1 SCG Gas Acquisition

SCG's Gas Acquisition Department's request includes costs for the following activities: (1) procurement of reliable natural gas supplies and clean fuels for SoCalGas and SDG&E retail core customers at a reasonable cost for customers, procurement of Cap-and-Trade GHG emissions compliance instruments for SoCalGas's covered end-use customers and its gas transmission and storage facilities at a reasonable cost for customers, (3) activities to support California's decarbonization goals, and (4) compliance with state and federal regulatory requirements and policies.[317]

17.1.1 SCG Gas Acquisition - O&M

SoCalGas is requesting $5.247 million of expenses in TY 2024, which is an increase of $166,000 or 3.3% over 2021 adjusted-recorded costs of $5.081 million.[318] Cal Advocates does not oppose SCG's request.[319]

17.2 SDG&E Electric and Fuel Procurement

According to SDG&E, its electric and fuel procurement activities relate to planning, procuring, managing, and administering the energy supply resources needed for SDG&E to deliver clean, safe, and reliable electric service to bundled service customers, compliance with procurement requirements and to support successful transition of customers who depart bundled service to be served by a community choice aggregation (CCA) or direct access (DA) providers in a manner that achieves equitable cost allocation.[320]

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[316] Ex. SCG-38-R at RMY-10.

[317] Ex SCG 11 at MFL-1

[318] Ex. SCG-11 at MFL-9.

[319] Ex. CA 05 at 5-6.

[320] Ex. SDG&E-10 at CAS 1.

These services are recorded under the following non-shared cost categories: (17.2.1) Resource Planning (O&M), (17.2.2) Origination and Portfolio Design (O&M), (17.2.3) Back Office (O&M), and (17.2.4) Energy Supply & Dispatch (O&M).

Cal Advocates recommends $0.874 million for the Resource Planning labor portion of Energy Procurement as shown in the discussion below, compared to SDG&E's request of $0.938 million, which is a difference of $0.064 million.

Cal Advocates does not oppose the forecast for the Resource Planning non-labor portion of SDG&E's request.[321]

17.2.1 SDG&E Energy Procurement-Resource Planning - O&M

SDG&E requests $1.203 million for its Energy Procurement Resource Planning section which is comprised of $0.938 million for labor and $0.265 million for non-labor for TY 2024.[322]

Cal Advocates recommends a downward adjustment from $1.203 million to $0.874 million using a 3-year-average methodology to reflect recent recorded costs associated with the Resource Planning labor section.[323]

SDG&E claims the increase in labor is due to partial vacancies in 2021, however, the number of FTEs has not exceeded 6.4 in the last five years. Cal Advocates recommends using a three-year average to reflect the most current recorded information and low fluctuation of costs and FTEs during recent years.[324]

Cal Advocates' $0.874 million recommendation is an increase of $0.032 million over SDG&E's TY 2021 Resources Planning labor costs.

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[321] Ex. CA 05 at 7, 10-11.

[322] Ex. SDG&E-10-WP at 28.

[323] *Ibid.*

[324] *Ibid.*

17.2.2 SDG&E Energy Procurement-Origination & Portfolio Design Non-Shared - O&M

SDG&E's requests $2.479 million for its Energy Procurement Non-Shared O&M Expenses Origination Portfolio Design section.[325]

Cal Advocates does not oppose SDG&E's request for Origination Portfolio Design Non-Labor, Energy Supply & Dispatch, Back Office, and Resource Planning Non-Labor.[326]

Cal Advocates recommends a forecast of $1.587 million compared to SDG&E's request of $2.187 million for the labor portion, which is a difference of $600,000. Cal Advocates' forecast is an increase of $102,000 over the recorded TY 2021 expense of $1.485 million. Cal Advocates used a five-year average methodology to smooth out the fluctuations used in SDG&E's forecast. The five-year methodology also accounts for the recent recorded costs associated with the Origination Portfolio Design labor and the decrease of the number of contracts from 2017 through 2021. The true amount of the potential expected contracts is unknown at this time.[327]

Cal Advocates' $1.587 million recommendation for Origination & Portfolio Design labor results in an average cost per contract of approximately $26,500, which is much more in line with SDG&E's historical spending than SDG&E's $2.187 million projection, which results in an average cost per contract of approximately $36,500.[328]

17.2.3 SDG&E Energy Procurement- Back Office - O&M

SDG&E requests $3.535 million to recover labor and non-labor non-shared costs for its Energy Procurement- Back Office operations.[329] Cal Advocates does not oppose SDG&E's request.[330]

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[325] Ex. SDGE-10-WP at 6.

[326] Ex. CA-05 at 7-10.

[327] *Ibid.*

[328] *Ibid.*

[329] Ex. SDGE-10-WP at 21.

[330] Ex. CA-05 at 7-8.

17.2.4 SDG&E Energy Procurement-Energy Supply & Dispatch - O&M

SDG&E requests $2.159 million for its Energy Procurement-Energy Supply & Dispatch operations for TY 2024.[331] Cal Advocates does not oppose this request.[332]

18 CLEAN ENERGY INNOVATIONS

18.1 SoCalGas Clean Energy Innovations

Exhibit 12-R of SCG's testimony describes costs associated with Clean Energy Innovations (CEI). Operations and Maintenance (O&M) costs associated with CEI belong to one of the four following categories of management: (1) Sustainability, (2) Clean Fuels Infrastructure Development, (3) Clean Energy Project Management Office (PMO), and (4) Research Development and Demonstration (RD&D) Program. According to SCG, programs under the CEI umbrella are meant to support decarbonization and SCG's transition to clean fuels.[333] SCG incurs only Non-Shared O&M expenses for CEI.[334]

SCG requests $47.223 million for TY 2024 O&M costs, which is an increase of $18.762 million over its adjusted recorded base year (BY) 2021 expenditures of $28.461 million.[335] SCG forecasts TY O&M costs of $1.982 million for Sustainability, $20.400 million for Clean Fuels Infrastructure Development, $1.592 million for CEI PMO, and $23.249 million for RD&D.[336]

There are increases in O&M costs across all four categories of management between BY 2021 and TY 2024.[337] These increases are driven by the development of clean fuels infrastructure and new projects aimed at supporting clean energy.[338] The

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[331] Ex. SDGE-10-WP at 14.

[332] Ex. CA-05 at 7-8.

[333] Ex. SCG-12-R at AI-1 to AI-2.

[334] Ex. SCG-12-R at AI-iii.

[335] Ex. SCG-12-R at AI-2, Table AI-1.

[336] Ex. SCG-12-R at AI-2, Table AI-1.

[337] Ex. CA-07 at 5.

[338] Ex. CA-07 at 5.

biggest increase in O&M costs is associated with Clean Fuels Infrastructure Development, which makes up $12.205 million (or about 65 percent) of the overall $18.762 million increase in non-shared CEI expenses.[339]

Cal Advocates recommends adopting a TY 2024 forecast of $36.158 million for non-shared CEI O&M expenses, which is $11.065 million less than SCG's request.[340] Cal Advocates does not oppose SCG's forecasts for the Sustainability and Clean Energy Innovations Project Management Office categories.[341] Cal Advocates discusses its recommendations for the remaining categories below.

18.1.1 Clean Fuels Infrastructure Development

Cal Advocates recommends a TY 2024 forecast of $13.745 million for O&M costs associated with Clean Fuels Infrastructure Development.[342] Cal Advocates' recommendation is $6.655 million less than SCG's request of $20.400 million.[343] O&M costs in the Clean Fuels Infrastructure Development program belong to one of the five following categories: (1) Business Development, (2) CCUS FEED Study Program, (3) Clean Fuels Operational Readiness Program, (4) Clean Fuels Transportation Program, and (5) Clean Fuels Power Generation.[344] SCG uses the base year method to derive its forecasts.[345] Cal Advocates does not oppose SCG's forecasts for the following programs within Clean Fuels Infrastructure Development: Business Development, Clean Fuels Operational Readiness Program, Clean Fuels Transportation Program, and Clean Fuels Power Generation.[346] Cal Advocates opposes SCG's forecast for the CCUS FEED Study Program, which is discussed below.

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[339] See Ex. SCG-12-R at AI-2, Table AI-1.

[340] Ex. CA-07 at 6.

[341] Ex. CA-07 at 6.

[342] Ex. CA-07 at 6.

[343] Ex. CA-07 at 6.

[344] Ex. CA-07 at 6-7.

[345] Ex. SCG-12-R at AI-17, lines 3-6.

[346] Ex. CA-07 at 7.

18.1.2 CCUS FEED Study Program

SCG requests a program expense of $6.655 million for the CCUS FEED Study Program.[347] This cost is for non-labor expenses only.[348] Cal Advocates disagrees with SCG's request because the net impact of the project on ratepayers remains unknown and unquantified.[349] In a data request,[350] Cal Advocates asked SCG:

> Did SCG perform a cost-benefit analysis on how the CCUS FEED Study Program will affect ratepayers? If yes, please provide a copy of that report or the analytical model that supported SCG's decision-making. If not, please explain why not.

SCG's response was:

> SoCalGas has not done a "cost-benefit analysis" on how the CCUS FEED Study Program will affect ratepayers. SoCalGas is currently in the pre-feasibility stage of technical and economic assessment of carbon management infrastructure…This stage includes an assessment of CO2 pipeline transport as a common carrier, tariffed service. Given the stage of this program, it is premature to do a cost-benefit analysis at this stage of assessment.[351]

As evidenced in SCG's response, it is too early to assess how the CCUS FEED Study Program will impact ratepayers.[352] The program is currently in the "pre-feasibility stage", and it is possible that future studies may reveal the program does not present a net benefit to ratepayers.[353] Further technical and economic assessment might also reveal that carbon management infrastructure is less feasible and cost-effective than previously believed.[354] Work on the CCUS FEED Study is not scheduled to begin until 2024, and there is limited historical data for the program to utilize in making any recommendations

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[347] Ex. SCG-12-R at AI-26.

[348] Ex. SCG-12-R at AI-26, lines 2-21.

[349] Ex. CA-07 at 7.

[350] PubAdv-SCG-SIK-085 at Question 2.

[351] SCG's response to PubAdv-SCG-SIK-085 at Question 2.

[352] Ex. CA-07 at 7.

[353] Ex. CA-07 at 7.

[354] Ex. CA-07 at 7-8.

or forecasts.[355] Although Cal Advocates understands the potential benefits of carbon management infrastructure, ratepayers should not be required to fund a program that may not present any net benefits for them.[356] Therefore, the Commission should rejectSCG's request for $6.655 million in O&M costs for the CCUS FEED Study Program.[357]

18.1.3 Research Development and Demonstration (RD&D)

SCG requests $23.249 million for O&M costs related to its Research Development & Demonstration (RD&D) Refundable Program.[358] Cal Advocates recommends a forecast of $18.839 million, which is $4.410 less than SCG's forecast.[359] SCG's TY 2024 forecast includes $2.608 million in labor costs and $20.641 million in non-labor costs.[360] There are four categories of non-labor costs: (1) Clean & Renewable Energy Resources, (2) Gas Operations, (3) Clean Transportation, and (4) Clean Energy Applications.[361] Cal Advocates accepts SCG's non-labor forecasts for Clean & Renewable Energy Resources, Gas Operations, and Clean Energy Applications but it rejects SCG's request for Clean Transportation RD&D costs.[362]

Based on SCG's Research, Development, and Demonstration Program 2021 Annual Report (2021 Annual RD&D Report), projects in the Clean Transportation sub-program do not demonstrate a clear, quantifiable net benefit to ratepayers.[363] For example, SCG states that it provided $0.250 million in funding to a project called the "Ingevity ANGP Ford F-150 Medium Duty Truck Demonstration", which "demonstrated a bi-fuel truck outfitted to run on renewable natural gas (RNG) stored as absorbed natural

[355] Ex. SCG-12-WP-R at 27.

[356] Ex. CA-07 at 8.

[357] Ex. CA-07 at 8.

[358] Ex. SCG-12-R at AI-44, Table AI-9.

[359] Ex. CA-07 at 8.

[360] Ex. SCG-12-R at AI-44, Table AI-9.

[361] Ex. SCG-12-R at AI-54 to AI-56.

[362] Ex. CA-07 at 8.

[363] SoCalGas Research, Development, and Demonstration Program 2021 Annual Report at 167-181.

gas (ANG) and gasoline."[364] However, based on the 2021 Annual RD&D Report, this project and other projects in this sub-program do not present a likely net benefit to ratepayers.[365]

The 2021 Annual RD&D Report also states that, in 2021, approximately 90% of Research, Development, and Demonstration (RD&D) funding for the Clean Transportation sub-program came from sources outside of SCG.[366] Removing ratepayer funding from the Clean Transportation sub-program would reduce the sub-program's overall funding by only about 10% and will not significantly affect activities in this area.[367] Thus, Cal Advocates removed costs associated with the Clean Transportation sub-program from its RD&D forecast, resulting in a TY 2024 forecast of $18.839 million.[368]

18.1.4 Proposal to Modify Advice Letter Requirement

The current RD&D Program approval process requires SCG to submit a Tier 3 advice letter for Commission approval.[369] SCG requests authorization to instead submit a Tier 2 advice letter. Granting the relief sought in a Tier 3 advice letter requires issuance of a Commission resolution.[370] In contrast, resolving a Tier 2 advice letter requires only the Energy Division's approval.[371] SCG argues that this modification will "streamline" the program approval process.[372]

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[364] SoCalGas Research, Development, and Demonstration Program 2021 Annual Report at 170.

[365] Ex. CA-07 at 9; Other projects in this sub-program include the development of the Ford 7.3L compressed natural gas near-zero emission Engine (on which SCG spent $0.900 million) and a hydrogen fuel cell, zero-emission, switcher locomotive (on which SCG spent $0.537 million.)

[366] SoCalGas Research, Development, and Demonstration Program 2021 Annual Report, at 11.

[367] Ex. CA-07 at 9.

[368] Ex. CA-07 at 9.

[369] *See* Ex. SCG-12-R at AI-49 - AI-50; D.19-09-051.

[370] General Order 96 B, Rule 7.6.2.

[371] Ex. SCG-12-R at AI-48 to AI-50.

[372] Ex. SCG-12-R at AI-48 to AI-50.

The Commission should reject SCG's request to decrease the Commission's oversight of RD&D programs by replacing the submission of a Tier 3 advice letter with submission of a e a Tier 2 advice letter. A Tier 2 advice letter would not provide adequate regulatory oversight to ensure that activities in the RD&D Program benefit ratepayers.[373] Furthermore, the requirement of a Tier 3 advice letter has increased stakeholder engagement and feedback, as SCG's testimony acknowledges.[374] SCG cites a delay in the approval of its 2022 Research Plan to demonstrate a need for modifying the Tier 3 advice letter requirement.[375] SCG has presented no evidence that delays are a recurring, widespread issue.[376] The Commission should reject the notion that stakeholder engagement and feedback are impediments to streamlining.[377]

18.2 SDG&E Clean Energy Innovations

SDG&E's Clean Energy Innovations activities support the delivery and use of clean energy throughout SDG&E's service territory. These activities include the evaluation, testing and deployment of infrastructure and technologies needed to achieve both SDG&E's and California's goal of decarbonization, resiliency, and operational flexibility, supporting customers' adoption of clean energy technologies, and reestablishing an RD&D program at SDG&E.[378]

The programs and departments that implement these activities are: Technology Development Research, Development and Demonstration; Hydrogen Strategy and Implementation Department; Advanced Clean Technologies Department; Sustainable Communities; Distributed Energy Resource Engineering Department; Advanced Energy Storage; Non-Energy Storage; Advanced Energy Storage 2.0; Borrego 3.0 Microgrid;

[373] Ex. CA-07 at 9.

[374] Ex. SCG-12-R at AI-49, lines 26-27.

[375] Ex. SCG-12-R at AI-50, lines 4-8.

[376] Ex. CA-07 at 10.

[377] Ex. CA-07 at 10.

[378] Ex. SDG&E15-R at FV-1.

Hydrogen Build Ready Infrastructure; Integrated Test Facility; Sustainable Communities Removal; Mobile Battery Storage; and Hydrogen Energy Storage.

18.2.1 SDG&E Innovation Technology Development Research, Development and Demonstration - O&M

SDG&E's requests $5 million for its Innovation Technology Development (ITD) Research, Development and Demonstration (RD&D) O&M expenses for TY 2024 24[379], to be recovered through a one-way balancing account.[380]

Cal Advocates recommends $1,462,500 for SDGE's ITD and RD&D for TY 2024 24[381] but does not oppose the use of a one-way balancing account for the approved spending.

Cal Advocates recommends this downward adjustment because Cal Advocates made a broad request for additional details on ITD, including objectives, goals, identified need, forecasted need date, supporting analysis, and alternatives analysis. SDG&E provided no additional details and has failed to adequately support its request for ratepayer funding.[382]

The Commission should not authorize cost recovery of the $1,000,000 Customer End-Use program (i.e., the four-line items of Table 9-4 beginning with "Electrification Transformation"). "[T]echnology demonstrations like wireless power transfer and dynamic in-motion charging and "emerging beachhead sectors" should be developed by the electric vehicle (EV) and EV charging industries, not within the regulated utility structure." These advancements only provide benefit to EV owners, who are still a negligible fraction of all ratepayers who will pay for this program, if approved. Cal Advocates opposes ratepayer funding of this program for the reasons outlined in Ex. CA-09-E, Section V, namely, it is regressive, harmful to low-income Californians, unnecessary, and could stymie GHG reduction efforts by raising electricity rates.

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379 Ex. SDG&E-15-WP, at 17.

380 Ex. SDG&E 15-R, at FV-11.

381 Ex. CA-09-E at 17-21.

382 *Ibid.*

In the System Advancement project, SDG&E requests to expense a "piece of distribution equipment" costing $800,000. SDG&E admits it may not even purchase this equipment[383] and recovery should be denied for this reason. If the Commission allows cost recovery for this piece of equipment, the Commission should require the cost to be properly documented as a capital expenditure rather than an O&M expense.

- **SDG&E's Incremental Labor**

SDG&E's testimony provides only a high-level account of the labor to be done. SDG&E's workpapers provide almost no additional detail.[384]

Cal Advocates undertook discovery in an attempt to ascertain how SDG&E developed its cost estimates and their basis to which SDG&E replied that "[t]he number of needed [full-time equivalents (FTEs)] was forecasted based on a qualitative assessment by subject matter experts [(SMEs]) considering the anticipated amount of capital projects and O&M activities" and referred Cal Advocates to SDG&E's testimony and workpapers.[385] Cal Advocates further asked for "all data and analyses used to arrive at the estimates of FTEs in expense workpapers,"[386] to which SDG&E referred to the previous statement that estimates were conducted by SMEs and to its testimony and workpapers.[387]

In an attempt to understand the basis for SDG&E's SME assessments, Cal Advocates asked for "any and all scopes of work associated with labor line item[s]."[388] SDG&E again only referred Cal Advocates back to SDG&E's exhibits and workpapers. This response indicated that SDG&E has no additional information and has nothing that could be considered to constitute a concrete scope of work to support its labor request.[389]

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[383] Ex. SDG&E-215 at FV 34.

[384] Ex CA-09-E at 10 to 11.

[385] SDG&E response to data request *PubAdv-SDG&E-AMY-062*, Q. 1b.I.

[386] Data request *PubAdv-SDG&E-AMY-062*, Q. 1b.IV.1.

[387] SDG&E response to data request *PubAdv-SDG&E-AMY-062*, Q. 1b.IV.1.

[388] Data request *PubAdv-SDG&E-AMY-080*, Q. 2b.

[389] SDG&E response to data request *PubAdv-SDG&E-AMY-080*, Q. 2b.

SDG&E provided *quantitative* labor FTEs and costs, whereas SDG&E states that its assessment was *qualitative* in nature. Therefore, there is no clear link between SDG&E's qualitative methods and its quantitative results. Cal Advocates recommends that in the total absence of a scope of work from which an SME could develop a credible estimate of required labor, the Commission should consider SDG&E's estimates not to be credible.

Cal Advocates also recommends a downward adjustment to incremental labor in the amount of $437,000[390] because SDG&E did not provide justification for its labor estimates.

Cal Advocates recommends the removal of both the $3,537,000 from the ITD Program O&M expenses in 2024 and the $800,000 in capital expenses in 2024 for the requested distribution equipment discussed above. If the Commission allows cost recovery for the distribution equipment, the Commission should require the $800,000 cost to be properly documented as a capital expenditure rather than an O&M expense.

18.2.2 SDG&E Hydrogen Strategy and Implementation Department - O&M

SDG&E requests $1.010 million TY 2024 24 O&M Expenses for its Hydrogen Strategy and Implementation. Cal Advocates recommends $863,000, a reduction of $147,000.

Cal Advocates recommends this downward adjustment because SDG&E did not provide adequate justification for its additional labor needs as described above in section 18.2.1 (SDG&E Incremental Labor).[391]

18.2.3 SDG&E Advanced Clean Technology Department – O&M

SDG&E requests $1.376 million TY 2024 24 O&M Expenses for its Advanced Clean Energy Department. Cal Advocates recommends $1.298 million, a reduction of $78,125. Cal Advocates makes this downward adjustment because SDG&E did not

[390] *Ibid.*

[391] Ex. CA-09-E at 10-13.

provide adequate justification for its additional labor needs as described above in section 18.2.1 (SDG&E Incremental Labor).[392]

18.2.4 SDG&E Sustainable Communities - O&M

SDG&E's requests $282,000 TY 2024 24 O&M expenses for its Sustainable Communities Program (SCP).[393] Cal Advocates recommends $235,000, a reduction of $47,000.[394] Cal Advocates makes this downward adjustment because SDG&E projects an escalating contingency, which increased from 0% of the total O&M cost for SCP in 2022 to 9% in 2023 to 17% in 2024. This is because SDG&E mistakenly applies each year's contingency factor (10%) to the previous year's total (including contingency), leading to exponential growth in the contingency estimate. SDG&E's calculation is flawed, at most, the contingency cost should be a flat 10% of the previous year's base estimate, or $25,000 in 2024 rather than $48,000.[395]

SDG&E's claim that the increased costs are due to aging infrastructure is not supported with specific evidence but relies solely on the generalization that aging infrastructure may require increased O&M costs with no additional details . There is no reason to accept SDG&E's projection of such a sharp increase or that such a sharp increase should occur *specifically* in 2023 and 2024. No such cost increase is evident in prior years, even though infrastructure is already aging since the program was approved in 2004, and nearly all installations occurred between 2007 and 2014. Moreover, the relatively flat installation rate over this period contradicts the projection of a sharp increase between 2022 and 2024. Because installations occurred over a seven-year time-period, the rate at which infrastructure reaches middle age, and thus the rate of O&M costs increases, will be similarly spread out. Moreover, 42% of total installation capacity

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[392] Ex. CA-09-E at 10-13.

[393] Ex. SDG&E-15-R, at FV-14.

[394] Ex. CA 09-E at 21-26.

[395] Ex. CA 09-E at 21-26.

in 2024 was removed prior to 2021 or is projected to be removed between 2022 to 2024, counterbalancing the increase in O&M costs due to aging.[396]

Despite initial disagreement, SDG&E now agrees with Cal Advocates' recommendation that the escalating contingency factor was incorrect. As such, SDG&E agrees the "other" classification within the SCP 2024 O&M budget should be reduced from $57,000 to $10,000, which represents a reduction of $47,000 to SDG&E's 2024 forecast.[397]

Cal Advocates proposes a modest adjustment of $47,000, thus a reduction in "other" from $57,000 to $10,000 in 2024. This reduces the total O&M expense to $235,000, of which "other" reduces to 4.3%. This is a more appropriate estimate than $57,000, because it closely matches the historical average costs of the "other" category. Thus, "contingency" should be reduced from $48,000 in 2024 to $1,000.[398]

18.2.5 SDG&E Distributed Energy Resource Engineering Department - O&M

SDG&E requests $2.316 million TY 2024 24 O&M Expenses for its Distributed Energy Resource Engineering Department.[399]

Cal Advocates recommends $2.097 million, a reduction of $219,000.[400] Cal Advocates makes this downward adjustment because SDG&E did not provide adequate justification for its additional labor needs as described above in section 18.2.1 (SDG&E Incremental Labor).[401]

18.2.6 SDG&E Advanced Energy Storage – Capital

SDG&E's requests capital expenditures of $12.483 million in 2022 and $1.314 million in 2023 for its Advanced Energy Storage (AES) activities.[402] Cal Advocates

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[396] Ex. CA 09-E at 21-26.

[397] Ex. SDG&E-215 at FV-36.

[398] Ex. CA 09-E at 26.

[399] Ex. SDG&E 15-R at FV-15.

[400] Ex. CA-09-E at 2, 6.

[401] Ex. CA-09-E at 10-13.

[402] Ex. SDG&E 15-R at FV 17.

recommends $0.00 for 2022 and 2023,[403] because D.19-09-051 authorized $21.4 million in spending on the AES as part of SDG&E's 2019 GRC. The AES had an original in-service date of December 31, 2019; however, SDG&E delayed the project. As of December 31, 2019, SDG&E had spent zero dollars on the project, and as of June 30, 2022, SDG&E had spent a total of $7,877,000 on AES, which is about one-third of the total that was approved to be spent by 2019. SDG&E spent the remaining $7,277,000 on "something else."[404]

SDG&E failed to demonstrate the continued need for the AES project well past its initially planned online date, during which time SDG&E used the AES funds for other capital projects. SDG&E declined to provide evidence supporting the continued need in response to Cal Advocates' data request. Repeatedly authorizing funding to cover the same project is neither reasonable nor cost effective for a project, whose projected online date has long passed and is no longer justifiable. Given the lack of evidence supporting the continued need for the AES project, the Commission should not authorize additional funding beyond the amount authorized in SDG&E's previous GRC.[405]

Cal Advocates recommends a reduction of -$12,483,000 in 2022 and -$1,314,000 in 2023 for a total adjustment of -$13,797,000 for the AES project which is not used and useful.

18.2.7 SDG&E Non-Lithium Storage – Capital

SDG&E requests capital expenditures of $755,000 in 2022, $1,850,000 in 2023, and $2,552,000 in 2024 for its Non-Lithium Storage activities.[406]

Cal Advocates recommends $0.00 for 2022 to 2024.[407] Cal Advocates recommends this downward adjustment because SDG&E's proposed project may not be

[403] Ex. CA-09-E at 27-29.

[404] SDG&E response to data request *PubAdv-SDG&E-AMY-062*, Q. 7c.

[405] *Ibid.*

[406] Ex. SDG&E-15-CWP, at 22.

[407] Ex. CA-09-E at 33-36.

within the purview of D.21-06-035 (which ordered 1,000 MW of long-duration storage by 2026 across all load-serving entities, with at least 44 MW from SDG&E via application) unless SDG&E identifies the proposed project as such and meets the requirements of D.21-06-035 which requires Utilities to, among other things, "show that any utility-owned resources represent least cost to ratepayers."[408]

However, SDG&E's proposed Non-Lithium Storage activities could count toward the long-duration storage ordered in D.21-06-035, because the activities entail long-duration storage that would be online by 2024, two years prior to the 2026 requirement, if SDG&E meets the procedural requirements of D.21-06-035. Absent such an application as required by D.21-06-035, SDG&E's proposed Non-Lithium Storage activities would not count towards SDG&E's obligation under D.21-06-035. This would lead SDG&E to exceed its Commission-established responsibility to procure long-duration storage resources, burdening SDG&E's ratepayers.[409]

Furthermore, SDG&E has not explained why the guardrails established in D.21-06-035 to ensure just utility spending should not apply here. Allowing SD&GE to circumvent those guardrails would further burden SDG&E's ratepayers by increasing their cost of service.[410]

Finally, SDG&E has not compared lithium-ion solutions to non-lithium-ion solutions. Before excluding lithium-ion technology, SDG&E should show that non-lithium-ion storage provides a net benefit to ratepayers relative to the lithium-ion storage technology, the latter which can also be procured with 8-to-12-hour durations.[411]

Cal Advocates recommends that SDG&E submit a separate application for this long-duration storage project that shows that its utility-owned storage activities represent

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[408] *Ibid.*

[409] *Ibid.*

[410] *Ibid.*

[411] *Ibid.*

the least cost to ratepayers and is consistent with D.21-06-035. Doing would not cause the project to miss the 2026 timeline established by D.21-06-035.[412]

Cal Advocates recommends the removal of SDG&E's capital expenditures request of $755,000 in 2022, $1,850,000 in 2023, and $2,552,000 in 2024 for the Non-Lithium Storage activities.

18.2.8 SDG&E Advanced Energy Storage 2.0 – Capital

SDG&E requests capital expenditures of $13,284,000 in 2023 and $20,030,000 in 2024 for its Advanced Energy Storage (AES) 2.0 activities.[413]

Cal Advocates recommends $0.00 for 2023 and 2024.[414]

Cal Advocates recommends denying this request because AES 2.0 is not needed. SDG&E's own description of the project confirms it is not necessary. SDG&E claims that it will install storage where there is a high penetration of photovoltaics (PV). Therefore, the projects must be location specific. However, because SDG&E has not yet selected any locations, it cannot plausibly have an identified need for them. SDG&E could, using the same evidence it provided here, equally well justify any number of projects before it is established the need for them.[415]

SDG&E has not established a need, a need date, project benefits, or even the locations where these projects would be installed. The Commission should reject funding for this project because it is unreasonable and cannot be justified.[416]

In D.19-06-032 the Commission examined a proposal for utility-owned storage projects by Pacific Gas & Electric (PG&E) and declined to authorize the projects because the "proposal is not sufficiently detailed to determine that it is reasonable . . . an obvious missing aspect of PG&E's Application includes specific site locations . . . and projections

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[412] *Ibid.*

[413] Ex. SDG&E-15-CWP, at 20.

[414] Ex. CA-09-E at 29-32.

[415] *Ibid.*

[416] *Ibid.*

of benefits."[417] The same reasoning applies here because SDG&E has provided no specific site locations or evidence of benefits.[418]

Moreover, even if SDG&E could credibly claim that its service area needs more storage , SDG&E has provided no evidence that utility ownership is the proper structure to acquire storage,. In evaluating a proposal by SDG&E to own seven storage projects used to form microgrids, the Commission declined to grant rate recovery for the projects, because "it would be unreasonable for SDG&E to restrict the [request for offers (RFO)] to only utility owned projects." The Commission encouraged SDG&E to apply for rate recovery, provided that SDG&E evaluated third-party ownership and identified least-cost, best-fit solutions without bias. The Commission applied the same reasoning to PG&E's project, discussed above and evaluated in the same decision. The Commission's reasoning also applies in this GRC: if SDG&E would like rate recovery for AES 2.0, it should apply for recovery with an application that meets the reasonableness standard set forth in D.19-06-032.[419]

Thus, the Commission should deny cost recovery for AES 2.0 activities in this GRC and reduce SDG&E's request by -$13,284,000 in 2023 and -$20,030,000 in 2024 for a total reduction of -$33,314,000.

18.2.9 SDG&E Borrego 3.0 Microgrid – Capital

SDG&E requests capital expenditures of $5,296,000 in 2022 and $102,000 in 2023 for its Borrego 3.0 Microgrid activities.[420]

Cal Advocates recommends $0.00 for 2023 and 2024.[421] Cal Advocates recommends denying cost recovery for Borrego 3.0 Microgrid activities because SDG&E

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[417] D.19-06-032, *Decision Implementing the Ab 2868 Energy Storage Program and Investment Framework and Approving Ab 2868 Applications with Modification,* June 27, 2019, at 11-21, 27, 31. Issued in A.18-02-016, *Application of San Diego Gas & Electric Company (U902E) for Approval of its 2018 Energy Storage Procurement and Investment Plan.*

[418] Ex. CA-09-E at 29-32.

[419] *Ibid.*

[420] Ex. SDG&E-15-CWP, at 40.

[421] Ex. CA-09-E at 36-38.

failed to provide details of the supposed reliability, resiliency, and operational flexibility benefits of those activities in response to Cal Advocates data requests. Further, SDG&E failed to provide any information on the need for these improvements, such as need-by dates. SDG&E provided no studies defending the need for improvements in the Borrego Microgrid. The goal of achieving 100% renewable energy in the microgrid is not supported since California already has renewable procurement statutes that do not require the Borrego Microgrid to ever achieve 100% renewable generation and SDG&E does not need Borrego Microgrid to meet its requirements under those statutes.[422] Furthermore, SDG&E's testimony does not establish a need for this project.[423]

The Commission should deny SDG&E's request for capital expenditures of $5,296,000 in 2022 and $102,000 in 2023 for its Borrego 3.0 Microgrid activities.

18.2.10 SDG&E Hydrogen Build Ready Infrastructure – Capital

SDG&E requests capital expenditures of $770,000 in 2023 and $1,155,000 in 2024 for its Hydrogen Build Ready Infrastructure activities.[424]

Cal Advocates recommends $0.00 for 2023 and 2024.[425] Cal Advocates recommends denying this project because it is not supported by the record. Cal Advocates propounded data requests to understand the basis for, and establish the reasonableness of, SDG&E's cost estimates and whether this capital request benefitted ratepayers. SDG&E ultimately provided an itemized cost estimate which achieved a similar, though not identical, cost of $2,024,000 relative to the forecast amount of $1,925,000 in SDG&E's capital workpapers. SDG&E admitted that it was not "able to

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[422] Senate Bill 1020 sets a requirement that "eligible renewable energy resources and zero-carbon resources supply . . . 100 percent of all retail sales of electricity to California end-use customers by December 31, 2045. Zero-carbon is broader than renewable, and the goal allows the utilities to include non-compliant sources in calculation of losses. Therefore, California statues contain no hard requirement that 100% of generation be from renewable, or even zero-carbon, resources in any timeframe. *See* Senate Bill 1020 (Laird, 2022), available at: https://leginfo.legislature.ca.gov/faces/billTextClient.xhtml?bill_id=202120220SB1020.

[423] Ex. CA-09-E at 36-38.

[424] Ex. SDG&E-15-CWP, at 80.

[425] Ex. CA-09-E at 49-52.

locate the underlying data, assumptions, and variables used" to arrive at the figures in SDG&E's capital workpapers.[426] SDG&E's identified costs are not subject to extreme fluctuations such as the price of natural gas and, therefore, there is no need for SDG&E to use a two-way balancing account to mitigate uncertainty. If the Commission elects to allow cost recovery for SDG&E's Hydrogen Build Ready Infrastructure activities, the Commission should do so via a one-way balancing account rather than a two-way balancing accountto provide cost control to protect SDG&E's already overburdened ratepayers.[427]

More broadly, the Commission should not allow cost recovery at all. The Hydrogen Build Ready Infrastructure activities entail a cross-subsidy because it covers costs related to up to five customers which would then be spread across to all customers.[428] SDG&E supports this method by touting the environmental benefits of the project, which it claims would benefit all customers.[429] Cal Advocates does not oppose environmental goals but opposes ratepayer funding of such programs because they are regressive, harmful to low-income Californians, unnecessary, and could stymie greenhouse gas (GHG) reduction efforts by raising electricity rates.[430]

of the Commission should deny SDG&E's request for capital expenditures of $770,000 in 2023 and $1,155,000 in 2024 for its Hydrogen Build Ready Infrastructure activities.

18.2.11 SDG&E Integrated Test Facility (ITF) Expansion – Capital

SDG&E requests $1.425 million in 2022 capital spending for its Integrated Test Facility Expansion.[431] Cal Advocates does not oppose this request.[432]

[426] Ex. CA-09-E at 49-52.

[427] Ex. CA-09-E at 49-52.

[428] Ex. CA-09-E at 52.

[429] Ex. CA-09-E at 52.

[430] Ex. CA-09-E at 52.

[431] Ex. SDG&E-15-R at FV-iv.

[432] Ex. CA-09-E at 4.

18.2.12 SDG&E Sustainable Communities Removal – Capital

SDG&E requests capital expenditures of $969,000 in 2022, $407,000 in 2023, and $439,000 in 2024 for its Sustainable Communities Removal activities.[433]

Cal Advocates recommends $0.00 for 2022 to 2024.[434]

Cal Advocates recommends denying this cost recovery for Sustainable Communities Removal activities because these additional capital expenditures in would use ratepayer dollars to terminate projects that still have 40%-60% of their useful life (based upon depreciation period). Thus, SDG&E proposes to spend $1.8 million in ratepayer money to reduce the value of its assets by $2.6 million. The Commission should require SDG&E to pursue a different strategy, such as selling the used equipment to the site owners at a discounted rate.[435]

SDG&E's removal cost estimates are generally far above historic data for similar activities. Cal Advocates' removal cost estimates are based upon a best fit of historic data. Like Cal Advocates, SDG&E estimates relatively linear costs. However, the slope of SDG&E's predictions is excessive (*i.e.*, the rate of cost increase with increase in project size), over five times that which is suggested by a linear fit on historical data (i.e., 2489.1 $/kW compared to 479.15 $/kW).[436]

Historical data show a high degree of linearity in removal costs as a function of project size (in kW), with project size explaining 60% of cost variation.[437]

A comparison of installation costs to removal costs provides further evidence that SDG&E's cost estimates are inflated. From a theoretical perspective, there should be some relationship in installation and removal costs because there is a relationship in work performed. For example, installation of 50 panels leads to removal of 50 panels, whereas installation of 1,000 panels leads to removal of 1,000 panels. For the two sites for which

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[433] Ex. SDG&E 15-E at FV-25, Table FV-15, and Ex. SDG&E-15-CWP at 58.

[434] Ex. CA-09-E at 39-47.

[435] *Ibid.*

[436] *Ibid.*

[437] *Ibid.*

actual data and projections exist, SDG&E's cost estimate is far higher than the recorded value, while Cal Advocates' estimate is much closer to the recorded value. Actual removal costs ranged from 2% to 18% of installation costs, with an average value of 10%, whereas SDG&E's estimates vary from 12% to 36% (averaging 27%), and Cal Advocates' estimates range from 6% to 24% (averaging 12%). Cal Advocates' estimates are closer to historical data where a direct comparison is available and have a range and average value far closer to historical data than do SDG&E's estimates.[438]

For the two sites which have already been removed, the Commission could, of course, use actual values rather than either estimate. These estimates are, overall, generous to SDG&E. For example, SDG&E should –consider whether the future lessee of its EIC building would prefer to have the benefit of an onsite solar installation rather than incur removal costs itself. Rather than use SDG&E's inflated cost estimates, the Commission should use Cal Advocates' estimates. These were achieved by applying the fit equation (*i.e.*, Costs [$] =50,053[$] +479.15[$/kW]· Project Size [kW]) to the projects.[439]

of the Commission should deny SDG&E's request for capital expenditures of $969,000 in 2022, $407,000 in 2023, and $439,000 in 2024 for its Sustainable Communities Removal activities.

18.2.13 SDG&E Mobile Battery Energy Storage Program – Capital

SDG&E requests capital expenditures of $2,076,000 in 2022, $2,076,000 in 2023, and $2,076,000 in 2024 for its Mobile Battery Energy Storage Systems (MBESS) Program.[440]

Cal Advocates recommends $0.00 for 2022 to 2024.[441] Cal Advocates recommends this downward adjustment because SDG&E does not provide any specific

[438] *Ibid.*

[439] *Ibid.*

[440] Ex. SDG&E-15-R at FV-26.

[441] Ex. CA-09-E at 47-49.

evidence that the MBESS are necessary. Rather, SDG&E's justification relies on a purported benefit of reduced reliance on diesel generation.[442]

Cal Advocates does not oppose a transition from diesel generation to cleaner generation and/or storage. However, the benefits and costs must be carefully weighed to show that the benefit outweighs the cost. Since SDG&E provides no specific justification for this project and no quantification of benefits, it has not met its burden of proof to show that procurement of these MBESS is reasonable. Moreover, since there is no established need for MBESS, this hardware may sit idle.[443]

In considering whether SDG&E has met its burden of proof by showing the need for the projects, the Commission should consider that SDG&E rejected its own net benefit calculations in the Electric Program Investment Charge (EPIC) reports. Cal Advocates specifically requested the methodological details and assumptions of the net benefit calculations in the EPIC reports, but rather than provide the details behind the models in these reports, SDG&E denied the relevance of these reports which it had cited in its testimony. Approving funding for MBESS in light of SDG&E's denial is not supported by the record.[444]

That SDG&E has not yet determined one of the two key specifications of a storage unit – power rating (the other being energy capacity) – casts further doubt on SDG&E's assessment of the need for, or benefit of, capital spending on these storage units.[445]

The Commission should deny SDG&E's request for capital expenditures of $2,076,000 in 2022, $2,076,000 in 2023, and $2,076,000 in 2024 for the MBESS Program.

18.2.14 SDG&E Hydrogen Energy Storage System Expansion - Capital

SDG&E requests capital expenditures of $5,171,000 in 2023 and $81,000 in 2024

[442] Ex. CA-09-E at 47-49.

[443] Ex. CA-09-E at 47-49.

[444] Ex. CA-09-E at 47-49.

[445] Ex. CA-09-E at 47-49.

for its Hydrogen Energy Storage System Expansion activities.[446]

Cal Advocates recommends $0.00 for 2023 and 2024.[447] Cal Advocates recommends denying this project because based on the data provided by SDG&E that shows its Borrego Springs Microgrid cannot serve its peak load. This is indicated by a net load of 14 MW which exceeds dispatchable generation (with the additional hydrogen fuel cell (HFC) project) of 12.8 MW. The microgrid does not have the capability to serve a load near 14 MW for more than a couple of hours. Therefore, even with the HFC expansion the microgrid will need to , shed load during longer-duration outages. The HFC expansion does not increase the duration of operation for the HFC towards the 12-hour upper limit of observed outages. Therefore, the HFC expansion is not needed.[448]

Moreover, SDG&E's explanation for why it did not consider alternative technologies shows that SDG&E did not do a reasonable cost effectiveness evaluation of the project: "The purpose . . . is to implement a hydrogen system at a larger scale." In essence, the purpose of the project is the project. The failure to perform a cost benefit evaluation of the HFC expansion shows that there may well be cheaper options with a greater benefit-cost ratio, which SDG&E refused to explore for the sake of research at ratepayers' expense. Cal Advocates opposes ratepayer funding of this program because it is regressive, harmful to low-income Californians, unnecessary, and could stymie GHG reduction efforts by raising electricity rates (See CA-09-E, Section V.).[449]

There is no reason for ratepayers to pay for this project. SDG&E should not volunteer its ratepayers to "relieve the water demand from the local water utility." Electricity-ratepayer funding of general public purpose programs is regressive and inequitable (See CA-09-E, Section V.).[450]

[446] Ex. SDG&E-15-CWP at 90.

[447] Ex. CA-09-E at 52-62.

[448] Ex. CA-09-E at 52-62.

[449] *Ibid.*

[450] *Ibid.*

of the Commission should denySDG&E's request for cost recovery of capital expenditures of $5,171,000 in 2023 and $81,000 in 2024 for its Hydrogen Energy Storage System Expansion activities.

19 ELECTRIC GENERATION (SDG&E ONLY)

SDG&E requests Test Year 2024 forecasts for operations and maintenance (O&M) costs for non-shared services and capital costs for the forecast years 2022, 2023, and 2024, associated with the Electric Generation area, which includes the following categories: (1) Generation Plant, (2) Distributed Energy Facilities (DEF) and (3) Plant Administration.[451]

19.1 SDG&E Generation Plant - Desert Star - O&M

SDG&E requests $15.112 million for TY 2024 Non-Shared O&M expenses for Electric Generation at Desert Star.[452]

Cal Advocates recommends $14.612 million, which is a difference of $0.500 million compared to SDG&E's request of $15.112.[453]

Cal Advocates recommends this downward adjustment of $0.500 million in non-labor associated with Desert Star plant's industrial control systems (ICS) because SDG&E did not develop or implement a new ICS.[454]

SDG&E is not requesting funds to develop and implement a new ICS. SDG&E does not state what new measures will be required to meet the best practices. There are no invoices, estimates, assessments, or projections used to forecast the ICS for Desert Star. SDG&E regularly maintains and updates the ICS to follow all applicable rules, regulations, and standards, and these costs are already included in the five-year average that SDG&E used to forecast this request. SDG&E has failed to produce supporting documentation that would support its request for ICS, which Cal Advocates requested.[455]

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[451] Ex. SDG&E-14 at DSB 1.

[452] Ex. SDG&E-14-WP at 14.

[453] Ex. CA-05 at 12 and 15.

[454] *Ibid.*

[455] *Ibid.*

The Commission should deny SDG&E's request for all forecasted costs in the amount of $0.500 million in O&M, and 2022, 2023, and 2024 capital for Desert Star associated with ICS.

19.2 SDG&E DEF Electric Generation Non-Shared - O&M

SDG&E requests $1.779 million for DEF Electric Generation Non-Shared O&M Expenses for TY 2024.[456] SDG&E's forecast for DEF is comprised of $1.126 million for labor and $0.653 million for DEF non-labor.[457]

Cal Advocates recommends $1.389 million for DEF, which is a difference of $0.390 million compared to SDG&E's request of $1.779 million. Cal Advocates recommendation comprises of $0.856 million for DEF labor and $0.533 million for non-labor.

- **DEF LABOR**

Cal Advocates' $0.856 million DEF labor recommendation makes a downward adjustment to SDG&E's $1.126 million recommendation by removing overtime estimates of four new positions, due to a lack support for SDG&E's request and the fact that there is no known need for any, or additional, overtime associated with the new positions.[458]

Further, SDG&E's $1.126 million labor forecast is a $1.035 million increase above the five-year average. The $1.035 million includes an additional seven full-time employees (FTEs) to support the existing staff. The seven FTEs are comprised of four Operation Technicians at $165,000 each (base salary of $120,000 plus expected overtime of $45,000) and three Maintenance Technicians at $125,000 (base salary of $95,000 plus expected overtime of $30,000).[459]

Cal Advocates asked if there were any studies performed to determine the additional support needed and asked about overtime hours worked by current staff. SDG&E responded that there were no such studies performed and that there are currently

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[456] Ex. SDG&E-14-WP at 28.

[457] Ex. CA-05 at 12, 16-19.

[458] Ex. CA-05 at 12, 16-19.

[459] Ex. CA-05 at 12, 16-19.

seventeen operation technicians, a number that has not increased since 2017, while SDG&E has seen the addition of six generation assets. When asked for justification or studies performed to determine the expected overtime of $45,000 for four FTEs and $30,000 for three FTEs, SDG&E responded that there was no such study performed and later stated that the expectation of hiring more FTEs is that it would alleviate the need for more overtime overall. Cal Advocates also asked about SDG&E's hiring process for the four operation technicians and three maintenance technicians. SDG&E responded that these positions are anticipated to be hired some time in 2023.[460]

Cal Advocates opposes the proposed overtime estimate of $270,000, which is $45,000 each for the four operation technicians ($45,000 x 4 = $180,000) and $30,000 each for the three maintenance technicians ($30,000 x 3 = $90,000). Cal Advocates recommends $0.856 million for DEF labor compared to SDG&E's forecast of $1.126 million, a difference of $0.270 million, due to a lack of support for SDG&E's overtime request and the unknown need for any, or additional, overtime associated with the new positions.[461]

- **DEF NON-LABOR**

Cal Advocates recommends a downward adjustment for non-labor due to using a different methodology for the forecast for asset maintenance.[462]

SDG&E used a recorded TY 2021 forecast of $0.338 million and adjusted the forecast to add costs for maintenance support for additional DEF assets of $0.315 million. SDG&E's total forecast includes maintenance support for twenty assets totaling $650,000. SDG&E referred to a supplemental workpaper for the calculation which states, "Average annual 2017 through 2020 expense $23,000 per asset. Used $30,000 per asset per year in forecast. $30,000 assumption based on asset unknowns." Cal Advocates asked SDG&E to explain why SDG&E chose to use $30,000 as its

[460] Ex. CA-05 at 12, 16-19.

[461] Ex. CA-05 at 12, 16-19.

[462] Ex. CA-05 at 12, 16-19.

assumption, based on asset unknowns, when the average annual expense was $23,000 per asset, when this is a 30% increase over the historical average. SDG&E responded, "The $23,000 per asset was increased to $30,000 based on emerging technology, unknown O&M requirements, including supply chain challenges and rising prices of professional or technical services." SDG&E did not provide any documentation to support these claims. Cal Advocates, therefore, recommends the use of the $23,000 historical average to forecast the maintenance support for DEF assets. This average represents the actual expense from 2017 through 2020 and SDG&E did not provide additional information in its workpapers sufficient to justify the 30% increase. To develop its forecast, Cal Advocates substituted $23,000 where the $30,000 forecast was used in the workpaper SDG&E-14-WP, p. 34 of 41, which resulted in Cal Advocates' recommended forecast amount of $530,000 which is $120,000 lower than SDG&E's Non-labor forecast of $650,000.[463]

19.3 SDG&E Plant Administration Non-Shared - O&M

SDG&E requests $0.303 million for its Plant Administration non-shared O&M expenses for TY 2024. This request is comprised of $0.294 million for Plant Administration labor and $0.009 million for Plant Administration non-labor.[464]

Cal Advocates recommends $0.262 million compared to SDG&E's forecast of $0.303 million, which is a difference of $0.041 million for Plant Administration. Cal Advocates recommends an adjustment of $0.041 million for Plant Administration labor. Cal Advocates does not oppose SDG&E's forecast for Plant Administration non-labor.[465]

Cal Advocates recommends this downward adjustment for labor because SDG&E used a five-year average to forecast 2024. In 2017 SDG&E recorded the highest amount in labor with $0.397 million, in 2018 SDG&E recorded $0.312 million, and in 2019-2021

[463] *Ibid.*

[464] Ex. SDG&E-14-WP at 37.

[465] Ex. CA-05 at 12 and 19.

the amount recorded only fluctuated at most by $0.002 million with 2019 recording $0.253 million, 2020 recording $0.252 million, and 2021 recording $0.254 million.[466]

Cal Advocates recommends using a three-year average (2019-2021) for 2024 due to the negligible fluctuation in the most recent years.[467]

19.4 SDG&E Generation Plant-Miramar Incurred Labor and Non-Labor - O&M

SDG&E requests $1.965 million for labor and non-labor costs at Generation Plant Miramar for TY 2024.[468] Cal Advocates does not oppose this request.[469]

19.5 SDG&E Generation Plant-Cuyamaca Incurred Labor and Non-Labor - O&M

SDG&E requests $906,000 for labor and non-labor costs at Generation Plant Cuyamaca for TY 2024.[470] Cal Advocates does not oppose this request.[471]

19.6 SDG&E Generation Plant-Palomar Non-Shared - O&M

SDG&E requests $20.745 million for its non-shared O&M expenses for its Palomar Energy Center (TY 2024). This request is comprised of $5.553 million for labor and $15.193 million for non-labor.[472]

Cal Advocates recommends $19.796 million for Palomar which is comprised of $5.373 million for Palomar labor and $14.423 million for Palomar non-labor.[473] Cal Advocates' downward adjustment removes costs associated with overtime labor for new positions because there is no known need or support for overtime associated with the new positions. SDG&E did not perform any studies to support this request.[474]

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[466] *Ibid.*

[467] *Ibid.*

[468] Ex. SDG&E-14-WP at 18.

[469] Ex. CA-05 at 12-13.

[470] Ex. SDG&E-14-WP at 23.

[471] Ex. CA-05 at 12-13.

[472] Ex. SDG&E-14-WP at 7.

[473] Ex. CA-05 at 12-15.

[474] Ex. CA-05 at 12-15.

SDG&E's labor forecast is an $0.885 million increase above the five-year average. The $0.885 million includes an increase of six full-time employees (FTEs) to support the existing staff. The six FTEs are one business manager at $125,000, one Planner at $100,000, and four Operation Technicians at $165,000 each (base salary of $120,000 plus expected overtime of $45,000). Cal Advocates asked if there were any studies performed to determine the additional support needed and asked about overtime hours worked by current staff. SDG&E responded that there were no such studies performed and that there are currently 17 operation technicians, a number that has not increased since 2017, while SDG&E has seen the addition of six generation assets. When asked for justification or studies performed to determine the expected overtime of $45,000 for each of the four new FTEs, SDG&E responded that there was no study performed to determine the planned expected overtime of $45,000 and later stated that the expectation of hiring more FTEs is that it would alleviate the need for more overtime overall. Cal Advocates also asked about SDG&E's hiring process for the business manager, planner, and the four operation technicians. SDG&E responded that it has not begun the hiring process for those positions and that there are no expected hire dates available.[475]

Cal Advocates does not oppose the six FTE positions that SDG&E is requesting; Cal Advocates does, however, oppose the overtime estimate of $180,000 ($45,000 x 4 = $180,000) for the four new operation technicians. Cal Advocates recommends $5.373 million for labor compared to SDG&E's forecast of $5.553 million, a difference of $0.180 million, due to a lack of support for SDG&E's request and the unknown need for any, or additional, overtime associated with the new positions.[476]

As to non-labor, Cal Advocates removed $0.500 million associated with industrial control systems (ICS) due to SDG&E not developing or implementing a new ICS. Cal Advocates also removed $0.270 million associated with the long-term service agreement

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[475] *Ibid.*

[476] *Ibid.*

(LTSA) regarding the Palomar Hydrogen Systems project because Cal Advocates opposes the capital project.[477]

19.7 SDG&E Cuyamaca Peak Energy Plant Operational Enhancements - Capital

SDG&E requests $508,000 capital expenditures for Cuyamaca Peak Energy Plant for each of the following years, 2022, 2023, and 2024.[478] Cal Advocates does not oppose this request.[479]

19.8 SDG&E Electric Generation Tools & Test Equipment - Capital

SDG&E requests $86,000 for its electric generation Capital Tools & Test Equipment capital expenditures for each of the following years, 2022, 2023, and 2024.[480] Cal Advocates does not oppose this request.[481]

19.9 SDG&E Electric Generation - Ramona Solar Plant - Capital

SDG&E requests $55,000 for capital expenditures for the Ramona Solar Plant for each of the following years, 2022, 2023, and 2024.[482] Cal Advocates does not oppose this request.[483]

19.10 SDG&E Electric Generation - Desert Star - Capital

SDG&E requests $6.864 million for 2022, 2023, and 2024 capital expenditures for its Desert Star Energy Center. SDG&E's request includes a 5-year average of recorded costs, a labor adjustment to add FTEs to align with forecasted labor dollars, and costs related to its industrial control systems (ICS).[484]

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[477] *Ibid.*

[478] Ex. SDG&E-14 at DSB 15.

[479] Ex. CA-05 at 21.

[480] Ex. SDG&E-14 at DSB 15.

[481] Ex. CA-05 at 21.

[482] Ex. SDG&E-14 at DSB 15.

[483] Ex. CA-05 at 21.

[484] Ex. SDG&E-14 at DSB 15.

Cal Advocates recommends removal of costs associated with the ICS for 2022, 2023, and 2024. Cal Advocates recommends $4.864 million for 2022, 2023, and 2024.[485]

Cal Advocates recommends this downward adjustment because SDG&E is not requesting funds to develop and implement a new ICS. SDG&E does not state what new measures will be required to meet the best practices. There are no invoices, estimates, assessments, or projections used to forecast the ICS for Desert Star. SDG&E regularly maintains and updates the ICS to follow all applicable rules, regulations, and standards, and these costs are already included in the five-year average that SDG&E used to forecast this request. SDG&E has failed to produce supporting documentation that would support its request for ICS. Cal Advocates recommends removing all forecasted costs in O&M, and 2022, 2023, and 2024 Capital for Desert Star associated with ICS.[486]

Cal Advocates recommends $0 for 2022, 2023, and 2024 regarding the ICS compared to SDG&E's request of $2 million each for 2022, 2023, and 2024.

19.11 SDG&E Electric Generation - Miramar Energy Facility - Capital

SDG&E requests the following capital expenditures for its Miramar Energy Facility; $2.201 million for 2022, $11.300 million for 2023, and $27.853 million for 2024.[487]

SDG&E's request includes a five-year average of recorded costs, a labor adjustment to add full time employees (FTEs) to align with forecasted labor dollars, and costs related to the Hybrid at Miramar Energy Facility, a capital enhancement project.[488]

- **CAPITAL**

Cal Advocates recommends $1.0478 million for 2022, $9.995 million for 2023, and $25.526 million for 2024 Miramar Energy Facility Capital.[489]

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[485] Ex. CA-05 at 21, 26-27.

[486] *Ibid.*

[487] Ex. SDG&E-14 at DSB 15.

[488] Ex. CA-05 at 21, 28-31.

[489] *Ibid.*

Cal Advocates makes these downward adjustments because Cal Advocates opposes SDG&E's Miramar Energy Facility capital use of a five-year average for assessing the capital and labor costs associated with the Hybrid at Miramar project. However, Cal Advocates does not oppose SDG&E's Miramar Energy Facility capital request associated with non-labor costs.[490]

SDG&E's adjusted recorded cost from 2017 through 2019 and 2021 fluctuated at most by $250,000 from a low of $918,000 in 2017 to a high of $1.174 million in 2018, with costs for 2019 and 2021 falling in between those two price points. In 2020 SDG&E experienced an anomaly of major equipment failures in both Miramar units that required refurbishment of the Low-Pressure Turbine Rotable Module, replacement of Stage 2 High Pressure Turbine (HPT) Nozzles, and replacement of HPT Rotor/ Stage 1 and Stage 2. All these failures were unplanned and are the primary drivers in the increase in capital expenditures. These equipment failures led to a six-fold increase in costs of more than $5.5 million over any other year in the past five years. Because this type of equipment failure is not expected to recur during the GRC cycle, Cal Advocates recommends removing the anomaly of 2020 from the historical average. Cal Advocates used a modified four-year average (including the years 2017-2019, and 2021) to calculate its recommended forecasts.[491]

This results in Cal Advocates' recommendation of $1.047 million for 2022, 2023, and 2024, compared to SDG&E's request, based on a 5-year average, of $2.200 million for 2022, 2023, and 2024.[492]

- **LABOR**

Cal Advocates recommends $0.001 million for 2022, 2023, and 2024 regarding the Labor Hybrid at Miramar Project compared to SDG&E's request of $0.001 million

[490] *Ibid.*

[491] *Ibid.*

[492] *Ibid.*

for 2022, $0.153 million for 2023, and $1.175 million for 2024. Cal Advocates recommends an adjustment to the Labor Hybrid at Miramar project due to no new employees being hired for this project.[493]

In Ex. SDG&E-14-CWP, p. 31 of 61, SDG&E shows adjustments in 2022 of an FTE of 0.1, in 2023 an FTE adjustment of 1.1, and in 2024 an FTE adjustment of 8.3. When asked about the justification for these positions, and where in the hiring process the proposed 8.3 FTEs are, SDG&E responded, "The Hybrid MEF project is a new enhancement that will begin in 2023 and will require employees who will be responsible for managing the construction. At this time, internal employees will be assigned to this project and may be supplemented by additional new hires. In either case, the projected total time to be charged is 8.3 FTEs." When asked about where the reduction of the 8.3 FTEs could be found in the current GRC request, SDG&E responded, "There is no reduction of the 8.3 FTEs reflected in the current GRC request. This project requires funding for the associated labor (8.3 FTEs), which will come from the anticipated internal employees, who will be reassigned from other capital projects." SDG&E is seeking additional funding for 8.3 FTE positions that are already occupied by current SDG&E employees who are just being "reassigned" from other capital projects. When asked again if the labor increases were associated with the additional FTEs, SDG&E responded affirmatively, saying that the "labor in 2022 through 2024 are associated with the corresponding FTEs." If existing internal SDG&E employees are to be reassigned from another project to the Hybrid at Miramar Project, then there should be a corresponding cost reduction in the utility's current GRC request. SDG&E did not identify any such reduction and confirmed that the cost increase for this project is solely associated with the requested 8.3 FTEs, which it stated will be reassigned from other projects. Without an identifiable cost reduction in another capital request, these employees are being double-counted and SDG&E will receive twice the amount of funding for the same employees. Cal Advocates recommends the removal of the 8.3

[493] *Ibid.*

FTEs who are already internal SDG&E employees to avoid overbilling ratepayers by funding these employees twice, first in their original projects, and second in this project.[494]

Cal Advocates recommendation for the Miramar Energy Facility is $0.152 million less than SDG&E's forecast for 2023, $1.174 million less than SDG&E forecast for 2024.[495]

19.12 SDG&E Electric Generation - Palomar Hydrogen System - Capital

SDG&E requests $8.423 million for 2022, $7.855 million for 2023, and $0 for 2024 in capital expenditures for its Palomar Hydrogen System.[496]

Cal Advocates recommends $0 for 2022, 2023, and 2024.[497] Cal Advocates recommends these downward adjustments since this system will have minimal, if any, benefit to ratepayers. Specifically, the Palomar Hydrogen System project would produce a very low reduction of GHG emissions, intermittent use of 1% hydrogen blend, and the fueling of only three hydrogen vehicles. Cal Advocates also opposes this project because SDG&E proposes to replace $40,000 in purchased hydrogen with $16.278 million in capital costs that provide minimal, if any, benefit to ratepayers. Finally, the Palomar Hydrogen System projectfails to meet the Commission's guidelines and standards set in D.22-12-057.[498]

SDG&E proposed a Hydrogen System pilot program (pilot program), which will generate hydrogen at the Palomar Energy Center (Palomar). The pilot program is not required by a Commission proceeding. The pilot program would use the hydrogen produced on-site for electric power generation, generator cooling, and for clean transportation. When asked about the electric power generation and the expected GHG emission reduction at Palomar, SDG&E responded:

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[494] *Ibid.*

[495] Ex. CA-05 at 28.

[496] Ex. SDG&E-14 at DSB 15.

[497] Ex. CA-05 at 21, 31-35.

[498] Ex. CA-05 at 21, 31-35.

> SDG&E provides potential expected GHG emission reduction at Palomar from blending hydrogen into the gas turbine. However, SDG&E notes the importance of this being a forecast based on the assumption that the gas turbine will blend intermittently at 1% throughout the year. As stated previously, SDG&E will not know how much hydrogen is blended into the turbines until the pilot is implemented and hydrogen production is established. The CO2 emission rate of the gas turbines at Palomar are rated at 467 grams(g)/kWh, resulting in a theoretical 1.4 g/kWh CO2 reduction.[499], [500]

The theoretical CO2 reduction is less than a 0.04% savings in GHG emissions. SDG&E currently uses hydrogen for generator cooling and purchases bulk hydrogen to use at Palomar. SDG&E spends approximately $40,000 annually to purchase and store hydrogen for use at Palomar. To convert water into hydrogen, an electrolyzer splits water (H2O) into Hydrogen (H2) and Oxygen (O2) by applying current to membrane electrodes. SDG&E does not yet possess an electrolyzer; large equipment for Palomar including the electrolyzer was ordered between February 2022 and August 2022 with an original estimated delivery date of January 1, 2023, to May 30, 2023. Any production delays, such as those that occurred with Borrego Springs, would delay delivery until around Q4 of 2023.[501] Currently, SDG&E is building a fuel cell storage with hydrogen at their Borrego Springs location that also requires an electrolyzer to produce hydrogen. There is an ongoing delay in the delivery of the electrolyzer for Borrego Springs; the electrolyzer was ordered in November 2021 with an original estimated delivery date of December 2022, but the current estimated delivery date is mid-2023.[502]

SDG&E proposes to build a hydrogen fueling station at Palomar for three hydrogen fueled vehicles. "Three light-duty H2 passenger sedans [Toyota Mirai] will be leased for Palomar Energy Center in conjunction with the opening of the hydrogen fuel-

[499] Ex. PAO-SDGE-107-MW5_Q1a_1b_2-3a-d_4b_6362_6361, q. 4b.

[500] Ex. CA-05 at 21, 31-35.

[501] Ex. CA-05 at 33.

[502] Ex. CA-05 at 33.

cell fueling pump at this site."[503] "At the time of this forecast, there is a single retail hydrogen fuel-cell station in all of San Diego County, which is not located close to any SDG&E Operations Center."[504] If SDG&E acquires three hydrogen vehicles and the delivery of the electrolyzer is delayed significantly for Palomar, as it has been for Borrego Springs, then the only way to fuel those vehicles is the station in San Diego County, which is not located close to any SDG&E Operations Center. Suxh a scenario would be a waste of time, money, and resources for SDG&E. Despite not having an electrolyzer, SDG&E acquired a Toyota Mirai in December of 2022. As of now, with no hydrogen fueling available, an SDG&E employee uses the Toyota Mirai to commute and uses the only fueling station in San Diego. SDG&E expected to receive a $15,000 hydrogen fuel card approximately three weeks after the Toyota Mirai was delivered, which covers the cost of fueling that vehicle for the foreseeable future. SDG&E rushed to obtain the hydrogen vehicle prior to receiving approval for the proposed hydrogen fueling station. However, with the $15,000 fuel card for the Toyota Mirai, SDG&E should be able to purchase enough hydrogen without creating its own hydrogen fueling station.[505]

In December 2022, the Commission (D.22-12-057) ordered the large gas utilities to:

> …file a Joint Application no later than two years from the issuance date of this decision for testing of hydrogen blended into natural gas at concentrations above the existing trigger level in increasing increments from one to five and five to 20 percent. The Joint Application shall be consistent with the other adopted courses of action specified in this decision for pilot projects relevant to leakage, reporting, heating value, system safety, environmental considerations, etc., and include a proposed methodology for performing a Hydrogen Blending System Impact

[503] Ex. SDG&E-22-R-E at AA-13.

[504] Ex. SDG&E-22-R-E at AA-14.

[505] Ex. CA-05 at 21, 31-35.

> Analysis that can ensure that any hydrogen blend will not pose a risk to the common carrier pipeline system.[506]

D.22-12-057 also states that "Any proposed pilot projects must include a detailed testing program informed by the UC Riverside Study and other appropriate sources," which was not included in SDG&E's GRC application, testimony, or workpapers.[507] The fact that SDG&E does not know how much hydrogen is blended by this proposal shows that SDG&E has failed to justify either its cost -effectiveness or reasonableness.[508]

SDG&E rushed to order major equipment and begin installation of solar panels for this pilot project without seeking Commission approval either by submitting an application or requesting it in this GRC. SDG&E did not evaluate the cost-effectiveness of the proposed benefits of this project for its ratepayers or consider that the minimal space available at Palomar decreases the opportunity for expansion in the future. For the pilot program that SDG&E requests in its GRC application, SDG&E forecasts a total of $16.278 million. The benefits that SDG&E claim would be a 0.04% reduction in GHG emissions, a reduction of $40,000 in bulk hydrogen purchases, and the fueling for three hydrogen vehicles for SDG&E employees.

There is nothing in SDG&E's proposal that requires SDG&E to produce its own hydrogen. Cal Advocates opposes the Palomar Hydrogen System pilot due to the lack of cost-effective benefits that this pilot would provide to SDG&E ratepayers consistent with the requirement of just and reasonable rates.[509]

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[506] D.22-12-057, *Decision Directing Biomethane Reporting and Directing Pilot Projects to Further Evaluate and Establish Pipeline Injection Standards for Clean Renewable Hydrogen*, Dec. 15, 2022, at 34.

[507] *Ibid.*

[508] *See* Pub. Util. Code § 451. "All charges demanded or received by any public utility, or by any two or more public utilities, for any product or commodity furnished or to be furnished or any service rendered or to be rendered shall be just and reasonable. Every unjust or unreasonable charge demanded or received for such product or commodity or service is unlawful."

[509] *See* Pub. Util. Code § 451.

19.13 SDG&E Electric Generation - Palomar Energy Center - Capital

SDG&E forecasts $19.251 million for 2022, $18.751 million for 2023, and $8.501 million for 2024 capital expenditures for the Palomar Energy Center.[510]

SDG&E's requests include a five-year average of recorded costs adjusted for enhancements and/or replacements. The enhancements and/or replacements include ICS, Flamesheet Combustor, Infinite Cooling, STG Warming Blanket, CO/SCR Catalyst, and HRSG Diffuser & Round Duct.[511]

Cal Advocates recommends removal of costs associated with the ICS, Flamesheet Combustor, and Infinite Cooling for 2022, which results in forecast capital expenditures for the Palomar Energy Center of $10.251 million for 2022, $9.251 million for 2023, and $6.501 million for 2024.[512]

Cal Advocates recommends $0 for 2022, 2023, and 2024 regarding the ICS compared to SDG&E's request of $2 million each for 2022, 2023, and 2024.[513]

SDG&E is not requesting funds to develop and implement a new ICS. SDG&E does not know what measures will be required to meet the best practices.[514] There are no invoices, estimates, assessments, or projections used to forecast the ICS for Palomar or Desert Star.[515] SDG&E regularly maintains and updates the ICS to follow all applicable rules, regulations, and standards, and these costs are already included in the five-year average that SDG&E used to forecast this request.[516] SDG&E has failed to produce supporting documentation that would support its request for ICS. Cal Advocates

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[510] Ex. SDG&E-14-CWP at 15.

[511] Ex. CA-05 at 21-26.

[512] Ex. CA-05 at 21-26.

[513] Ex. CA-05 at 21-26.

[514] Ex. CA-05 at 16.

[515] Ex. CA-05 at 16.

[516] Ex. CA-05 at 16.

recommends removing all forecasted costs in O&M, and 2022, 2023, and 2024 Capital for Palomar associated with ICS.[517]

Cal Advocates recommends $0 for 2022, 2023, and 2024 regarding the Flamesheet Combustor compared to SDG&E's forecasts of $6 million for 2022 and 2023, and $0 for 2024. This adjustment is due to the facts that SDG&E is not required to install a Flamesheet Combustor, the installation of the Flamesheet Combustor will not reduce Nitrogen Oxide (NOx) emissions, and the installation of the Flamesheet Combustor will produce no material cost savings associated with aqueous ammonia.[518]

Cal Advocates recommends $0 for 2022, 2023, and 2024 regarding the Infinite Cooling compared to SDG&E's forecast of $1 million for 2022, $1.500 million in 2023, and $0 for 2024. This adjustment is due to the facts that SDG&E is not required to install an Infinite Cooling system and SDG&E has provided no cost benefit analysis to adequately support ratepayer funding of this project. Additionally, the manufacturer has installed only one other unit, on a 20MW Cogeneration plant in 2018. Therefore, there is insufficient evidence that the system will operate as expected on the much larger, 588 MW Palomar power plant. There is no evidence regarding the expected life span of the equipment in this type of application.[519]

Cal Advocates' recommendation is $9 million less than SDG&E's forecast for 2022, $9.500 million less than SDG&E forecast for 2023, and $2 million less than SDG&E's forecast for 2024.

[517] Ex. CA-05 at 16.

[518] Ex. CA-05 at 21-26.

[519] Ex. CA-05 at 21-26.

20 ELECTRIC DISTRIBUTION (SDG&E ONLY)

20.1 Capital Projects (General)

SDG&E requests a total amount of $1.228 billion[520] for the combined years 2022 through 2024 in the following seven capital areas:[521]

- Equipment / Tools / Miscellaneous
- Franchise
- Mandated
- Overhead Pools
- Reliability / Improvements
- Safety and Risk Management
- Transmission / Federal Energy Regulatory Commission (FERC) Driven

Table 06-1 below is a summary table that shows five years of recorded data for the seven capital projects and compares SDG&E's and Cal Advocates' forecast recommendations for 2022, 2023, and 2024 and the differences between the proposed forecasts.[522] As shown in the table, there are three capital projects (highlighted in red on Lines 5, 7, and 14) that include Collectible capital expenditures.[523] SDG&E forecasts a total of $1.228 billion for the years 2022 through 2024 combined whereas Cal Advocates forecasts $1.143 billion for the seven capital areas.[524] The corresponding totals shown on

[520] Unless otherwise noted, dollar figures for SDG&E's GRC forecasts are based on SDG&E's August 2022 revised testimony.

[521] *See* Ex. SDG&E-11-R-E; other electric distribution capital expenditure proposals are discussed in sections 20.1.7 to 20.1.9 below.

[522] Note that all the data (both recorded and forecast expenditures) are presented in constant 2021 dollars (i.e., with no escalation reflected in the dollar amounts), and that the data include both normal capital expenditures that will be financed by SDG&E's ratepayers (the so-called "Non-Collectible" projects) as well as expenditures that will be financed by third parties (the so-called "Collectible" projects).

[523] SDGE's Rebuttal Testimony states that its Rebuttal forecasts reflected only Non-Collectible Dollars, as Collectible dollars are not included in Rate Base. (Ex. SDG&E-211, SDG&E noted, in Footnote 1 on page OR-1) Cal Advocates' forecasts include both Collectible and Non-Collectible expenditures because the Results of Operations (RO) computer model contains both Collectible and Non-Collectible capital expenditures. If the Commission adopts an adjustment to a capital project that contains both types of expenditures, that adjustment should be proportionately allocated between the Collectible and the Non-Collectible dollar amounts, with the RO model being adjusted accordingly.

[524] Ex. CA-06 at 2.

Line 81 of the table show that the capital forecasts recommended by Cal Advocates amount to $1.143 billion.[525]

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[525] Ex. CA-06 at 2.

TABLE 06-1
ELECTRIC T&D CAPITAL EXPENDITURES -- CPUC JURISDICTION
(Thousands of Constant 2021 Dollars)

Line #	Exhibit SDG&E-11 Capital Categories	Recorded					Forecast -- Includes Non-Collectible As Well As Collectible Expenditures								
							2022			2023			2024		
		2017	2018	2019	2020	2021	SDG&E	Cal Advocates	SDG&E > Cal Advocates	SDG&E	Cal Advocates	SDG&E > Cal Advocates	SDG&E	Cal Advocates	SDG&E > Cal Advocates
		(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	(K)	(L)	(M)	(N)
	Chapter B - Equipment/Tools/Miscellaneous														
1	Equipment/Tools/Miscellaneous	$245	$413	$164	$431	$443	$443	$443	$0	$443	$443	$0	$443	$443	$0
2	Equipment/Tools/Miscellaneous	$9,920	$3,109	$1,575	$2,191	$2,530	$2,099	$2,099	$0	$2,099	$2,099	$0	$2,099	$2,099	$0
3	Total	$10,165	$3,522	$1,739	$2,622	$2,973	$2,542	$2,542	$0	$2,542	$2,542	$0	$2,542	$2,542	$0
	Chapter C - Franchise														
4	Electric Distribution Street/Highway Relocations	$3,580	$6,296	$2,465	$11,091	$5,517	$6,358	$6,358	$0	$6,358	$6,358	$0	$6,358	$6,358	$0
5	Electric - Conversion From OH To UG Rule 20B	$0	$0	$0	$0	$4	$3,116	$3,116	$0	$29,072	$19,011	$10,061	$47,596	$43,156	$4,440
6	Conversion From OH To UG Rule 20A	$20,392	$7,585	$9,970	$24,356	$12,281	$15,536	$15,536	$0	$15,536	$15,536	$0	$15,536	$15,536	$0
7	City of San Diego Surcharge Program (20SD)	$13,979	$11,364	$35,368	$17,938	$3,761	$19,022	$19,022	$0	$19,022	$19,022	$0	$19,022	$19,022	$0
8	21125 - TL681 Escondido Trails Customer Relocation	$0	$0	$0	$0	$0	$40	$40	$0	$211	$211	$0	$0	$0	$0
9	TL634 Juniper Street Customer Relocation	$0	$0	$0	$0	$0	$40	$40	$0	$171	$171	$0	$0	$0	$0
10	Total	$37,951	$25,245	$47,803	$53,385	$21,563	$44,112	$44,112	$0	$70,370	$60,309	$10,061	$88,512	$84,072	$4,440
	Chapter D - Mandated														
11	RAMP - Corrective Maintenance Program (CMP)	$9,611	$10,491	$10,787	$14,647	$10,592	$11,225	$11,225	$0	$11,225	$11,225	$0	$11,225	$11,225	$0
12	RAMP - Manhole, Handhole, and Vault Restoration	$5,929	$4,506	$2,987	$5,008	$4,311	$4,311	$4,311	$0	$4,311	$4,311	$0	$4,311	$4,311	$0
13	RAMP - Avian Protection	($19)	$0	$0	$218	$1,762	$149	$149	$0	$187	$187	$0	$187	$187	$0
14	Distributed Generation Interconnection Program	$16	($7)	$0	$48	$8	$1,769	$1,769	$0	$1,769	$1,769	$0	$1,769	$1,769	$0
15	Street Light Modernization	$195	$195	$4	$0	$180	$1,780	$1,780	$0	$3,560	$3,560	$0	$3,560	$3,560	$0
16	RAMP - Pole Replacement and Reinforcement	$13,807	$16,305	$7,804	$7,529	$12,709	$12,709	$12,709	$0	$12,709	$12,709	$0	$12,709	$12,709	$0
17	Total	$29,539	$31,490	$21,582	$27,450	$29,562	$31,943	$31,943	$0	$33,761	$33,761	$0	$33,761	$33,761	$0
	Chapter G - Overhead Pools														
18	Local Engineering Pool - ED Pool	$118,745	$147,862	$110,996	$127,343	$143,756	$120,972	$114,486	$6,486	$123,304	$96,233	$27,071	$82,749	$86,613	($3,864)
19	Local Engineering Pool - Substation Pool Elec.	$4,103	$4,537	$2,703	$4,049	$3,296	$5,147	$4,126	$1,021	$5,074	$2,538	$2,536	$4,077	$3,822	$255
20	Department Overhead Pool - Elec.	$17,560	$14,548	$13,668	$14,202	$18,306	$19,030	$18,411	$619	$20,738	$16,446	$4,292	$21,271	$21,462	($191)
21	Contract Administration Pool - Elec.	$9,654	$9,214	$18,736	$14,214	$15,190	$24,279	$23,739	$540	$47,487	$45,892	$1,595	$43,906	$44,261	($355)
22	Total	$150,062	$176,161	$146,103	$159,808	$180,548	$169,428	$160,762	$8,666	$196,603	$161,108	$35,495	$152,003	$156,157	($4,154)
	Chapter H - Reliability / Improvements														
23	RAMP - Distribution Substation Reliability	$3,253	$2,194	$1,842	$1,273	$1,013	$1,376	$1,376	$0	$1,376	$1,376	$0	$1,376	$1,376	$0
24	Coronado 69/12kV Transformer Replacement	$0	$0	$0	$0	$17	$526	$1,066	($540)	$976	$820	$156	$695	$310	$385
25	La Jolla 69/12kV Transformer Replacement	$0	$0	$0	$0	$13	$1,258	$0	$1,258	$1,763	$0	$1,763	$108	$1,258	($1,150)
26	CBM - 4.2 Firmware Upgrade for Transformer	$0	$0	$0	$0	$405	$571	$571	$0	$0	$0	$0	$0	$0	$0
27	RAMP - Non-HFTD Wireless Fault Indicators	$0	$0	$0	$0	$62	$23	$23	$0	$1,243	$1,243	$0	$1,243	$1,243	$0
28	RAMP - Management of OH Distribution Service	$4,831	$6,981	$6,545	$6,038	$11,767	$8,117	$8,117	$0	$8,117	$8,117	$0	$8,117	$8,117	$0
29	RAMP - Management of UG Distribution Service	$3,221	$2,723	$2,733	$2,876	$3,353	$3,353	$3,353	$0	$3,353	$3,353	$0	$3,353	$3,353	$0
30	RAMP - Replacement of Underground Cables	$12,568	$8,238	$5,491	$6,068	$5,839	$5,799	$5,799	$0	$5,799	$5,799	$0	$5,799	$5,799	$0
31	RAMP - Capital Restoration of Service	$16,087	$9,747	$10,166	$7,585	$10,817	$9,522	$9,522	$0	$9,522	$9,522	$0	$9,522	$9,522	$0
32	RAMP - Planned Cable Replacements	$986	$3,365	$1,051	$3,895	$4,290	$4,260	$4,260	$0	$3,485	$3,485	$0	$3,431	$3,431	$0
33	RAMP - DOE Switch Replacement	$97	$2,466	$6,299	$5,988	$9,917	$3,898	$3,898	$0	$9,327	$9,327	$0	$5,782	$5,782	$0
34	RAMP - Emergency Transformer and Switchgear	$0	$0	$0	$773	$1,728	$3,275	$3,275	$0	$334	$334	$0	$334	$334	$0
35	RAMP - Install SCADA on Line Capacitors	$369	$229	$207	$64	$834	$983	$983	$0	$984	$984	$0	$984	$984	$0
36	Streamview 69/12kV Sub Rebuild - Pre-Engineering	$3	($2)	$3	$0	$616	$6,013	$0	$6,013	$18,613	$4,283	$14,330	$159	$14,988	($14,829)
37	Artesian 230kV Expansion	$0	$39	$79	$387	$1,264	$36	$36	$0	$0	$0	$0	$0	$0	$0
38	RAMP - Poway Substation Rebuild	$2,707	$644	$1,497	$3,730	$1,382	$1,517	$1,517	$0	$0	$0	$0	$0	$0	$0
39	RAMP - Substation SCADA Expansion-Distribution	$817	$179	$0	$237	$796	$1,201	$1,201	$0	$2,527	$2,527	$0	$1,776	$1,776	$0
40	RAMP - San Marcos Substation Rebuild 69kV and 12kV	$634	$17	$5	$0	$0	$93	$0	$93	$3,755	$0	$3,755	$101	$70	$31
41	RAMP - Substation Mod to Support FLISR	$2,855	$1,376	$46	$2,626	$2,510	$887	$606	$281	$0	$281	($281)	$0	$0	$0
42	RAMP - High Risk Switch Replacement Project	$18	$56	$133	$847	$1,872	$873	$873	$0	$832	$832	$0	$832	$832	$0
43	RAMP - North Harbor	$0	$0	$0	$0	$0	$0	$0	$0	$23,281	$0	$23,281	$7,761	$21,304	($13,543)
44	RAMP - 4kV Modernization	$0	$0	$594	$3,076	$4,698	$4,179	$4,179	$0	$6,632	$6,632	$0	$6,542	$6,542	$0
45	RAMP - Urban Substation Rebuild	$0	$0	$0	$958	$533	$5,570	$0	$5,570	$16,018	$2,777	$13,241	$0	$11,547	($11,547)
46	RAMP - Torrey Pines 12kV Breaker Replacement	$0	$0	$0	$832	$720	$1,169	$410	$759	$0	$759	($759)	$0	$0	$0
47	RAMP - El Cajon 12kV Breaker Replacement	$0	$0	$0	$608	$346	$821	$765	$56	$880	$876	$4	$0	$60	($60)
48	Kettner Rebuild	$0	$0	$0	$99	$694	$1,376	$1,376	$0	$619	$619	$0	$0	$0	$0
49	RAMP - Bernardo 12kV Breakers and Transformer	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$927	$0	$927
50	RAMP - Miramar 12kV Replacements	$0	$0	$0	$0	$0	$72	$18	$54	$1,218	$361	$857	$99	$954	($855)
51	RAMP - Mission 12kV Replacements	$0	$0	$0	$55	$1,241	$2,066	$2,134	($68)	$556	$488	$68	$0	$0	$0
52	RAMP - Stuart 12kV Transformer Replacement	$0	$0	$0	$0	$0	$0	$0	$0	$657	$0	$657	$870	$0	$870
53	Cristianitos RFS	$0	$0	$0	$0	$427	$986	$986	$0	$0	$0	$0	$0	$0	$0
54	RAMP - Distribution Circuit Reliability Construction	$1,045	$2,958	$437	$4,523	$4,260	$3,454	$3,454	$0	$4,124	$4,124	$0	$4,124	$4,124	$0
55	RAMP - Power Quality Program	$226	$63	$24	$930	$1,446	$2,300	$2,300	$0	$2,300	$2,300	$0	$2,300	$2,300	$0
56	RAMP - Replace Obsolete Substation Equipment	$6,291	$2,863	$54	$4,258	$2,007	$2,107	$2,107	$0	$2,107	$2,107	$0	$2,107	$2,107	$0
57	Total	$56,008	$44,136	$37,206	$57,726	$74,867	$77,681	$64,205	$13,476	$130,398	$73,327	$57,071	$68,342	$108,113	($39,771)
	Chapter I - Safety and Risk Management														
58	RAMP - Replacement of Live Front Equipment	$0	$452	($2)	$539	$832	$365	$365	$0	$365	$365	$0	$365	$365	$0
59	SF6 Switch Replacement	$4,013	$7,177	$3,970	$2,775	$6,958	$3,631	$3,631	$0	$7,598	$7,598	$0	$6,282	$6,282	$0
60	SCADA Head-End Replacement	$2,936	$4,693	$4,753	$3,342	$669	$1,085	$1,085	$0	$0	$0	$0	$0	$0	$0
61	RAMP - RTU Modernization	$2,211	$2,286	$137	$1,807	$1,033	$1,118	$1,118	$0	$622	$622	$0	$632	$632	$0
62	RAMP - TEE Modernization Program	$1,621	$2,556	$639	$1,830	$4,584	$3,734	$3,734	$0	$3,585	$3,585	$0	$3,535	$3,535	$0
63	RAMP - Energized Test Yard	$338	$317	$17	$1,262	($114)	$808	$0	$808	$0	$808	($808)	$0	$0	$0
64	RAMP - Proactive Dead Front Terminator Deployment	$0	$0	$0	$459	$648	$706	$706	$0	$706	$706	$0	$706	$706	$0
65	RAMP - OH Public Safety (OPS)	$0	$0	$6	$55	$13,130	$5,259	$5,259	$0	$6,160	$6,160	$0	$6,752	$6,752	$0
66	Rebuilding of Skills Training Yard	$0	$0	$0	$0	$468	$4,860	$4,860	$0	$2,950	$2,950	$0	$0	$0	$0
67	Mission DCC Remodel Project	$0	$0	$0	$0	$0	$744	$744	$0	$9,278	$9,278	$0	$8,760	$8,760	$0
68	RAMP - Strategic Pole Replacement Program (Non-HFTD)	$0	$0	$0	$0	$0	$0	$0	$0	$1,079	$1,079	$0	$5,993	$5,993	$0
69	Total	$11,119	$17,481	$9,520	$12,069	$28,208	$22,310	$21,502	$808	$32,343	$33,151	($808)	$33,025	$33,025	$0
	Chapter K - Transmission / FERC Driven														
70	Granite Substation 69kV Loop-In	$0	$0	$0	$0	$0	$0	$0	$0	$61	$61	$0	$141	$141	$0
71	South Orange County Reliability Enhancement (SOCRE)	$617	$5,038	$3,190	$2,274	$4,994	$1,501	$1,501	$0	$341	$341	$0	$90	$90	$0
72	Fiber Optic for Relay Protect and Telecom	$8,793	$9,177	$2,396	$5,517	$8,520	$5,090	$5,090	$0	$7,122	$7,122	$0	$7,122	$7,122	$0
73	TL600 - Reliability Pole Replacements	$21	$55	$20	$142	$741	$450	$450	$0	$0	$0	$0	$0	$0	$0
74	TL674A - Del Mar Reconfigure / TL666D RFS	$197	$121	$112	$278	$436	$1,231	$1,231	$0	$1,368	$1,368	$0	$0	$0	$0
75	TL6975 - Escondido - San Marcos	$27	$17	$63	$30	$319	$750	$750	$0	$0	$0	$0	$0	$0	$0
76	Transmission Corrective Maintenance Program	$2,043	$1,947	$2,935	$3,012	$3,007	$3,007	$3,007	$0	$3,007	$3,007	$0	$3,007	$3,007	$0
77	Elect Trans Small Reliability Jobs - Non-HFTD	$54	$148	$6	$0	$11	$660	$660	$0	$432	$432	$0	$825	$825	$0
78	Total	$11,752	$16,503	$8,722	$11,253	$18,028	$12,689	$12,689	$0	$12,331	$12,331	$0	$11,185	$11,185	$0
79	**GRAND TOTAL FOR PROJECTS IN EX. SDG&E-11-R**	**$306,596**	**$314,538**	**$272,675**	**$324,313**	**$355,749**	**$360,705**	**$337,755**	**$22,950**	**$478,348**	**$376,530**	**$101,818**	**$389,370**	**$428,856**	**($39,486)**
	Capital Projects In RO Not Discussed In Ex. SDG&E-11-R														
80	13 Capital Projects In RO Not Discussed in Testimony	--	--	--	--	--	$4,060	$0	$4,060	$22,779	$0	$22,779	$29,956	$0	$29,956
81	**GRAND TOTAL FOR ELEC. DISTRIBUTION RO PROJECTS**	**$306,596**	**$314,538**	**$272,675**	**$324,313**	**$355,749**	**$364,765**	**$337,755**	**$27,010**	**$501,127**	**$376,530**	**$124,597**	**$419,326**	**$428,856**	**($9,530)**

- (orange) = capital projects that have been postponed, and will not be completed until after 12/31/24.
- (yellow) = capital projects that have been postponed, but will be completed before 12/31/24.
- (green) = capital projects that will be completed earlier than originally expected.
- (red) = capital projects that are mostly (or entirely) paid for by third parties.

- **Overview of Main Issues**

Beginning on page 4 of Ex. CA-06, Cal Advocates provides a summary of the issues that it identified during its investigation of SDG&E's proposed Electric Distribution capital expenditures. Those issues broadly fall into four main categories:

- Recommended adjustments based on Cal Advocates' receipt of more recently updated data and forecasts. Those capital projects are identified by the orange, yellow, and green highlights in Table 06-1, as well as the Overhead to Underground Rule 20B conversions shown on Line 5.
- Recommended adjustments based on Cal Advocates' use of an SDG&E-developed Overhead Pools computer model. Those capital projects are identified on Lines 18 through 22 on Table 06-1.
- Cal Advocates' recommendation that capital projects listed in SDG&E's RO computer model, but not otherwise discussed in SDG&E's testimony, be disallowed. The impact of that disallowance is shown on Line 80 of Table 06-1.
- Cal Advocates' "non-dollar" recommendations regarding the creation of a proposed Litigated Project Costs Memorandum Account (LPCMA), as well as recommendations concerning the continuation of the current Overhead Pools Balancing Account (OPBA).[526]

Columns (H), (K), and (N) in Table 06-1 show the differences between SDG&E's proposed capital expenditures and Cal Advocates' recommended forecasts.[527] A quick review of those three columns will show that, in many instances, the differences are zero, which indicates that Cal Advocates has not recommended any adjustments to SDG&E's forecasts. In fact, in several instances, the differences contained in the three columns are shown in red, indicating that the revised/updated information obtained by Cal Advocates has resulted in forecasts that are higher than SDG&E had forecast. In other words, Cal Advocates did not "cherry-pick" adjustments that only resulted in lower forecasts.

[526] Ex. CA-06 at4, 5, 12, and 19.

[527] Ex. CA-06 at 6.

20.1.1 Capital Projects Not Justified in SDG&E's Testimony

As part of Cal Advocates' review of SDG&E's testimony contained in Ex. SDG&E-11-R, Cal Advocates compared capital forecasts contained in that testimony to the forecasts that SDG&E included in the comparable portion of its Results of Operations (RO) computer model. Cal Advocates discovered that the RO model contained 13 capital projects that were not included in SDG&E's testimony. In its rebuttal testimony, SDG&E agrees with Cal Advocates' recommendations about the RO model's 13 capital projects.[528] SDG&E acknowledges that Cal Advocates discovered that the RO model contained 13 capital projects that are not discussed or justified in SDG&E's revised testimony and their costs are not included in its capital forecast totals.[529] SDG&E acquiesces that the 13 capital projects in the RO model are not justified and agrees to remove them from the RO model at its next available opportunity.[530] For these 13 capital projects, SDG&E has proposed a total capital forecast of $4.060 million for 2022, $22.779 million for 2023, and $29.956 million for 2024.[531] Given that SDG&E agrees with Cal Advocates' recommendation here, the corresponding costs for the 13 projects in the RO model should be zero for all three years.

20.1.2 Litigated Project Costs Memorandum Account

Sempra requests Commission authorization to create the Litigated Project Costs Memorandum Account (LPCMA) in order to record the capital costs for projects that are initially intended to qualify as a Collectible projects (meaning that their costs are scheduled to be recovered from third-party customers instead of ratepayers), but later are deemed by a court to be Non-Collectible from third-party customers.[532] Sempra discusses how the proposed LPCMA would work:

[528] Ex. SDG&E-211 at OR-14.

[529] Ex. CA-06 at 27; Ex. SDG&E-211 at OR-14.

[530] SDG&E-211 at OR-14.

[531] Ex. CA-06 at 17.

[532] Ex. SDG&E-211 at OR-23 to OR-24.

> SDG&E would not record revenue requirements prior to any ruling for tracking purposes and would treat it as a collectible project consistent with its understanding. If thereafter a court rules that the utility must bear the costs of the activity – effectively deeming the costs as non-collectible – SDG&E proposes to record any historical revenue requirement associated with the project based on the timing of when the project went into service, no earlier than January 1, 2024. Any costs recorded to the memo account would be subject to a reasonableness review prior to inclusion in rates and rate base.[533]

Cal Advocates reviewed SDG&E's proposal regarding the creation of the LPCMA.[534] While Cal Advocates understands Sempra's position on this issue, Cal Advocates nevertheless has several concerns with Sempra's LPCMA proposal. In response to data request PubAdv-SCG-MPS-101, Questions 1.a and 2.a, Sempra admitted that a court-ordered classification reversal (of a capital project originally deemed to be Collectible) is an extremely rare occurrence.[535] In fact, Sempra's response to that data request states that during the six-year period 2017 through 2022, no court-ordered classification reversals have occurred for any Gas Transmission projects or Gas Distribution projects.[536] Given the rarity of these types of court-ordered classification reversals, Sempra is not at significant risk of experiencing systematic major unfunded capital costs due to court-ordered reversals of the classification of capital projects that were originally deemed to be Collectible.

In addition, utility regulation, especially when based on a future test year, is not designed to be 100% risk-free. If a utility can devise more cost-effective ways to do business, it can retain the difference between what it was authorized in the future test year and what it spent. In addition, with test year rate making, utilities assume the risk of spending more than what they were authorized if unexpected expenses or capital

[533] Ex. SDG&E-211 at OR-24.

[534] Ex. CA-06 at 12-14.

[535] Sempra's Response to Data Request PubAdv-SCG-MPS-101 Questions 1.a and 2.a.

[536] In its data response, Sempra stated that "project costs" were incurred prior to 2017 for the relocation of a SoCalGas distribution pipeline, and that it is currently in litigation with the Orange County Transportation Authority over the cost of relocating gas lines to accommodate a light rail project.

additions are necessary. Contrary to Sempra's rationale for its request for LPCMA funds, the occurrence of a rare court-ordered reversal concerning a project classification (for a capital project that was originally determined to be funded by a third party) is a typical risk that utilities encounter.[537]

Cal Advocates also evaluated Sempra's language that describes the purpose of the LPCMA. Sempra designed its proposed LPCMA to financially protect itself from any court-ordered ruling that changes the classification of a capital project from Collectible to Non-Collectible.[538] But Cal Advocates questions how Sempra's proposal for the LPCMA would work if there ever were a court-ordered ruling that changes the classification of a capital project from Non-Collectible to Collectible.[539] In that unlikely event, Sempra's proposed LPCMA would not track the costs that ratepayers had incurred, between the time a Non-Collectible capital project had been added to rate base and the time that a court ruled that the same project should be considered a Collectible project, for to return unused amounts to ratepayers.[540] Ratepayers should receive the same type of financial protection as the utility in the event of an accumulation of unused ratepayer funds.[541]

Sempra disagrees with Cal Advocates' objections to Sempra's LPCMA design, as well as to Cal Advocates' claims that these types of third-party customer disputes are "rare".[542] Sempra cites its current legal dispute with the City of San Diego regarding the City's sewage recycling system infrastructure project and requests that the Commission establish a necessary memorandum account in the event of an adverse legal result.[543] But as discussed above, given that the operation of a public utility has inherent risks and it is

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[537] Ex. CA-06 at 13.

[538] Ex. CA-06 at 14.

[539] Ex. CA-06 at 14.

[540] Ex. CA-06 at 14.

[541] Ex. CA-06 at 14.

[542] Ex. SDG&E-211 at OR-24.

[543] Ex. SDG&E-211 at OR-24.

not possible to eliminate all utility risks, the Commission should not create the LPCMA based on speculative risks.

In addition, Sempra criticizes Cal Advocates' focus on the perceived benefits to ratepayers from authorizing the LPCMA.[544] Yet, contrary to Sempra's argument, Cal Advocates focuses on the non-benefits to ratepayers. The LPCMA is one-sided because it only protects Sempra, and even then, only in very rare instances.[545] The structure of the LPCMA does not refund costs to Sempra's customers if a Non-Collectible project (on which customers have been paying) is eventually deemed to be Collectible.[546]

Based on these concerns, the Commission should not authorize creation of the LPCMA. Not only is the LPCMA designed for the occurrence of a rare court-ordered ruling that deems a Collectible project should be considered Non-Collectible, but it also fails to protect ratepayers in the event of a similar ruling where a court deems that a Non-Collectible project should be considered Collectible.

20.1.3 Updated Franchise Costs and Completion Dates

The Franchise category of capital projects is designed to perform municipal overhead to underground conversion work or work in accordance with SDG&E's franchise agreements.[547] The two categories of projects in the Franchise category are (i) those devoted to conversion of overhead distribution systems to underground and (ii) street and highway relocations due to improvements by governmental agencies.[548] As shown on Line 5 of Table 06-1, the largest capital project in the Franchise category for 2023 and 2024 involves capital projects that convert Overhead lines to Underground lines using Rule 20B funds.[549] In its workpapers, SDG&E provides a breakdown of the

[544] Ex. SDG&E-211 at OR-24.

[545] Ex. CA-06 at 14.

[546] Ex. CA-06 at 14.

[547] Ex. CA-06 at 10.

[548] Ex. CA-06 at 10.

[549] Ex. CA-06 at 10.

numerous individual capital projects that constitute the Electric Conversion from OH to UG Rule 20B program.[550]

To further investigate these forecast Rule 20B projects, Cal Advocates asked SDG&E if it had received any updated information that resulted in any of the Rule 20B capital projects encountering scheduling delays or experiencing cost revisions.[551] In response to that request, SDG&E provided an updated version of its workpapers.[552] The updated information shows no changes for 2022 but did include revisions to SDG&E's original forecasts for 2023 and 2024.[553] Cal Advocates shows those revised numbers in its forecasts, resulting in the forecast changes that are shown on Line 5 of Table 06-1.[554]

Capital expenditures are cumulative, with expenditures in one year being added to the expenditures in the previous years.[555] Utilities earn a return on the cumulative total of these expenditures.[556] For test year costs to be accurately computed, it is necessary to use the most current data regarding capital expenditures, thereby enabling the Commission to derive the most accurate revenue requirement.[557]

SDG&E claims that franchise project schedules and completion dates are continuously evaluated and revised based on numerous factors specific to each project, including permitting and required authorizations.[558] SDG&E further claims that it anticipates that many projects may incur immaterial forecast changes which will ultimately be negligible from a total forecast perspective, (i.e.*,* some projects will be ahead of schedule, while others will potentially be delayed). SDG&E also alleges that

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[550] Ex. CA-06 at 11.

[551] CalAdv-SDG&E-GAW-094, Question 2.b.

[552] SDG&E's Response to CalAdv-SDG&E-GAW-094, Question 2.b.

[553] SDG&E's Response to CalAdv-SDG&E-GAW-094, Question 2.b.

[554] Ex. CA-06 at 6.

[555] Ex. CA-06 at 7.

[556] Ex. CA-06 at 7.

[557] Ex. CA-06 at 7.

[558] Ex. SDG&E-211 at OR-26.

although it may experience delays for certain project schedules, the exact opposite may be the case at a given point in the future.[559]

Cal Advocates recognizes that completion dates and project schedules are continuously evaluated and revised, which is why Cal Advocates requested that SDG&E provide the most up-to-date information regarding this capital project area. In fact, Cal Advocates' forecast reflects this most current information and should supersede SDG&E's original outdated forecasts. SDG&E's updated information shows that some capital projects will now be ahead of schedule, while some will now be delayed and likely includes updated costs that are both higher and lower than SDG&E had originally forecast. Therefore, contrary to SDG&E's allegation that many projects may incur immaterial forecast changes, the use of the most recent data is not an arbitrary "snapshot in time," but is instead the most currently available information, which allows calculation of the most accurate revenue requirement.[560] As a result of Cal Advocates' use of this updated data, its forecast for the Franchise capital area is the same as SDG&E's for 2022, but is $10.061 million lower than SDG&E's forecast for 2023, and $4.440 million lower for 2024.[561]

20.1.4 Overhead Pools

The Overhead Pools capital area is by far the largest capital category that Cal Advocates analyzed. SDG&E has provided the following discussion regarding Overhead Pools:

> Overhead Pools (OH Pools) reflect the costs that originate from central activities, which are allocated to different capital projects such as costs for engineering capacity studies, reliability analysis, and preliminary design work (among others). Many of these costs cannot be attributed to a single capital project and are therefore spread to projects that are ultimately constructed and placed into service. These central activity costs are referred to as "pooled costs." There are four workgroups that make up OH Pools: (a) Local Engineering – Electric Distribution Pool; (b) Local

[559] Ex. SDG&E-211 at OR-26.

[560] Ex. CA-06 at 11.

[561] Ex. CA-06 at 9.

> Engineering – Substation Pool; (c) Department Overhead Pool – Electric; and (d) Contract Administration (CA) Pool – Electric. These four pools perform various functions and are comprised of planners, designers, engineers, support personnel, managers, supervisors, dispatchers, field employees, clerical employees, and contract administrators.[562]

As indicated in the above testimony, SDG&E's corporate offices perform many types of capital activities.[563] In many instances, these aggregated capital activities cannot be explicitly attributed to a specific individual capital project.[564] Therefore, once capital projects are completed and placed in service, the so-called "pooled costs" are allocated to various projects.

SDG&E discusses how it develops its Overhead Pools forecasts for each of the four Overhead Pools categories. Common to all four categories, SDG&E states that it relies on a "zero-based" forecasting methodology, meaning that the Overhead Pools forecasts are based on cost estimates that are developed using the scope of the work for the forecast projects.[565] Based on SDG&E's Overhead Pools forecasting discussions, Cal Advocates concluded that a linkage between capital forecasts and Overhead Pools forecasts should be developed such that any changes to the costs for capital projects would result in corresponding changes to the Overhead Pools forecasts. When SDG&E originally filed its GRC, it did not provide such linkages.[566]

At Cal Advocates' request, SDG&E developed a new standalone Overhead Pools adjustment model (independent and outside of the RO model) that would approximate how the Overhead Pools forecasts would be impacted by Cal Advocates' recommended revisions to various SDG&E capital projects. SDG&E sent Cal Advocates a final version of this new model on September 16, 2022.[567]

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[562] Ex. SDG&E-11-R-E at OR-82 to OR-83.

[563] Ex. SDG&E-11-R-E at OR-82 to OR-83.

[564] Ex. CA-06 at 17.

[565] Ex. CA-06 at 17.

[566] Ex. CA-06 at 17.

[567] Ex. CA-06 at 18.

Not all capital projects have the potential (if adjusted) to impact the Overhead Pools forecasts. In other words, not all capital projects are linked to the Overhead Pools because not all projects will ultimately receive allocations of corporate overhead costs.[568] SDG&E identified 114 capital projects, all of which are included in Ex. SDG&E-11-R which, if revised, can theoretically impact the four Overhead Pools capital projects.[569] In order to determine adjustments to the four Overhead Pools forecasts, it is necessary for the new standalone Overhead Pools adjustment model to receive inputs reflecting any changes to each of the 114 linked capital projects, the model must be run, and the resulting Overhead Pools adjustments must be incorporated into the RO model prior to any new revised revenue requirement computer runs.[570]

During Cal Advocates' meetings with SDG&E, SDG&E emphasized the need to eventually undertake concluding calculations to precisely calculate accurate revisions to the Overhead Pools forecasts.[571] Such calculations would need to include the final capital forecasts that are adopted by the Commission for the 114 projects that are linked to the Overhead Pools.[572] Cal Advocates does not object to SDG&E's request to eventually undertake Overhead Pools calculations that reflect adopted forecasts for the 114 linked capital projects.[573] However, to reduce (and hopefully eliminate) the need for these types of enhanced calculations in future GRCs, Cal Advocates recommends that

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[568] Ex. CA-06 at 18.

[569] Ex. CA-06 at 18. As was discussed in an earlier section of this brief, Cal Advocates has determined that 13 capital projects are not discussed or justified in Ex. SDG&E-11-R-E. These 13 projects are also included among the 114 capital projects that SDG&E has determined will impact the Overhead Pools calculation. Since Cal Advocates has recommended that these 13 projects should be "zeroed out" in the RO model, it logically follows that the new Overhead Pools computer model should also reflect the "zeroing out" of these projects.

[570] Ex. CA-06 at 18.

[571] Ex. CA-06 at 19.

[572] Ex. CA-06 at 19.

[573] Ex. CA-06 at 19.

SDG&E develop a more comprehensive and accurate Overhead Pools model, and incorporate that improved model into future versions of the RO models.[574]

In its discussion of the Overhead Pools issue, SDG&E acknowledges that in its original direct testimony, it did not link changes to capital projects to corresponding changes to the Overhead Pools forecasts.[575] However, in response to requests from Cal Advocates, SDG&E stated that it provided Cal Advocates with a custom model that calculates, on a pro-rated basis the appropriate change to each pool as a function of change to the funding of the underlying project and is based on each project's relative contribution to each pool. Most importantly, SDG&E recommends that the Commission adopt this new pro-rated approach to determining appropriate pool change as a function of change to the underlying capital base of each pool.[576]

In its rebuttal testimony, SDG&E references Cal Advocates' use of the new standalone computer model to calculate the revisions to the proposed Overhead Pools forecasts, which are based on Cal Advocates' recommended electric distribution capital adjustments to any of the 114 capital projects that impact the Overhead Pools forecasts.[577] SDG&E states that because it disagrees with Cal Advocates' recommended reductions to SDG&E's requested spending categories, it necessarily follows that it disagrees with Cal Advocates' Overhead Pools revisions. Essentially, SDG&E supports Cal Advocates' use of the new standalone Overhead Pools computer model but does not agree with any of the capital revisions (to the 114 capital projects that impact the Overhead Pools forecast) that have been entered into the model.

SDG&E's position is at odds with its prior statement regarding the 13 unsupported capital projects that Cal Advocates discovered in the RO model . Previously, SDG&E has stated that it agrees that the 13 unsupported capital projects included in the RO model

[574] Ex. CA-06 at 19.

[575] Ex. SDG&E-211 at OR-27.

[576] Ex. SDG&E-211 at OR-27.

[577] Ex. SDG&E-211 at OR-28.

that were not discussed in its testimony should be "zeroed out."[578] Those 13 projects are part of the 114 capital projects that impact the Overhead Pools calculations, so logic dictates that SDG&E should at least agree that the Overhead Pools forecasts should be adjusted to reflect those 13 changes. In addition, to ensure that a correct revenue requirement is calculated, the Commission must recalculate the Overhead Pools forecast to reflect any adopted changes to any of the remaining capital projects that feed into the Overhead Pools model.[579] Based on the capital recommendations contained in Ex. CA-06 and Ex. CA-07 impacting the 114 Overhead Pools-related projects, Cal Advocates' forecasts for the Overhead Pools program are lower than SDG&E's by $8.666 million for 2022 and $35.495 million for 2023 but are $4.154 million higher for 2024.[580]

20.1.5 Overhead Pools Balancing Account

In the 2019 SDG&E GRC decision the Commission found it reasonable to apply one-way balancing account treatment (namely, the Overhead Pools Balancing Account, or OPBA) to the funding authorized for Overhead Pools costs.[581] This was done to ensure that funds (associated with engineering, reliability analysis, preliminary design work, etc.) relating to specific capital projects that are canceled or postponed, are not reassigned to other areas.[582] In the current GRC, SDG&E requests that the OPBA be closed.[583] SDG&E argues that:

> (a) one-way balancing treatment of OH Pool funding for engineering activities at the conceptual and beginning stages of a project is constraining and counterproductive; (b) SDG&E's ED Capital project teams have effective cost oversight and forecasting processes and procedures in place eliminating the need for one-way balancing account treatment; and (c) the data shows that SDG&E's OH Pool costs are managed in proportion to its capital expenditures during the year;

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[578] See above discussion regarding "Capital Projects Not Justified in SDG&E's Testimony".

[579] Ex. CA-06 at 18.

[580] Ex. CA-06 at 18-19.

[581] D.19-09-051 at 287.

[582] Ex. CA-06 at 19-20.

[583] Ex. CA-06 at 20.

> capping OH Pool costs with one-way balancing treatment does not take into account the growth in the capital projects and is therefore unwarranted.[584]

Cal Advocates opposes SDG&E's request to close the OPBA. Despite the above SDG&E arguments, Cal Advocates (and other intervenors) will not be directly involved in SDG&E's final calculations for the Overhead Pools forecasts and will therefore not be able to determine the accuracy or reasonableness of those calculations.[585] As the Commission noted in D.19-09-051, the OPBA will help ensure that Overhead Pools funds relating to specific capital projects (that are canceled or postponed) are not reassigned to other areas.[586] Therefore, the continued use of the OPBA will help protect ratepayers from any faulty calculation assumptions (especially assumptions regarding any of the 114 linked projects that are subject to delays or cancellations) made by SDG&E during its derivation of the Overhead Pools forecasts.

There are 13 unjustified capital projects that are currently included in SDG&E's Overhead Pools forecasts that Cal Advocates recommends the Commission should exclude from those calculations.[587] Accordingly, the current OPBA should remain in place and is more necessary now than ever before.

SDG&E alleges that Cal Advocates erroneously assumes and implies inaccurate pool accounting, and SDG&E disagrees with the assumption that an OPBA would provide more accurate controls and oversight.[588] However, Cal Advocates has made no new assumptions regarding inaccurate pool accounting or the fact that the OPBA would provide more accurate controls and oversight.[589] The Commission raised and adopted those assumptions when concerns were raised in SDG&E's last GRC. Cal Advocates has

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[584] Ex. SDG&E-11-R-E at OR-83 - OR-84.

[585] Ex. CA-06 at 20.

[586] D.19-09-051 at Finding of Fact (FOF) 127.

[587] Ex. CA-06 at 20.

[588] Ex. SDG&E-211 at OR-28.

[589] Ex. CA-06 at 21.

determined that those assumptions and concerns are more valid now than they were when they were originally adopted by the Commission because of the 13 disallowed capital projects, which when eliminated will impact the Overhead Pools forecast.[590] The continuation of the OPBA will provide intervenors the opportunity to determine that SDG&E correctly incorporates those adjustments.[591]

SDG&E further alleges that OPBA treatment of pool funding for engineering activities at the conceptual and beginning stages of a project is constraining and counterproductive.[592] Furthermore, SDG&E alleges that its Electric Distribution Capital project teams have effective cost oversight and forecasting processes and procedures in place which eliminates the need for one-way balancing account treatment. SDG&E gfurther states that data was furnished by SDG&E in the GRC filing that shows the company's pool expenses have been managed effectively and in proportion to the associated capital project expenditures in an analysis that spanned over a seven-year historical period from 2015-2021. According to SDG&E, that study shows that the Compound Annual Growth Rate (CAGR) of the four pools combined was almost identical to the CAGR of their capital project base during the same time period (11.1% vs. 11.2% respectively). As alleged by SDG&E, if the pools were not managed effectively, the data would have shown a significant deviation between the CAGR of the pool expense vs. capital base. SDG&E also states that the CAGR of the pool expenses versus the capital base are very similar, indicating that SDG&E has done a good job of effectively managing the pools.[593]

While the seven-year compound rates may be close, the individual yearly percentages of the amount of pool expenses that are "loaded out" fluctuate greatly.[594] For example, on page OR-86 of Ex. SDG&E-11-R, the provided table shows that the loading

[590] Ex. CA-06 at 21.

[591] Ex. CA-06 at 21.

[592] Ex. SDG&E-211 at OR-28.

[593] Ex. SDG&E-211 at OR-29.

[594] Ex. SDG&E-11-R-E at OR-86.

percentages for Local Engineering-ED vary from a low of 45% in 2020 to a high of 81% in 2019.[595] That type of variability does not indicate that these costs are being effectively managed. Furthermore, in the last SDG&E GRC, the Commission created the OPBA because it was concerned that funds related to specific capital projects that were canceled or postponed would be reassigned to other areas. This concern remains valid. In the current GRC, Cal Advocates has recommended, and SDG&E has agreed, that 13 capital projects that were not discussed in SDG&E's testimony should be "zeroed out." Those 13 projects all impact the Overhead Pools forecast. Therefore, the potential for Overhead Pools funds being reassigned is now greater than they were in the last GRC. The OPBA is still needed.

20.1.6 Reliability/Improvements

The main purpose of the Reliability/Improvements capital area is to undertake capital projects that are designed to maintain or improve the reliability of SDG&E's Electric Distribution system, thereby continuing the high level of service and electrical availability that its customers expect. As discussed in its testimony, SDG&E explains that:

> SDG&E continues with its effort to improve reliability through the proactive replacement of end-of-life substation distribution circuit breakers, along with the installation of additional Supervisory Control and Data Acquisition (SCADA) devices and other advanced technologies. With modern circuit breakers, additional fault indicating, sectionalizing, and circuit automation devices, the ability to restore customers' service improves and outage times can be reduced.[596]

Most of the capital projects contained in the Reliability/Improvements capital area are designated as RAMP projects.[597] SDG&E provides a four-page list of the Electric Distribution RAMP activity capital projects that it is including in this GRC.[598] Cal

[595] Ex. SDG&E-11-R-E at OR-86.

[596] Ex. SDG&E-11-R-E at OR-93.

[597] Ex. CA-06 at 6, Table 06-1 (lines 23-57).

[598] Ex. SDG&E-11-R-E at Appendix B.

Advocates observes that many of the RAMP projects listed in SDG&E's Appendix B involved rebuilding, modernizing, or replacing various electric distribution systems. While preparing the Electric Distribution Capital GRC forecasts, SDG&E continued to evaluate the scope, schedule, resource requirements, and synergies of RAMP-related projects and programs.[599] SDG&E further states that the final presentation of RAMP costs in the GRC may differ from the ranges shown in the 2021 RAMP Reports, which suggests that SDG&E's RAMP forecasts are susceptible to various potential changes.[600]

As part of its analysis, Cal Advocates sought to determine whether various issues that might impact the completion of these RAMP projects (e.g., permit delays, supply constraint problems, the deferral of projects to undertake other projects deemed to be of more importance, the delayed need for the project, etc.) were occurring. Cal Advocates issued data requests PubAdv-SDG&E-GAW-081 (Questions 2, 3, and 4) and PubAdv-SDG&E-GAW-088 (Question 1), to determine whether these capital projects were still likely to meet their original completion schedules.[601] In response to those data requests, SDG&E provided revised and updated completion estimates for 15 capital projects.

SDG&E's data responses showed that eight capital projects (shaded in orange in Table 06-1) have been delayed to the extent that they are now forecast to be completed sometime after the 2024 test year, three capital projects (shaded in yellow) have been delayed but will be completed before the end of the 2024 test year, and three capital projects (shaded in green) will be completed earlier than originally forecast.[602] All these revised completion dates have been reflected in Cal Advocates' version of the RO model. The revenue requirement impact of these revised completion dates can only be determined by re-running the RO model after these completion dates have been incorporated.[603]

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[599] Ex. SDG&E-11-R-E at OR-6.

[600] Ex. SDG&E-11-R-E at OR-6.

[601] Ex. CA-06 at Appendix B; Ex. CA-06 at 23.

[602] Ex. CA-06 at Appendix B; Ex. CA-06 at 23-24.

[603] Ex. CA-06 at 24.

In addition to incorporating these revised completion dates into the RO model, Cal Advocates also analyzed how these completion date changes might impact the yearly spending forecasts that SDG&E had originally included in its testimony. Spending patterns for delayed projects can be changed in various ways.[604] One example would be to maintain the project's original start date, but then uniformly adjust the original spending pattern to conform to the project's new construction duration.[605] Another example would be to keep the original yearly spending amounts and durations, but uniformly shift the construction starting point by the amount of the completion delay.[606] In either case, the total capital expenditures would be the same, but the amount of forecast expenditures each year would be different.[607] Again, even while keeping the total construction dollars for a particular project constant, it is possible to create a virtually unlimited number of construction expenditure variations.[608]

Project delays are more likely to occur due to various permitting issues, supply constraint problems, the deferral of projects in order to undertake other projects deemed to be of more importance, the utility's determination that a project is not immediately needed, and/or similar issues that would cause the start of a project to be temporarily

[604] Ex. CA-06 at 24.

[605] As a simple example, suppose that a particular project was originally scheduled to take one year to build at a cost of $365 (i.e., expenditures of $1/day), but has now been determined to be delayed by 6-months, resulting in a revised 1.5-year construction period. If the project is assumed to commence as originally planned, but the revised construction schedule is now lengthened, the expenditures would be uniformly adjusted to match the building delay. In this example, the resulting expenditure pattern would result in daily expenditures of $0.667 (1.5 years is equivalent to 365 days plus 182.5 days, which equals 547.5 days, all divided into the $365 cost). Costs in the first year would therefore be $243.33 (365 days times $0.667 per day), while costs in the second year, due to the 6-month extension, would be $121.67 (182.5 days times $0.667 per day). While the total cost has not changed, the spending pattern has now been spread over 1.5 years.

[606] Using the same example from the previous footnote, if the same $365 project had an original 2022 starting date, and the entire project (with its original 12/31/2022 completion date) was uniformly shifted by 6-months, the original starting date would be similarly shifted by 6-months and the $365 total cost would simply be split between 2022 and 2023, with $182.5 being forecast in each year. While the total cost has not changed, the spending pattern has now been spread over 6-months in 2022 and 6-months in 2023.

[607] Ex. CA-06 at 24.

[608] Ex. CA-06 at 24.

deferred (as opposed to all aspects of a project being delayed and lengthened by a simple slowdown in work effort).[609] Therefore, Cal Advocates concludes that uniformly shifting the construction starting point (by the amount of the completion delay) is the most reasonable and the most accurate methodology to use to calculate the yearly expenditure changes due to revisions in a project's completion date.[610]

Based on this assumption regarding completion date adjustments, Cal Advocates developed several spreadsheets that: (1) calculated the number of days each of the 15 capital projects were delayed (or accelerated), (2) calculated SDG&E's originally proposed daily expenditures (for each year, in the case of multi-year construction periods) for each of the 15 capital projects, (3) calculated the shift in each of the original expenditures (either later or earlier, depending on whether the project was revised to have a later or earlier completion date), and (4) recalculated the yearly capital forecasts for each year for each project.[611] As shown in Columns (H), (K), and (N) of Table 06-1 for the Reliability/Improvements section, in some instances Cal Advocates' recalculated expenditures resulted in yearly forecasts that were higher than SDG&E had originally forecast (those numbers are in red), while in other instances the recalculated expenditures resulted in yearly forecasts that were lower (those numbers are in black).[612] In no instance did Cal Advocates recommend any adjustments to SDG&E's original total forecast estimates for any of the 15 projects.[613]

SDG&E acknowledges that external factors have "pushed out" the in-service dates of these projects, but it does not initially address the fact that Cal Advocates has also reflected the fact that some of these capital projects have had their in-service dates accelerated.[614] Although SDG&E further acknowledges that project schedules and

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[609] Ex. CA-06 at 24-25.

[610] Ex. CA-06 at 25.

[611] Ex. CA-06 at 25.

[612] Ex. CA-06 at 25.

[613] Ex. CA-06 at 25.

[614] Ex. SDG&E-211 at OR-32.

completion dates are continuously evaluated and revised, SDG&E also claims that many projects may have minor scheduling changes that will ultimately be negligible from an aggregate perspective and that SDG&E is not requesting modifications to the request associated with each workpaper regardless of project accelerations or delays.[615]

As stated above, Cal Advocates recognizes that completion dates and project schedules are continuously evaluated and revised, which is why Cal Advocates requested that SDG&E provide the most up-to-date information regarding this capital project area. Cal Advocates' forecasts reflect this most currently available information and should take precedence over SDG&E's original outdated forecasts. The revised updated information provided by SDG&E reflects the fact that some capital projects will now be ahead of schedule, while some will now be delayed. Therefore, contrary to SDG&E's Rebuttal allegation, the most recent data do not suggest a "negligible" scheduling change but are instead significant revisions to 15 capital projects that should not be ignored.

Further, as noted above, it is important to remember that capital expenditures are cumulative, with expenditures in one year being added to the expenditures in prior years. Utilities earn a return on the cumulative total of these expenditures, which are directly impacted by any changes to their completion dates. Thus, to accurately compute test year costs, the Commission should use the most currently available data regarding capital expenditures, thereby enabling the Commission to derive the most accurate revenue requirement.

Finally, SDG&E alleges in its rebuttal testimony that Cal Advocates' proposed expenditure adjustments to recalculate costs based on a change to the completion date is flawed because projects *may* in fact commence on time and still incur delays affecting the completion date. SDG&E therefore requests the Commission reject Cal Advocates' proposed methodology to address any deferred or delayed projects.

SDG&E's analysis here is misguided. While projects can conceivably start on time and still incur delays that affect the completion dates, such is not usually the case.

[615] Ex. SDG&E-211 at OR-33.

Project delays are more likely to occur due to various permitting issues, supply constraint problems, the deferral of projects in order to undertake other projects deemed to be of more importance, the utility's determination that a project is not immediately needed, and/or similar issues that would cause the start of a project to be temporarily deferred (as opposed to all aspects of a project being delayed and lengthened by a simple uniform slowdown in work effort).[616] SDG&E's own Rebuttal supports that position. While discussing the potential problems surrounding the expenditure of additional dollars for Electric Distribution capital projects, SDG&E notes that these additional expenditures may add significant time to each work order and include, but are not limited to, city and county permits that are required during the design process, potential material shortages, and environmental issues.[617] Therefore, a uniform shift in the work schedule, including a shift in the starting point, will most likely provide the best forecast for projects that have had scheduling changes.

As a result of these recommended adjustments, Cal Advocates' total forecast for the Reliability/Improvements capital area is lower than SDG&E's forecast by $13.476 million for 2022 and $57.071 million for 23 2023 but is $39.771 million higher for 2024; these differences are shown on Line 57 of Table 06-1.[618]

20.1.7 Capacity/Expansion

The Capacity/Expansion category includes capital costs for distribution infrastructure upgrades meant to mitigate system overloads. SDG&E conducts an annual Distribution Planning Process to identify where infrastructure upgrades are required to keep pace with projected load growth. SDG&E used data from the most recently completed 2021 Distribution Planning Process to develop its forecasts for this GRC.[619]

SDG&E forecasts capital expenditures of $63.212 million for Electric Distribution capital expenditures in the Capacity/Expansion category. This includes $59.531 million

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[616] Ex. CA-06 at 24-25.

[617] Ex. SDG&E-211 at OR-17.

[618] Ex. CA-06 at 25.

[619] Ex. SDG&E-11-R-E at OR-26.

in ratepayer-funded, non-collectible costs and $3.681 million in collectible costs.[620] Because collectible costs are paid by other entities than ratepayers, Cal Advocates' testimony focuses on non-collectible costs.

Cal Advocates recommends a non-collectible capital forecast of $58.586 million, which is $0.945 million less than SDG&E's forecast.[621] Cal Advocates does not oppose SDG&E's forecasts for most of the projects and programs in this category; however, it opposes SDG&E's capital forecast for Distribution System Capacity Improvement, which is discussed below.[622]

- **Distribution System Capacity Improvement**

SDG&E requests $6.831 million for non-collectible capital expenditures associated with Distribution System Capacity Improvement.[623] Cal Advocates recommends a capital forecast of $5.886 million, which is $0.945 million less than SDG&E's forecast.[624] SDG&E developed its forecast using a three-year average based on historical spend.[625] SDG&E argues that using this forecast method "levels out the peaks and valleys in this blanket budget code".[626] Cal Advocates agrees with SDG&E's use of a three-year average. However, Cal Advocates calculated a different three-year average using the historical non-collectible data provided by SDG&E.[627] Cal Advocates calculated a three-year average of $1.962 million, which is $0.315 million less than the three-year average used by SDG&E.[628] Cal Advocates used this three-year average to develop its forecast of $5.886 million.[629]

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[620] Ex. SDG&E-11-R-E at OR-25, Table OR-6.

[621] Ex. CA-07 at 29.

[622] Ex. CA-07 at 29.

[623] Ex. SDG&E-11-R-E at OR-44, lines 7-9.

[624] Ex. CA-07 at 29.

[625] Ex. CA-07 at 29.

[626] Ex. SDG&E-11-R-E at OR-44.

[627] SDG&E's response to PubAdv-SDG&E-SIK-164, Question 1.

[628] Ex. CA-07 at 29.

[629] Ex. CA-07 at 29.

20.1.8 SDG&E Electric Distribution: Materials

SDG&E requests $90.837 million for capital costs in the Materials category of Electric Distribution associated with purchasing distribution transformers and regulators.[630] SDG&E requests $15.138 million for Electric Meters & Regulators and $75.699 million for Transformers. SDG&E uses a zero-based forecast method to derive its forecast.[631]

Cal Advocates recommends a capital forecast of $78.666 million for the Materials category.[632] Cal Advocates does not oppose SDG&E's capital forecast for Electric Meters & Regulators, but it disputes SDG&E's forecast for Transformers, as discussed below.[633]

- **Transformers**

Cal Advocates recommends a capital forecast of $63.528 million for Transformers, which is $12.171 million less than SDG&E's capital forecast.[634] Cal Advocates calculated unit costs for transformer purchases using historical data on the number of transformers purchased and total spending on transformers each year between 2017 and 2021. Cal Advocates then multiplied the average of these historical unit costs by the number of transformers SDG&E plans to purchase each year of this GRC period.[635] SDG&E's 2022 capital forecast was based on its plan to purchase 6,348 transformers in 2022; however, SDG&E only purchased 6,279 transformers in 2022.[636] Cal Advocates used the updated number of transformers to develop its 2022 forecast. Based on its calculations, Cal Advocates recommends that the Commission adopt a

[630] Ex. SDG&E-11-R-E at OR-64, lines 2-8.

[631] Ex. SDG&E-11-R-E at OR-64 to OR-65.

[632] Ex. CA-07 at 30.

[633] Ex. CA-07 at 30.

[634] Ex. SDG&E-11-R-E at OR-65, lines 6-7.

[635] See Ex. SDG&E-11-CWP-R at 317; Ex. CA-07 at 30.

[636] SDG&E's response to PubAdv-SDG&E-SIK-164, Question 4b.

capital forecast of $20.002 million for 2022, $21.231 million for 2023, and $22.295 million for 2024, for a total capital forecast of $63.528 million.[637]

20.1.9 SDG&E Electric Distribution: New Business

For its New Business category, SDG&E forecasts $188.419 million in capital expenditures that stem from customer requests for new services, upgraded services, new distribution systems for commercial and residential developments, system modifications to accommodate new customer load, customer-requested relocations, rearrangements, removals, and the conversion of existing overhead lines to underground.[638] SDG&E's forecast includes $149.587 million in ratepayer-funded, non-collectible costs and $38.832 million in collectible costs.[639] Cal Advocates focuses on the non-collectible costs associated with the New Business category.

Cal Advocates recommends a non-collectible capital forecast of $126.198 million, which is $23.389 million less than SDG&E's non-collectible forecast.[640] Cal Advocates does not oppose SDG&E's capital forecasts for the following programs in the New Business category: Electric Distribution Easements, New Service Installations, and Transformer & Meter Installations.[641] Cal Advocates' recommendations for the remaining programs are discussed below.

- **Overhead Residential New Business**

SDG&E requests $2.243 million for non-collectible capital expenditures associated with Overhead Residential New Business.[642] Cal Advocates recommends a forecast of $1.746 million, which is $0.497 million less than SDG&E's forecast. SDG&E states that it developed its forecast by applying growth rates based on its

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[637] Ex. CA-07 at 30.

[638] Ex. SDG&E-11-R-E at OR-66, lines 6-10.

[639] Ex. SDG&E-11-R-E at OR-66, Table OR-15.

[640] Ex. CA-07 at 32.

[641] Ex. CA-07 at 32-33.

[642] Ex. SDG&E-11-R-E at OR-68, lines 10-12.

Customer Forecast to a three-year historical average.[643] However, Cal Advocates derived different non-collectible forecasts using the same forecast method and historical data provided by SDG&E.[644] In its workpapers, SDG&E's explains that it utilized a Meterset growth rate of 0.78% for 2022, 0.88% for 2023, and 0.89% for 2024 to derive its forecasts.[645] Cal Advocates does not dispute these growth rates. Cal Advocates applied SDG&E's growth rates to the three-year historical average for non-collectible capital expenditures. Cal Advocates calculated capital forecasts of $0.577 million for 2022, $0.582 million for 2023, and $0.587 million for 2024.[646]

In response to a data request, SDG&E provided a table that lists the percentage of collectible and non-collectible components for programs in the New Business category. SDG&E's non-collectible forecasts do not align with the historical ratios of collectible and non-collectible costs.[647] Historically, 70% of capital expenditures in the Overhead Residential New Business program have been non-collectible.[648] The non-collectible forecasts derived by Cal Advocates are approximately 70% of the total (collectible and non-collectible) capital forecasts provided by SDG&E in its workpapers,[649] which supports the accuracy of Cal Advocates' forecasts. Cal Advocates used the same forecast method to develop its forecasts for the other programs in the New Business category.[650]

- **Overhead Non-Residential New Business**

SDG&E requests $2.829 million for non-collectible capital expenditures associated with Overhead Non-Residential New Business.[651] Cal Advocates recommends

[643] Ex. SDG&E-11-R-E at OR-68 to OR-69.

[644] Ex. CA-07 at 33.

[645] Ex. SDG&E-11-CWP-R at 341.

[646] Ex. CA-07 at 33.

[647] SDG&E's response to PubAdv-SDG&E-SIK-164, Q. 2b.

[648] Ex. CA-07 at 33.

[649] Ex. SDG&E-11-CWP-R at 341.

[650] Ex. CA-07 at 33-34.

[651] Ex. SDG&E-11-R-E at OR-69, lines 16-18.

a forecast of $2.428 million, which is $0.401 million less than SDG&E's forecast.[652] Cal Advocates applied the Meterset growth rates provided by SDG&E to the three-year historical average of non-collectible capital expenditures. Using this method, Cal Advocates calculated capital costs of $0.802 million for 2022, $0.809 million for 2023, and $0.816 million for 2024.[653] Historically, non-collectible costs have made up about 80% of total capital costs for Overhead Non-Residential New Business.[654] The forecasts derived by Cal Advocates are approximately 80% of the total capital forecasts provided by SDG&E, which supports their accuracy.[655]

- **Underground Residential New Business**

SDG&E requests $19.628 million for non-collectible capital expenditures associated with Underground Residential New Business.[656] Cal Advocates recommends a forecast of $17.045 million, which is $2.583 million less than SDG&E's forecast.[657] Cal Advocates applied the Meterset growth rates provided by SDG&E to the three-year historical average of non-collectible capital expenditures. Using this method, Cal Advocates calculated capital costs of $5.632 million for 2022, $5.681 million for 2023, and $5.732 million for 2024. Historically, non-collectible costs have made up about 79% of total capital costs for Underground Residential New Business.[658] The forecasts derived by Cal Advocates are approximately 79% of the total capital forecasts provided by SDG&E, which supports their accuracy.[659]

- **Underground Non-Residential New Business**

[652] Ex. CA-07 at 34.

[653] Ex. CA-07 at 34.

[654] SDG&E's response to PubAdv-SDGE-SIK-164, Question 2.

[655] See Ex. SDG&E-11-CWP-R at 348; Ex. CA-07 at 34.

[656] Ex. SDG&E-11-R-E at OR-70, lines 20-22.

[657] Ex. CA-07 at 34.

[658] SDG&E's response to PubAdv-SDG&E-SIK-164, Question 2.

[659] Ex. SDG&E-11-CWP-R at 357.

SDG&E requests $19.875 million for non-collectible capital expenditures associated with Underground Non-Residential New Business.[660] Cal Advocates recommends a forecast of $17.261 million, which is $2.614 million less than SDG&E's forecast. Cal Advocates applied the Meterset growth rates provided by SDG&E to the three-year historical average of non-collectible capital expenditures. Using this method, Cal Advocates calculated capital costs of $5.703 million for 2022, $5.753 million for 2023, and $5.805 million for 2024.[661] Historically, non-collectible costs have made up about 75% of total capital costs for Underground Non-Residential New Business.[662] The forecasts derived by Cal Advocates are 75% of the total capital forecasts provided by SDG&E, which supports their accuracy.[663]

- **New Business Infrastructure**

SDG&E requests $11.964 million for non-collectible capital expenditures associated with New Business Infrastructure.[664] Cal Advocates recommends a forecast of $9.822 million, which is $2.142 million less than SDG&E's forecast.[665] Cal Advocates applied the growth rates provided by SDG&E to the three-year historical average of non-collectible capital expenditures. Using this method, Cal Advocates calculated capital costs of $3.245 million for 2022, $3.274 million for 2023, and $3.303 million for 2024.[666] Historically, non-collectible costs have made up about 64% of total capital costs for New Business Infrastructure.[667] The forecasts derived by Cal Advocates are 64% of the total capital forecasts provided by SDG&E, which supports their accuracy.[668]

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[660] Ex. SDG&E-11-R-E at OR-71, lines 25-27.

[661] Ex. CA-07 at 35.

[662] SDG&E's response to PubAdv-SDG&E-SIK-164, Question 2.

[663] See Ex. SDG&E-11-CWP-R at 367; Ex. CA-07 at 35.

[664] Ex. SDG&E-11-R-E at OR-72, lines 28-30.

[665] Ex. CA-07 at 35.

[666] Ex. CA-07 at 35.

[667] SDG&E's response to PubAdv-SDG&E-SIK-164, Question 2.

[668] Ex. SDG&E-11-CWP-R at 377.

- **Customer Requested Upgrades and Services**

SDG&E requests $29.965 million for non-collectible capital expenditures associated with Customer Requested Upgrades and Services.[669] Cal Advocates recommends a forecast of $21.197 million, which is $8.768 million less than SDG&E's forecast.[670] Cal Advocates applied the growth rates provided by SDG&E to the three-year historical average of non-collectible capital expenditures.[671] Using this method, Cal Advocates calculated capital costs of $7.004 million for 2022, $7.065 million for 2023, and $7.128 million for 2024. Historically, non-collectible costs have made up about 53% of total capital costs for Customer Requested Upgrades and Services.[672] The forecasts derived by Cal Advocates are approximately 53% of the total capital forecasts provided by SDG&E, which supports their accuracy.[673]

- **Conversion from Overhead to Underground Rule 20B**

SDG&E requests $4.945 million for non-collectible capital expenditures associated with Conversion from Overhead to Underground Rule 20B.[674] Cal Advocates recommends a forecast of $2.864 million, which is $2.081 million less than SDG&E's forecast.[675] Cal Advocates applied the growth rates provided by SDG&E to the three-year historical average of non-collectible capital expenditures. Using this method, Cal Advocates calculated capital costs of $0.946 million for 2022, $0.955 million for 2023, and $0.963 million for 2024.[676]

- **Conversion from Overhead to Underground Rule 20C**

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[669] Ex. SDG&E-11-R-E at OR-75, lines 3-5.

[670] Ex. CA-07 at 36.

[671] Ex. CA-07 at 36.

[672] SDG&E's response to PubAdv-SDG&E-SIK-164, Question 2.

[673] See Ex. SDG&E-11-CWP-R at 397; Ex. CA-07 at 36.

[674] Ex. SDG&E-11-R-E at OR-80, lines 8-10.

[675] Ex. CA-07 at 36.

[676] Ex. CA-07 at 36.

SDG&E requests $4.545 million for non-collectible capital expenditures associated with Conversion from Overhead to Underground Rule 20C.[677] Cal Advocates recommends a forecast of $0.242 million, which is $4.303 million less than SDG&E's forecast.[678] Cal Advocates applied the growth rates provided by SDG&E to the three-year historical average of non-collectible capital expenditures. Using this method, Cal Advocates calculated capital costs of $0.080 million for 2022, $0.081 million for 2023, and $0.081 million for 2024.[679]

20.2 Operations and Maintenance (O&M)

Electric Distribution Operations and Maintenance (O&M) expenses are for work activities related to the operation, maintenance, supervision, and engineering associated with its electric distribution system. SDG&E forecasts $132.721 million for its TY 2024 Electric Distribution O&M expenses.[680] Cal Advocates' recommendation for SDG&E's Electric Distribution O&M expenses is $114.986 million.[681]

To make its recommendations, Cal Advocates used SDG&E's 2021 recorded adjusted expenses, SDG&E's historical expense levels, and SDG&E's TY forecasts and reviewed and compared SDG&E's TY 2024 proposals with SDG&E's 2019 GRC requested and authorized funding.[682] Cal Advocates also reviewed SDG&E's historical recorded adjusted expenses and its forecast estimates for each Electric Distribution activity and reviewed SDG&E's testimony and workpapers and analyzed data request responses.[683]

SDG&E's Electric Distribution forecast for TY 2024 includes activities that have been removed, reclassified, or reorganized relative to its 2019 GRC request, which made

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[677] Ex. SDG&E-11-R-E at OR-81, lines 13-15.

[678] Ex. CA-07 at 37.

[679] Ex. CA-07 at 37.

[680] Ex. SDG&E-12-R-E at TS-1.

[681] Ex. CA-08 at 1.

[682] Ex. CA-08 at 3.

[683] Ex. CA-08 at 3.

tracking, comparing, and evaluating the status of routine and/or ongoing projects and activities unnecessarily difficult. SDG&E states,

> SDG&E believes performing a direct comparison of year-to-year and/or year-over-year dollar values is inappropriate and may lead to incorrect conclusions due in part to the tracking of costs presented in the TY 2019 GRC have changed in the TY 2024 GRC.[684]

Cal Advocates conducted discovery to identify the activities included in historical expenses that were removed, reclassified, or reorganized to track and analyze SDG&E's Electric Distribution expenses over time and to determine the reasonableness of SDG&E's TY 2024 proposals.

SDG&E's TY 2024 forecast of $132.721 million is an increase of $16.581 million over its TY 2019 GRC-approved expenses of $116.14 million.[685] SDG&E's combined total for its Electric Distribution recorded adjusted expenses averaged $84.99 million between 2017 and 2018.[686]

Cal Advocates does not oppose SDG&E's Electric Distribution expense forecasts for the following cost categories: Reliability and Capacity of $2.461 million, Construction Management of $4.045 million, Electric Transmission & Distribution (ET&D) Operations Services of $2.179 million, ET&D Substation Construction & Operations (C&O) of $9.519 million, Distribution Design and Project Management of $1.304 million, Service Order Team of $4.069 million, Electrical Engineering of $2.504 million, Troubleshooting of $9.633 million, Portfolio & Project Management of $512,000, Officer of $1.288 million, and Regional Public Affairs of $1.388 million.[687] Cal Advocates reviewed SDG&E's testimony, workpapers, data request responses, and historical expense levels for these cost categories and does not oppose SDG&E's

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[684] SDG&E's response to data request PubAdv-SDG&E-RYD-015 at Q. 1a.

[685] SDG&E's response to data request PubAdv-SDG&E-RYD-002 at Q. 1.

[686] Ex. CA-08 at 3.

[687] Ex. CA-08 at 4-5.

forecasts as stated above, which are comparable to historical expense levels.[688] However, Cal Advocates developed different TY forecasts relative to SDG&E for the cost categories that are discussed below.

20.2.1 Electric System Operations

Cal Advocates' TY 2024 recommendation for SDG&E's Electric System Operations O&M expenses is $32.427 million, which is $9.52 million less than SDG&E's TY 2024 forecast of $41.947 million.[689] Cal Advocates used SDG&E's 2021 recorded adjusted expenses plus adjustments for proposed incremental activities to determine its recommendation.[690]

Cal Advocates analyzed the programs, historical expenses, and projected expense forecasts for SDG&E's TY 2024 Electric Regional Operations and does not oppose SDG&E's forecast for Labor expense.[691] SDG&E's Non-Labor expense forecast is discussed below.

SDG&E used its 2021 recorded adjusted expenses (its base year recorded) to develop its forecast.[692] SDG&E's 2021 recorded adjusted expenses of $31.073 million are $6.84 million higher than its 5-year average (2017-2021) of $24.23 million.[693] Although SDG&E states that the "base year methodology reflects the additional labor needed to maintain a healthy development pipeline to maintain proper [Distribution System Operator] DSO workforce resources,"[694] the $10.874 million increase in SDG&E's TY forecast over its 2021 recorded adjusted expenses is primarily associated with its non-labor forecast for increased storeroom costs.[695]

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[688] Ex. CA-08 at 5.

[689] Ex. CA-08 at 6-7.

[690] Ex. CA-08 at 7.

[691] Ex. CA-08 at 7.

[692] Ex. SDG&E-12-WP-R-E at 29.

[693] SD&E's response to data request PubAdv-SDG&E RYD-015- at Q.1.

[694] Ex. SDG&E-12-WP-R-E at 29.

[695] Ex. SDG&E-12-WP-R-E at 32.

SDG&E forecasts $37.228 million of non-labor costs for its TY 2024 Electric System Operations activities. The $10.112 million or 37.29% increase in SDG&E's non-labor TY forecast over its 2021 recorded adjusted expenses is composed of $189,000 in licensing costs for its Transmission Emergency Management System, $403,000 for its SCADA system, and $9.521 million for storeroom costs.[696] Cal Advocates recommends $27.708 million for SDG&E's Electric System Operations activities, which is $9.52 million lower than SDG&E's request.[697] SDG&E's recorded adjusted non-labor expenses averaged $19.718 million between 2017-2021. SDG&E's 2021 recorded adjusted expenses of $27.116 million were the highest recorded for the five-year period (2017-2021).[698]

Based on Cal Advocates' review of SDG&E's TY request for incremental storeroom costs, it recommends using SDG&E's 2021 recorded expenses of $25.1 million as the TY forecast for storeroom costs.[699] SDG&E's storeroom stock includes bulk-type materials that are not individually inventoried or managed by district warehouses, such as nuts, bolts, washers, connectors, electrical tape, and daily consumption items.[700] SDG&E states that "upward cost pressures in this GRC cycle are attributed to increases to SDG&E's forecasted capital plan."[701] But SDG&E does not maintain records of the specific number of items and/or materials that are kept in its storeroom or track the amounts of materials that are being removed and used each day for projects.[702] Given the lack of accurate recordkeeping of inventory/materials in the storeroom, it is difficult to determine whether the current levels of materials are sufficient

[696] Ex. SDG&E-12-WP-R-E at 32.

[697] Ex. CA-08 at 7.

[698] Ex. CA-08 at 7-8.

[699] Ex. CA-08 at 8.

[700] Ex. SDG&E-12-R-E at TS-27.

[701] Ex. SDG&E-12-R-E at TS-27.

[702] See Ex. SDG&E-12 at TS-27 & SDG&E's response to data request PubAdv-SDG&E-RYD-015 at Q. 2c.

to address proposed TY projects.[703] Accordingly, SDG&E's proposed TY increases for storeroom stock are not justified and the Commission should not rely on those proposed increases to establish TY expense levels.[704] In addition, SDG&E's methodology to calculate its TY forecast increase of $9.521 million for storeroom stock costs overstates its forecast, which is burdensome to ratepayers and the calculation lacks specific detail required to evaluate and substantiate its estimates for proposed TY activities.[705]

SDG&E forecasts its storeroom stock costs by adding its total recorded capital and O&M expenses in 2021 for Electric Distribution, Wildfire Mitigation and Vegetation Management, Gas Distribution, and freight charges.[706] SDG&E takes the ratio of O&M expense to capital dollars in 2021, which is 2.56%, and multiples this by its total forecast for Electric Distribution, Wildfire Mitigation, and Vegetation Management, and Gas Distribution in 2022-2024.[707] SDG&E takes the difference between this total and its 2021 recorded costs to estimate incremental storeroom stock costs of $6.959 million in 2022, $11.395 million in 2023, and $9.579 million in 2024.[708]

SDG&E's recorded expenses for its storeroom stock increased each year over the five-year period (2017-2021) with an average expense level of $17.843 million, but never increased by the level proposed by SDG&E of $9.579 million.[709] Despite Cal Advocates' request to provide supporting documentation to demonstrate its 2021 recorded costs of $25.1 million (the highest recorded in a five-year period), SDG&E did not provide any verifiable or traceable documentation.[710] SDG&E also failed to provide documentation

[703] Ex. CA-08 at 8.

[704] Ex. CA-08 at 8.

[705] SD&E's response to data request PubAdv-SDG&E-RYD-015 at Q.1.

[706] SDG&E's response to data request PubAdv-SDG&E-RYD-015 at Q. 2a.

[707] Ex. CA-08 at 9.

[708] Referring to SDG&E's response to data request PubAdv-SDG&E-RYD-015, Q. 2a, SDG&E's total TY 2024 estimate for storeroom stock is $34.679 million ($138.716 million over the four-year rate case cycle.) SDG&E's incremental forecast of $9.579 million represents the increase in TY 2024 over its 2021 recorded storeroom stock costs of $25.1 million.

[709] Ex. CA-08 at 9.

[710] Ex. CA-08 at 9.

showing that its current levels of materials/inventory are insufficient to address TY activities.[711] SDG&E's storeroom stock estimate does not correspond to any forecasted quantity of storeroom parts or specific projects that will utilize the stock. Cal Advocates requested:

> Provide supporting documentation demonstrating that SDG&E's $9.5 million increase over 2021 recorded costs is associated with specific forecasts of quantities of storeroom parts that will be utilized for incremental capital construction projects.[712]

SDG&E did not produce responsive documents and instead stated,

> The supplemental workpaper referenced in this question identifies that the $9.5 million increase over 2021 recorded costs are associated with both storeroom material and freight charges needed to support incremental capital construction programs.[713]

SDG&E also does not identify any incremental projects that will use the storeroom stock. Cal Advocates requested:

> Identify each capital construction project that will utilize SDG&E's TY 2024 incremental funding of $9.5 million for storeroom stock. For each project, provide supporting documentation demonstrating SDG&E's calculations of forecasted incremental stock that will be utilized for the project and the associated cost of purchasing the incremental stock.[714]

SDG&E's response does not identify any project that would use its funding request for storeroom stock, nor does it provide any supporting documentation regarding its incremental storeroom stock forecast.[715] Its response states:

> The incremental stock costs in the 2023 forecast are calculated using a historical based percentage and are not based on individual material forecasts. A 2021 historical based 2.56% ratio of recorded

[711] Ex. CA-08 at 9.

[712] Data request PubAdv-SDG&E-RYD-015 at Q. 2c.

[713] SDG&E's response to data request PubAdv-SDG&E-RYD-015 at Q. 2c.

[714] Data request PubAdv-SDG&E-RYD-015 at Q. 2d.

[715] SDG&E's response to data request PubAdv-SDG&E-RYD-015 at Q. 2d.

> stock and construction materials to total capital costs is applied to the total forecasted capital expenditures identified in the respective Gas Distribution, Electric Distribution, and Wildfire Mitigation and Vegetation Management witness areas.[716]

If SDG&E's 2024 storeroom stock spending is less than its TY forecast, SDG&E provided no evidence that ratepayers will benefit from the excess funding.[717] SDG&E states,

> In the event that SDG&E utilizes less storeroom stock in 2024 than funded in its TY 2024 forecast, SDG&E would likely not provide a direct refund to ratepayers. Rather, any excess storeroom stock would remain in inventory (presuming that it has a sufficiently long lifespan) and may offset or reduce the amount of funding requested in SDG&E's next GRC cycle.[718]

Although SDG&E states that excess storeroom stock may offset future funding requests, SDG&E does not have a mechanism to track its stock given that it is not inventoried.[719]

SDG&E's forecast methodology does not use a forecasted quantity of storeroom parts or specific incremental projects.[720] SDG&E's data request responses also fail to demonstrate that the ratio of O&M to capital dollars in 2021 is an appropriate basis for forecasting future storeroom stock.[721] In fact, SDG&E's methodology results in a significantly higher forecast in TY 2024 than in any of the last five years (2017-2021) without any protection for ratepayers if SDG&E uses less storeroom stock than forecasted.[722]

Cal Advocates developed its TY estimate of $27.708 million for the Electric System Operations non-labor expenses by utilizing SDG&E's 2021 recorded adjusted

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[716] SDG&E's response to data request PubAdv-SDG&E-RYD-015 at Q. 2d.

[717] See SDG&E's response to data request PubAdv-SDG&E-RYD-015 at Q. 2e.

[718] SDG&E's response to data request PubAdv-SDG&E-RYD-015 at Q. 2e.

[719] SDG&E's response to data request PubAdv-SDG&E-RYD-015 at Q. 2e.

[720] Ex. CA-08 at 11.

[721] Ex. CA-08 at 11.

[722] Ex. CA-08 at 11.

expenses of $27.116 million plus adding incremental costs for its Transmission Emergency Management System and its SCADA system.[723] Cal Advocates' estimate uses SDG&E's 2021 recorded adjusted expenses of $25.1 million for storeroom stock costs which have been shown to be sufficient and do not include the unjustified incremental forecast.[724] Thus, Cal Advocates' TY recommendation for SDG&E's non-labor expense is reasonable and is more than SDG&E's 2017-2021 recorded expense levels.[725]

20.2.2 Electric Regional Operations

SDG&E's Electric Regional Operations (ERO) include electric distribution crews, planners, schedulers, support staff, and two satellite operating centers.[726] The ERO workforce is comprised of electric linemen, apprentices, line assistants, schedulers, planners, office support personnel, project managers, supervisors, and management personnel. The work of ERO crews includes annual patrols and inspections, responding to electric outages, and repairing service problems.[727]

SDG&E forecasts $40.748 million for its Electric Regional Operations O&M expenses for TY 2024.[728] SDG&E's TY forecast is $5.408 million higher than 2021 recorded adjusted expenses of $35.36 million.[729] SDG&E's forecast used its 2021 recorded costs of $35.36 million plus incremental funding for ERO linemen and line assistants, its corrosion zone enhancement program, and car-mounted camera imagery

[723] SDG&E's 2021 non-labor recorded adjusted expenses for Electric System Operations were $27.116 million. Cal Advocates also added the incremental cost of $189,000 for SDG&E's Transmission Emergency Management system, $75,000 for IP Conversion costs related to its SCADA System Enhancements, and $328,000 for licensing fees for the Distribution SCADA system. $27.116 million + 189,000 + $75,000 + $328,000 = $27.708 million.

[724] Ex. CA-08 at 11.

[725] Ex. CA-08 at 11.

[726] Ex. SDG&E-12-R-E at TS-47.

[727] Ex. SDG&E-12-R-E at TS-47 to TS-48.

[728] Ex. SDG&E-12-R-E at TS-1.

[729] SDG&E's response to data request PubAdv-SDG&E-RYD-002 at Q. 1.

data collection and acquisition.[730] The increase of $5.408 million to SDG&E's TY 2024 forecast over its 2021 recorded adjusted expenses is primarily associated with SDG&E's proposal to hire additional linemen and line assistants.[731] SDG&E states that the linemen and line assistants will be needed "to inspect an increasing number of facilities, repairs to infractions, conduct emergency repairs, and construct 30% of SDG&E's capital plan."[732]

Cal Advocates' TY 2024 recommends that the Commission authorize SDG&E's Electric Regional Operations O&M expenses in the amount of $36.004 million, which is $4.764 million less than SDG&E's TY 2024 forecast of $40.768 million.[733] Cal Advocates used a five-year average of SDG&E's recorded labor costs to develop its recommendation.[734]

Cal Advocates has analyzed the programs, historical expenses, and projected expense forecasts for SDG&E's TY 2024 Electric Regional Operations and does not oppose SDG&E's forecast for Non-Labor expense. A discussion of SDG&E's Labor expense forecast is below.[735]

- **Labor Costs**

SDG&E forecasts $28.824 million of labor costs for its TY 2024 Electric Regional Operations activities.[736] SDG&E's forecast includes its proposal to hire eight linemen and 24 line assistants "to meet existing and future workload and reliability demands per year, which also accounts for the loss of twenty lineman due to attrition."[737] SDG&E's

[730] Ex. SDG&E-12-R-E at TS-47 and Ex. SDG&E-12-WP-R-E at 106.

[731] Ex. SDG&E-12-WP-R-E at 125.

[732] SDG&E's response to data request PubAdv-SDG&E-RYD-093 at Q. 4.

[733] Ex. CA-08 at 13.

[734] Ex. CA-08 at 13.

[735] Ex. CA-08 at 13.

[736] Ex. CA-08 at 13.

[737] Ex. SDG&E-12-R-E at TS-50.

linemen and line assistants are different job classifications with separate duties.[738] ERO line assistants operate tools and equipment and perform other related duties as assigned under direct supervision.[739] The duties of ERO linemen include working poles up to 100 feet, working from buckets of aerial lift trucks, and installing and making repairs to equipment.[740]

Cal Advocates recommends $24.06 million for SDG&E's labor costs for its Electric Regional Operations activities.[741] Cal Advocates opposes SDG&E's TY 2024 forecast for eight linemen and 24 line assistants because SDG&E does not demonstrate that the increased labor costs are incremental to existing funding levels.[742] SDG&E does not provide verifiable and traceable documentation to demonstrate its historical staffing levels were less than the staffing levels used to develop its TY 2024 forecast.[743]

SDG&E does not demonstrate that its expense forecast for eight linemen and 24 line assistants is incrementally higher than historic funding levels.[744] In response to Cal Advocates' data requests, SDG&E acknowledges that the "additional 8 lineman and 24 line assistants will take the place of the 20 lineman lost due to attrition."[745] However, SDG&E does not demonstrate that replacing 20 linemen positions with 8 linemen and 24 line assistants will incrementally increase its ERO costs.[746] Replacing full-time employees that left SDG&E with new employees, most of which are a different job class with a lower hourly rate,[747] does not necessarily increase total labor costs. SDG&E's TY

[738] SDG&E's response to data request PubAdv-SDG&E-RYD-022 at Q. 1a.

[739] Ex. CA-08 at 13.

[740] Ex. CA-08 at 14.

[741] Ex. CA-08 at 14.

[742] Ex. CA-08 at 14.

[743] Ex. CA-08 at 14.

[744] Ex. CA-08 at 14.

[745] SDG&E's response to data request PubAdv-SDG&E-RYD-022 at Q. 1e.

[746] Ex. CA-08 at 14.

[747] Referring to SDG&E's workpapers, Ex. SDG&E-12-WP-R-E at 125, SDG&E lists different hourly rates for line assistants and linemen, with some line assistants receiving $30/hour and some lineman receiving $70/hour. However, SDG&E provides different estimates in its discovery responses such as in

2024 forecast relies on a quantity of Full-Time Equivalents (FTEs) for each position and multiples this by the average pay rate of the position.[748] To show that its ERO labor costs are increasing, SDG&E would need to compare its forecast with the number of FTEs and their associated costs in previous years. SDG&E objected to Cal Advocates' request for this information.[749]

Cal Advocates requested:

> In a similar format as the table on p. 125 of Ex. SDG&E-12-WP, provide an Excel spreadsheet demonstrating the number of FTEs and total cost of each of the five labor categories in 2017-2021 for Electric Regional Operations. If SDG&E's 2017-2021 ERO spending also included labor costs for other categories, include those costs and explain how they are different from the five categories above.[750]

In its objection, SDG&E states,

> SDG&E objects to the request on the grounds that it would impose an undue burden on SDG&E by requiring it to perform studies, analyses, and calculations that do not currently exist and create documents that do not currently exist and/or are unable to be created. Specifically, SDG&E is not able to create a report that will break down the costs and labor hours per job code as requested.[751]

Instead, SDG&E provided an Excel spreadsheet listing the costs and numbers of FTEs of "Represented Employees," "Management," and "Other," which do not correspond to its ERO labor forecast. Cal Advocates sent a follow up request:

> SDG&E's testimony lists the hiring of additional lineman and line assistants as a cost driver for the increase to its ERO forecast. Therefore, a trend of the number of FTEs each year and the annual cost of each FTE is necessary to analyze and compare the forecasted

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its response to data request PubAdv-SDG&E-RYD-022, Q. 1f, which states that lineman salaries for 2021 are $64.84 per hour, below the claimed $70/hour from testimony.

[748] Ex. CA-08 at 14.

[749] Ex. CA-08 at 14.

[750] Data request PubAdv-SDG&E-RYD-022 at Q. 1c.

[751] SDG&E's response to data request PubAdv-SDG&E-RYD-022 at Q. 1c.

> FTEs and their cost in 2022-2024. Thus, Cal Advocates again requests a table breaking down the number of FTEs and the cost per FTE for each of the five labor categories on p. 125 of Ex. SDG&E-12-WP in 2017-2021 and the forecasted numbers for 2022-2024.[752]
>
> In its response, SDG&E states:
>
> SDG&E is unable to track labor costs at the granular level of each specific unique job category (i.e., Line Assistant, Linemen, etc.) presented on workpaper page 125 due to system limitations regarding the way costs are settled in the accounting system between O&M and Capital projects. The lowest level of detail that can be obtained is at the level of union and non-union as presented in response to PubAdv-SDG&E-022-RYD, Q.1c. Accordingly, within the union cost category, SDG&E cannot differentiate between lineman and line assistants.[753]

SDG&E does not provide a breakdown of its historic ERO labor costs.[754] Therefore, SDG&E fails to demonstrate that its TY 2024 forecast is incremental to funding for its previous staffing levels.[755]

SDG&E provides conflicting estimates for its historic staffing levels that do not demonstrate that the overall number of ERO employees is increasing in its test year forecast.[756] Furthermore, the replacement of linemen positions with the lower-paid line assistant category does not equate to the same cost per position replaced.[757] As noted above, SDG&E's testimony states that its TY 2024 forecast includes funding for an additional eight linemen and 12 line assistants that will replace 20 linemen lost due to attrition. Yet, SDG&E provides different estimates of historical staffing levels in its data request responses.[758] In one response, SDG&E states, "the 2021 recorded base year

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[752] Data request PubAdv-SDG&E-RYD-093 at Q. 4.

[753] SDG&E's response to data request PubAdv-SDG&E-RYD-093 at Q. 4.

[754] See SDG&E's response to data request PubAdv-SDG&E-RYD-093 at Q. 4.

[755] Ex. CA-08 at 16.

[756] Ex. CA-08 at 16.

[757] Ex. CA-08 at 16.

[758] Ex. CA-08 at 16.

values reflect the loss of 15 lineman and 8 line assistants to attrition."[759] This data conflicts with another data request response, where SDG&E provided the following numbers of linemen lost and hired each year:

Year	Lineman Lost	Lineman Hired
2017	7	8
2018	11	8
2019	11	1
2020	12	9
2021	15	17

Source: SDG&E's response to data request PubAdv-SDG&E-RYD-022, Q. 1d.

In response to a follow-up data request on these discrepancies, SDG&E states, "Upon further review of the data, the loss of 8 linemen per year was an incorrect statistic. The correct calculation using the 7-year average loss of linemen reflected in data provided in the table below is 9."[760] SDG&E provided the following table in its response:

Lineman Attrition	
Year	**Retire/Resign/ Discharge**
2021	13
2020	10
2019	11
2018	9
2017	6
2016	14
2015	6
TOTAL	**69**
7-year Average: 9	

Source: SDG&E's response to data request PubAdv-SDG&E-RYD-093, Q. 1c.

[759] SDG&E's response to data request PubAdv-SDG&E-RYD-022 at Q. 1e.

[760] SDG&E's response to data request PubAdv-SDG&E-RYD-093 at Q. 1c.

SDG&E's record of its ERO staffing levels does not demonstrate that its forecasted staffing levels in 2024 will be higher than its staffing levels from 2017 through 2021.[761] Instead, its data request responses provide conflicting estimates of historic staffing levels, and only one year – 2019 – shows the same number for attrition loss on both charts, which calls into question whether SDG&E is modifying the scope of employees included in its attrition estimates throughout its testimony, workpapers, and data request responses to magnify its attrition loss of linemen.[762] SDG&E did not provide documentation to demonstrate that the positions it intends to hire are incremental and, in fact, its data responses suggest SDG&E faced annual hiring and attrition in its ERO department.[763] The positions that SDG&E intends to hire are backfilling regular, routine attrition and have not been supported as incremental. SDG&E's 2017-2021 recorded labor expenses in its ERO department were relatively stable and averaged $24.06 million over the past five years. Therefore, Cal Advocates' recommendation to use a five-year average to calculate SDG&E's TY labor expenses is more representative of historical staffing levels and incorporates fluctuations in recorded costs.

SDG&E's rebuttal states, "[i]n discovery in this proceeding, SDG&E provided a data request response regarding Lineman loss, which explains that SDG&E does not track promotions and transfers of Lineman to other positions in the company."[764] However, as explained above, SDG&E has not provided any evidence that its request for linemen costs is incremental to existing funding levels.

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[761] Ex. CA-08 at 17.

[762] In response to follow-up data request PubAdv-SDG&E-RYD-093 at Q. 1a, SDG&E states that its response to data request PubAdv-SDG&E-RYD-022 at Q. 1d excluded internal transfers into other job classifications. SDG&E does not clarify whether these transfers are included in its attrition measurements in its testimony, workpapers, and other data request responses.

[763] Ex. CA-08 at 16.

[764] Ex. SDG&E-212 at TS-22 - TS-23.

20.2.3 Skills and Compliance Training

SDG&E forecasts $3.829 million for its Skills and Compliance Training O&M expenses for TY 2024,[765] for activities related to developing training for SDG&E's electric distribution workforce, including its field personnel, non-electrical support personnel, and first line supervision.[766] SDG&E's TY forecast is $990,000 higher than 2021 recorded adjusted expenses of $2.839 million.[767]

SDG&E's TY 2024 forecast utilized its 2021 recorded adjusted expenses plus incremental funding of $990,000 for three athletic trainers and three electrical worker instructors.[768] The three athletic trainers will be part of SDG&E's Industrial Athletic Program and their duties include developing a Strength Conditioning Program, conducting functional Mobility Screens, and assessing the potential to reduce injuries through strength conditioning.[769] The three electrical worker instructors will be part of SDG&E's Electrical Hazard in Municipalities Program and will be outside contractors who will "facilitate the training of local first responders, public workers and the general public on SDG&E electrical hazard awareness."[770]

Cal Advocates' TY 2024 recommendation for SDG&E's Skills and Compliance Training O&M expenses is $2.839 million, which is $990,000 less than SDG&E's TY 2024 forecast of $3.829 million.[771] Cal Advocates used SDG&E's 2021 non-labor recorded adjusted expenses for Skills and Compliance Training to develop its recommendation.[772]

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[765] Ex. SDG&E-12-R-E at TS-1.

[766] Ex. SDG&E-12-R-E at TS-51.

[767] SDG&E's response to data request PubAdv-SDG&E-RYD-002 at Q. 1.

[768] Ex. SDG&E-12-WP-R-E at 129-130.

[769] SDG&E's response to data request PubAdv-SDG&E-RYD-027 at Q. 1a.

[770] SDG&E's response to data request PubAdv-SDG&E-RYD-027 at Q. 2.

[771] Ex. CA-08 at 19.

[772] Ex. CA-08 at 19-20.

Cal Advocates has analyzed the programs, historical expenses, and projected expense forecasts for SDG&E's TY 2024 Electric Regional Operations and does not oppose SDG&E's forecast for Labor expenses. A discussion of SDG&E's Non-Labor expense forecast is below.

- **Non-Labor Costs**

SDG&E forecasts $2.765 million of non-labor costs for its TY 2024 Skills and Compliance Training activities. SDG&E's estimate includes its 2021 recorded adjusted expenses of $1.775 million, plus $990,000 for six contractors in its Industrial Athletic Program and its Electric Hazard in Municipalities Program.[773]

Cal Advocates recommends $1.775 million for SDG&E's non-labor costs for its Skills and Compliance Training activities, which is $990,000 less than SDG&E's forecast.[774] SDG&E's estimate relies on its 2021 recorded adjusted expenses of $1.775 million, which were the highest in the last five years (2017-2021) and $1.055 million higher than its five-year average (2017-2021) of $720,000.[775] Cal Advocates used SDG&E's 2021 recorded expenses as a basis for its TY estimate and agrees with SDG&E's assessment that "for non-labor, the base year provides an appropriate baseline in comparison to future targets for the organization as opposed to average or trend methodologies."[776] SDG&E did not provide documentation demonstrating that its 2021 recorded adjusted expenses were insufficient to address its TY activities for Skills and Compliance Training.[777] SDG&E's recorded adjusted expenses fluctuated slightly between 2017-2020, averaging $456,250 in the four-year period, then increased to $1.775 million in 2021.[778]

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[773] Ex. SDG&E-12-WP-R-E at 129-132.

[774] Ex. CA-08 at 20.

[775] Ex. SDG&E-12-WP-R-E at 128.

[776] Ex. CA-08 at 20-21; see Ex. SDG&E-12-WP-R-E at 128.

[777] Ex. CA-08 at 21.

[778] Ex. CA-08 at 21; see Ex. SDG&E-12-WP-R-E at 128-130.

SDG&E recorded $1.691 million for its Skills and Compliance Training Department in 2019 which is $2.97 million less than its authorized funding in the 2019 GRC.[779] In the 2019 GRC, SDG&E requested $4.661 million and was authorized $4.661 million, which includes $3.897 million for labor and $764,000 for non-labor.[780] Cal Advocates requested that SDG&E explain which activities contributed to the decrease in 2019 spending over its authorized costs in the 2019 GRC.[781] SDG&E's response states,

> The major cost variance driver for Skills & Compliance Training is the one-sided adjustment moving 70% of labor and non-labor costs associated with training. The 2019 authorized spend included the cost of training, which are now allocated to the applicable capital overhead pool account to better align with the type of work supported.[782]

SDG&E's workpapers show that its one-sided adjustment did not move 70% of its entire forecast for Skills and Compliance Training.[783] The adjustment moved a total of $1.388 million for three Skills and Compliance Training cost centers.[784] Accounting for SDG&E's $1.388 million adjustment, the total 2019 recorded cost of $3.079 million is $1.582 million less than its 2019 GRC-authorized funding.[785] SDG&E should be able to reallocate embedded funding of $990,000 back to its Skills and Compliance Training department if additional funding is needed for six trainers and instructors.[786]

Cal Advocates' use of SDG&E's 2021 recorded expenses of $1.775 million is reasonable.[787] SDG&E does not require additional funding of $990,000 in the TY and

[779] SDG&E's response to data request PubAdv-SDG&E-RYD-002 at Q. 1.

[780] SDG&E's response to data request PubAdv-SDG&E-RYD-002 at Q. 1.

[781] Data request PubAdv-SDG&E-RYD-015 at Q. 1.

[782] SDG&E's response to data request PubAdv-SDG&E-RYD-015 at Q. 1.

[783] Ex. CA-08 at 21.

[784] Ex. SDG&E-12-WP-R-E at 133.

[785] Ex. CA-08 at 21.

[786] Ex. CA-08 at 21.

[787] Ex. CA-08 at 22.

has not demonstrated that its 2021 recorded adjusted expenses are inappropriate to establish a baseline for forecasting future Skills and Compliance Training costs.[788]

20.2.4 Compliance Management

SDG&E's compliance management activities are associated with maintaining compliance with regulations, policies, and procedures related to operating and maintain the electric distribution system.[789] SDG&E's Compliance Management workgroup includes its Compliance Management Group (CMG) and its Project Management Group.

SDG&E forecasts $7.274 million for its Compliance Management O&M expenses for TY 2024.[790] SDG&E's TY forecast is $4.213 million higher than its 2021 recorded adjusted expenses of $3.061 million.[791]

SDG&E used its 2021 recorded adjusted expenses to develop its TY 2024 forecast.[792] SDG&E's TY 2024 forecast also includes incremental funding of $1.177 million for an anticipated increase in its wood pole intrusive inspections and $2.459 million for its pole attachment data points work.[793] SDG&E states that its pole attachment data points work will include surveying approximately 176,000 poles to provide data points in compliance with D.21-10-019, the Track 2 decision adding attachment data to pole owner databases.[794]

SDG&E's August 2022 revised testimony updated its TY 2024 Compliance Management forecast from $13.85 million to $7.274 million.[795] The original estimate assumed its pole attachment data points work would cost $9.035 million over the years 2022-2024.[796] SDG&E's revised estimate continues to forecast $9.035 million in 2022-

[788] Ex. CA-08 at 22.

[789] Ex. SDG&E-12-R-E at TS-67.

[790] Ex. SDG&E-12-R-E at TS-67.

[791] SDG&E's response to data request PubAdv-SDG&E-RYD-002 at Q. 1a.

[792] Ex. SDG&E-12-WP-R-E at 199.

[793] Ex. SDG&E-12-WP-R-E at 201.

[794] Ex. SDG&E-12-R-E at TS-69.

[795] Ex. CA-08 at 23.

[796] See SDG&E's response to data request PubAdv-SDG&E-RYD-002 at Q. 1.

2023 but spreads the 2024 forecast over 2024-2027.[797] The total cost estimate of the pole attachment data points work remains the same.[798]

Cal Advocates' TY 2024 recommendation for SDG&E's Compliance Management O&M expenses is $4.815 million, which is $2.459 million less than SDG&E's TY 2024 forecast of $7.274 million.[799] Cal Advocates developed its recommendation by removing costs associated with its pole attachment data points activity that are unsupported and do not have a clear scope of work.[800]

Cal Advocates has analyzed the programs, historical expenses, and projected expense forecasts for SDG&E's TY 2024 Compliance Management and does not oppose SDG&E's forecast for Labor expense.[801] SDG&E's Non-Labor expense forecast is discussed below.

- **Non Labor Costs**

SDG&E forecasts $6.399 million of non-labor costs for its Compliance Management activities.[802] SDG&E's forecast utilized its 2021 adjusted recorded expenses of $2.186 million plus $2.459 million for its pole attachment data points work, $1.77 million for wood pole intrusive inspections, $427,000 for its non-HFTD wood pole inspections, and $150,000 for increased QA/QC rates.[803] SDG&E estimates its pole attachment data points work will cost $27.105 million over 2022-2027, with $2.459 million allocated to its TY 2024 forecast.[804]

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[797] Ex. SDG&E-12-WP-R-E at 201.

[798] SDG&E's response to data request PubAdv-SDG&E-RYD-002 at Q. 1.

[799] Ex. CA-08 at 24.

[800] Ex. CA-08 at 24.

[801] Ex. CA-08 at 24.

[802] Ex. SDG&E-12-WP-R-E at 201.

[803] Ex. SDG&E-12-WP-R-E at 201.

[804] SDG&E's response to data request PubAdv-SDG&E-RYD-124 at Q. 2a and Ex. SDG&E-12-WP-R-E at 201. SDG&E's estimate for its pole attachment data points work includes $9.035 million in 2022-2023, $2.459 million in 2024, and $2.259 million in 2024-2027.

Cal Advocates recommends $3.94 million for SDG&E's non-labor costs for its Compliance Management activities.[805] The difference between Cal Advocates' recommendation and SDG&E's forecast is associated with its pole attachment data points work.[806] Cal Advocates opposes SDG&E's TY 2024 forecast of $2.459 million for its pole attachment data points work because the forecast is not supported.[807] SDG&E does not provide any calculations or supporting documentation to support its pole attachment data points estimate.[808] Cal Advocates requested:

> Provide supporting documentation, such as contractor agreements, that specifically shows who will perform the "Pole Attachment Data Points" work and shows an annual cost of $9.035 million for each year 2022-2024.[809]

SDG&E did not provide any supporting documentation in its response, instead stating:

> SDG&E's forecasted annual $9.035 million for 2022-2024 is a best estimate developed using average rates in existing engineering and support contracts to perform the type and amount of work SDG&E currently believes will be required, which SDG&E believes will involve field visits to a majority of SDG&E's overhead distribution and transmission facilities.[810]

But SDG&E did not provide any examples of existing engineering and support contracts to substantiate its response.[811]

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[805] Ex. CA-08 at 25.

[806] Ex. CA-08 at 25.

[807] Ex. CA-08 at 25.

[808] See SDG&E's response to data request PubAdv-SDG&E-RYD-022 at Q. 2a.

[809] Data request PubAdv-SDG&E-RYD-022 at Q. 2a. This request preceded SDG&E's revised TY 2024 forecast that revised the $9.035 million figure to $2.459 million; however, it should be noted that the total cost of the activity was not changed.

[810] SDG&E's response to data request PubAdv-SDG&E-RYD-022 at Q. 2a.

[811] See SDG&E's response to data request PubAdv-SDG&E-RYD-022 at Q. 2a.

SDG&E also does not identify a clear scope of work that will be funded through its Compliance Management forecast.[812] In response to Cal Advocates' data request on the scope of work that SDG&E "currently believes will be required," SDG&E states,

> SDG&E believes that to satisfy the 20 data points, it will need to perform site visits, document review and analysis, data processing and other tasks. Further description of what activities may need to be performed are described below. However, please note that this list is not comprehensive of all activities that may need to be performed and SDG&E is still developing its methodology for gathering and processing the data needed to comply with D.21-10-019.
>
> I. Perform site visits for overhead distribution poles that were constructed prior to 2012, since pole loading calculation records were not required to be maintained for the life of the asset prior to the 2012 version of GO95, Rule 44.2
>
> II. Gather and review as-builts and pole loading calculation inputs for overhead distribution poles installed after 2012 in order to extract the relevant information needed for the 20 data points and enter the information into the database.
>
> III. Perform site visits for overhead facilities to gather information regarding attachment elevations. Construction of SDG&E facilities is based on adherence to construction specifications and standards. As such, construction designs and as-built drawings identify the height of the pole, the required embedment, and the separation requirements between attachments on the pole, but do not provide the elevation from the ground. In order to provide accurate elevations as required by Track 2, site visits will need to be performed at poles that do not have LiDAR available for review.
>
> IV. Review LiDAR for overhead distribution facilities that have LiDAR on file to extract elevation information for attachments.
>
> V. Review SAP records for material records to determine the manufacturer and type of material used during construction in order to provide attachment dimensions and weight and to

[812] SDG&E's response to data request PubAdv-SDG&E-RYD-022 at Q. 2a.

> calculate wind loading, bending moment and vertical loading for that attachment.[813]

SDG&E's list of activities that "may need to be performed" and "is not comprehensive" does not show a clear scope of work to verify its incremental Compliance Management request.[814]

SDG&E's TY forecast of $2.459 for its pole attachment data points work also includes a $200,000 licensing fee that is not verified or supported.[815] Cal Advocates requested that SDG&E "explain how SDG&E calculated its $200,000 licensing fee and general QA forecast. Provide a copy of a contractor agreement or statement of work identifying the cost forecast."[816] SDG&E's response states:

> Both SDG&E and the communications companies infrastructure system changes on a daily basis. With data passing back and forth between SDG&E and over 40 telecommunications companies, quality control over the data will need to be maintained. SDG&E estimated that Information Technology (IT) support, along with 2 full-time equivalent labor resources (internal and external) or $200,000 annually will be needed to maintain the system and data quality. Licensing is uncertain at this time and was not the main driver in this estimate. This also includes maintaining the system to meet changing cybersecurity requirements.[817]

SDG&E does not provide any evidence that it will require a license, be charged a licensing fee, or conduct work that typically requires a license.[818] SDG&E's estimate of "$200,000 annually" also contradicts its workpapers, which only include the $200,000

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[813] SDG&E's response to data request PubAdv-SDG&E-RYD-124 at Q.2c.

[814] See SDG&E's response to data request PubAdv-SDG&E-RYD-124 at Q.2c.

[815] Ex. CA-08 at 27.

[816] Data request PubAdv-SDG&E-RYD-124 at Q.1d.

[817] SDG&E's response to data request PubAdv-SDG&E-RYD-124 at Q.1d.

[818] See Ex. SDG&E-12-WP-R at 201.

licensing fee estimate in its TY 2024 forecast, and not in the forecast in any other year during which the pole attachment data points work will be performed.[819]

SDG&E does not demonstrate that its pole attachments data points work is incremental to existing funding. SDG&E has an unclear scope of work and does not track the costs associated with its current pole attachment data collection. SDG&E states that "the types of additional data required to be tracked by D.21-10-019 and the manner in which this additional data is to be compiled and made available is incremental to the type and format of data currently gathered, recorded, and maintained."[820] However, SDG&E also states that it "does not track the specific costs associated with gathering, recording, and maintaining pole attachment data because those activities are usually performed and included in the costs of other programs/projects."[821] Even if the work to collect the pole attachments data is incremental to SDG&E's existing data collection, SDG&E fails to demonstrate that it will not use any existing assets, employees, or licenses that are already funded in rates.[822]

The Commission authorized the entire amount of SDG&E's request for $2.857 million for Compliance Management in its 2019 GRC.[823] SDG&E's data request responses demonstrate that it spent only $317,000 of its authorized funding in 2019.[824] SDG&E states that the reason it spent less than its 2019 authorized funding is due to a "one-sided adjustment excluding special billable costs that were entirely or partially billed to third parties."[825] Accounting for this adjustment, SDG&E's 2019 spending of $1.645 million is $1.212 million less than its 2019 GRC-authorized spending.[826] Once

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[819] Ex. SDG&E-12-WP-R-E at 201. SDG&E includes forecasts for each year 2022-2027, but the licensing fee is only included in TY 2024 forecast.

[820] SDG&E's response to data request PubAdv-SDG&E-RYD-022 at Q.2f.

[821] SDG&E's response to data request PubAdv-SDG&E-RYD-022 at Q.2f.

[822] Ex. CA-08 at 28.

[823] SDG&E's response to data request PubAdv-SDG&E-RYD-002 at Q.1.

[824] SDG&E's response to data request PubAdv-SDG&E-RYD-002 at Q.1.

[825] SDG&E's response to data request PubAdv-SDG&E-RYD-015 at Q. 1a.

[826] Ex. CA-08 at 29.

SDG&E identifies a clear scope of work and a cost estimate for pole attachment data points work, it should be able to reallocate the underspent funding it received in its 2019 GRC back to Compliance Management to support any incremental work.[827]

SDG&E's estimate for its pole attachment data points work is unsupported and the scope of work is uncertain.[828] SDG&E does not provide cost estimates from contractors, a statement of work, or any calculations to support its estimates.[829] SDG&E includes an arbitrary licensing fee in only one year of the six years it forecasts costs for this activity without any evidence it will require a license.[830] SDG&E also does not demonstrate that its pole attachment data points request is incremental to its existing funding levels[831]. Cal Advocates' recommendation of $3.94 million for SDG&E's non-labor Compliance Management activities in TY 2024 is reasonable and higher than SDG&E's recorded adjusted expenses in 2017-2021.[832]

20.3 Wildfire Mitigation and Vegetation Management

20.3.1 SDG&E Wildfire Mitigation and Vegetation Management Non-Shared O&M Expenses

SDG&E requests $174.002 million for TY 2024 O&M expenses associated with Wildfire Mitigation and System Hardening.[833] SDG&E's request is $6.501 million greater than BY 2021 levels. The increase is driven by the implementation of new technologies and projects aimed at reducing wildfire risk, increases in labor costs, and increased grid hardening efforts.[834] SDG&E used a base year forecast method to develop

[827] Ex. CA-08 at 29.

[828] Ex. CA-08 at 29.

[829] Ex. CA-08 at 29.

[830] Ex. CA-08 at 29.

[831] Ex. CA-08 at 29.

[832] Ex. CA-08 at 29.

[833] Ex. SDG&E-13-2R-E at JTW-30, Table JW-8.

[834] Ex. CA-07 at 11.

its Wildfire Mitigation and System Hardening Operations and Maintenance (O&M) forecasts.[835]

Cal Advocates recommends a TY 2024 O&M forecast of $162.468 million, which is $11.534 million less than SDG&E's forecast.[836] Cal Advocates opposes SDG&E's forecasts for the following Wildfire Mitigation and Vegetation Management O&M categories: Grid Design and System Hardening, Vegetation Management and Inspections, and Vegetation Management and Inspections – Tree Trimming Only.[837] Cal Advocates' recommendations for these categories are discussed below.

20.3.2 Grid Design and System Hardening

SDG&E requests $30.446 million[838] for TY O&M expenses associated with Grid Design and System Hardening, which is $4.405 million more than BY levels.[839] Cal Advocates recommends a TY O&M forecast of $27.673 million, which is $2.773 million less than SDG&E's forecast.[840] Cal Advocates opposes SDG&E's forecasts for the following sub-programs within the Grid Design and System Hardening O&M category: Overhead Distribution Fire Hardening – Covered Conductor, Standby Power Programs, Resiliency Assistance Programs, and Strategic Undergrounding.[841]

- **Overhead Distribution Fire Hardening – Covered Conductor**

SDG&E requests $1.596 million for TY O&M expenses associated with covered conductor system hardening, which $1.078 million greater than BY levels.[842] Cal Advocates recommends an O&M forecast of $1.140 million, which is $0.456 million less

[835] Ex. SDG&E-13-WP-2R-E at 5, 18, 29, 60, 84, 98, 110, 122, 138, 146, and 153.

[836] Ex. CA-07 at 11.

[837] Ex. CA-07 at 11.

[838] SDG&E's lower capital expenditure amount from the second revised testimony (Ex. SDG&E-13-2R-E) should be used, along with Cal Advocates' methodology, to determine the level of ratepayer funding for O&M.

[839] Ex. SDG&E-13-2R-E at JTW-48, Table JW-13.

[840] Ex. CA-07 at 13.

[841] Ex. CA-07 at 13.

[842] Ex. SDG&E-13-2R-E at. JTW-52, Table JW-14.

than SDG&E's forecast.[843] In its workpapers, SDG&E states that its covered conductor O&M forecast was derived by calculating 1% of its covered conductor capital forecast.[844] SDG&E's capital forecast for covered conductor system hardening is $159.619 million, and 1% of this amount is $1.596 million, which is SDG&E's O&M forecast.[845] Cal Advocates recommends a covered conductor capital forecast of $114.000 million, which is discussed later in this brief.[846] By applying SDG&E's methodology, Cal Advocates derived its O&M forecast for covered conductor system hardening by applying SDG&E's stated 1% to Cal Advocates' recommended capital forecast.[847]

- **Standby Power Programs**

SDG&E requests $10.350 million for TY O&M expenses associated with Standby Power Programs, which is $1.416 million greater than BY 2021 levels.[848] Cal Advocates recommends a TY O&M forecast of $9.202 million, which is $1.148 million less than SDG&E's forecast.[849] Cal Advocates utilized 2021 data provided by SDG&E to calculate average unit costs for generators in Tier 3 and Tier 2 fire threat areas.[850] Cal Advocates multiplied the Tier 3 and Tier 2 unit costs by the number of generators SDG&E plans to provide in Tier 3 and Tier 2 areas, respectively.[851] Cal Advocates used this method to develop its TY O&M forecast of $9.202 million.[852]

- **Resiliency Assistance Programs**

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[843] Ex. CA-07 at 13.

[844] Ex. SDG&E-13-WP-2R-E at 32.

[845] Ex. CA-07 at 13.

[846] Ex. CA-07 at 14.

[847] Ex. CA-07 at 14.

[848] Ex. SDG&E-13-2R-E at JTW-52, Table JW-14.

[849] Ex. CA-07 at 14. Tier 2 refers to areas "where there is an elevated risk for destructive utility-associated wildfires," and Tier 3 refers to areas "where there is an extreme risk for destructive utility-associated wildfires." Ex. SDG&E-13-2R-E at JTW-5.

[850] Ex. CA-07 at 14.

[851] *See* Ex. SDG&E-13-WP-2R-E at 48; Ex. CA-07 at 14.

[852] Ex. CA-07 at 14.

SDG&E requests $1.829 million for TY O&M expenses associated with Resilience Assistance Programs.[853] SDG&E's TY 2024 forecast is $1.084 million greater than its recorded spending in BY 2021.[854] Cal Advocates recommends an O&M forecast of $1.267 million, which is $0.562 million less than SDG&E's forecast.[855] Cal Advocates used 2021 data for generator rebates to calculate Tier 3 and Tier 2 per-unit costs. Cal Advocates multiplied the Tier 3 and Tier 2 per-unit costs by the number of rebates SDG&E will provide in Tier 3 and Tier 2, respectively.[856] Using SDG&E's data and Cal Advocates' methodology, Cal Advocates developed its TY O&M forecast of $1.267 million.[857]

- **Strategic Undergrounding**

SDG&E requests $4.115 million for TY O&M costs associated with Strategic Undergrounding.[858] SDG&E's TY 2024 forecast is $4.025 million greater than its O&M expenses in BY 2021.[859] Cal Advocates recommends a TY O&M forecast of $3.508 million, which is $0.607 million less than SDG&E's forecast.[860] As with covered conductor system hardening, SDG&E's O&M forecast for Strategic Undergrounding was derived by calculating 1% of its capital forecast for Strategic Undergrounding.[861] Cal Advocates recommends a Strategic Undergrounding capital forecast of $350.776 million, which is discussed later in this brief.[862] Using SDG&E's methodology and Cal

[853] Ex. SDG&E-13-2R-E at JTW-52, Table JW-14.

[854] *See* Ex. SDG&E-13-2R-E at JTW-52, Table JW-14.

[855] Ex. CA-07 at 14.

[856] Ex. SDG&E-13-WP-2R-E at 50.

[857] Ex. CA-07 at 15.

[858] Ex. SDG&E-13-2R-E at JTW-52, Table JW-14.

[859] *See* Ex. SDG&E-13-2R-E at JTW-52, Table JW-14.

[860] Ex. CA-07 at 15.

[861] Ex. SDG&E-13-WP-2R-E at 32.

[862] Ex. CA-07 at 15.

Advocates' own capital forecast, Cal Advocates calculated a TY O&M forecast of $3.508 million for Strategic Undergrounding.[863]

20.3.3 Vegetation Management and Inspections

SDG&E requests $14.301 million for TY O&M expenses associated with Vegetation Management and Inspections.[864] SDG&E's TY 2024 forecast is $3.936 million greater than its recorded O&M expenses for BY 2021.[865] Cal Advocates recommends a TY O&M forecast of $11.615 million, which is $2.686 million less than SDG&E's forecast.[866] The Vegetation Management and Inspections category includes three sub-categories: the Fuels Management Program, Pole Brushing, and the 10,000 Trees Goal.[867] Cal Advocates accepts SDG&E's forecasts for the 10,000 Trees Goal, but it opposes SDG&E's forecasts for the Fuels Management Program and Pole Brushing.[868]

- **Fuels Management Program**

SDG&E requests $6.274 million for TY O&M expenses associated with the Fuels Management Program.[869] SDG&E's TY 2024 O&M forecast is $1.858 million more than its recorded O&M expenses in BY 2021.[870] Cal Advocates recommends a TY O&M forecast of $5.246 million, which is $1.028 million less than SDG&E's request.[871] Cal Advocates divided the actual 2021 Tier 3 costs by the actual number of structures cleared in Tier 3 areas that year to derive a Tier 3 unit cost of $9,539.[872] Cal Advocates used the same method to derive a Tier 2 unit cost of $9,534.[873] Cal Advocates multiplied its

[863] Ex. CA-07 at 15.

[864] Ex. SDG&E-13-2R-E at JTW-61, Table JW-17.

[865] See Ex. SDG&E-13-2R-E at JTW-61, Table JW-17.

[866] Ex. CA-07 at 15.

[867] Ex. SDG&E-13-2R-E at JTW-67, Table JW-18.

[868] Ex. CA-07 at 15.

[869] Ex. SDG&E-13-2R-E at JTW-67, Table JW-18.

[870] See Ex. SDG&E-13-2R-E at JTW-67, Table JW-18.

[871] Ex. CA-07 at 16.

[872] Ex. CA-07 at 16.

[873] Ex. CA-07 at 16.

calculated Tier 3 and Tier 2 unit costs by the number of structures SDG&E plans to clear in Tier 3 and Tier 2 areas, respectively.[874] Cal Advocates added the cost of fuels management in each tier to form its TY O&M forecast of $6.274 million.[875]

- **Pole Brushing**

SDG&E requests $7.027 million for TY O&M expenses associated with Pole Brushing, which is $1.471 million greater than its recorded O&M expenses for BY 2021.[876] Cal Advocates recommends a TY O&M forecast of $5.369 million, which is $1.658 million less than SDG&E's forecast.[877] Cal Advocates divided the actual 2021 Tier 3 costs by the actual number of poles brushed in Tier 3 areas that year to derive a Tier 3 unit cost of $158.[878] Cal Advocates used the same method to derive a Tier 2 unit cost of $158 and a Tier 1 unit cost of $158, as well.[879] Cal Advocates multiplied its calculated unit costs by the number of poles SDG&E plans to brush in each respective tier.[880] Cal Advocates added the cost of pole brushing in each tier to form its TY O&M forecast of $5.369 million.[881]

20.3.4 Vegetation Management and Inspections – Tree Trimming Only

SDG&E requests $55.622 million for TY O&M expenses associated with Vegetation Management and Inspections – Tree Trimming Only.[882] SDG&E's TY 2024 O&M forecast is $3.427 million greater than its recorded O&M expenses for BY 2021.[883] Cal Advocates recommends that the Commission authorize a forecast of $49.547 million,

[874] Ex. SDG&E-13-WP-2R-E at 91.

[875] Ex. CA-07 at 16.

[876] Ex. SDG&E-13-2R-E at JTW-67, Table JW-18.

[877] Ex. CA-07 at 16.

[878] Ex. CA-07 at 16.

[879] Ex. CA-07 at 16.

[880] Ex. SDG&E-13-WP-2R-E at 93.

[881] Ex. CA-07 at 16.

[882] Ex. SDG&E-13-2R-E at JTW-68, Table JW-19.

[883] Ex. CA-07 at 17.

which is $6.075 million less than SDG&E's forecast.[884] The Vegetation Management and Inspections – Tree Trimming Only category is comprised of three sub-categories: Tree Trimming (in High Fire Threat Districts, or "HFTD"), Enhanced Vegetation Management, and Tree Trimming (Non-HFTD).[885] Cal Advocates accepts SDG&E's forecasts for the Enhanced Vegetation Management program; however, it opposes SDG&E's forecasts for Tree Trimming (HFTD) and Tree Trimming (Non-HFTD).[886]

- **Tree Trimming (HFTD)**

SDG&E requests $27.232 million for TY O&M expenses associated with Tree Trimming in HFTD areas.[887] SDG&E's TY 2024 O&M forecast is $1.888 million greater than its recorded O&M expenses in BY 2021.[888] Cal Advocates recommends a TY O&M forecast of $26.612 million, which is $0.620 million less than SDG&E's forecast.[889] Cal Advocates divided the actual 2021 Tier 3 costs by the actual number trees inspected in Tier 3 areas that year to derive a Tier 3 unit cost of $97.[890] Cal Advocates used the same method to derive a Tier 2 unit cost of $97, as well.[891] Cal Advocates multiplied its calculated Tier 3 and Tier 2 units costs by the number of trees SDG&E plans to inspect in Tier 3 and Tier 2 areas, respectively.[892] Cal Advocates added the cost of tree trimming (HFTD) in each tier to form its TY O&M forecast of $26.612 million.[893]

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[884] Ex. CA-07 at 17.

[885] Ex. SDG&E-13-2R-E at JTW-72 to JTW-73, Table JW-20.

[886] Ex. CA-07 at 17.

[887] Ex. SDG&E-13-2R-E at JTW-72, Table JW-20.

[888] Ex. CA-07 at 17.

[889] Ex. CA-07 at 17.

[890] Ex. CA-07 at 17.

[891] Ex. CA-07 at 17.

[892] Ex. SDG&E-13-WP-2R-E at 106.

[893] Ex. CA-07 at 17.

- **Tree Trimming (Non-HFTD)**

SDG&E requests a $18.155 million for TY O&M expenses associated with Tree Trimming in non-HFTD areas.[894] SDG&E's TY O&M forecast is $1.259 million greater than its recorded O&M expenses for BY 2021.[895] Cal Advocates recommends a TY O&M forecast of $12.700 million, which is $5.455 million less than SDG&E's forecast.[896] Cal Advocates divided the actual 2021 costs by the actual number of trees inspected in non-HFTD areas that year to derive a unit cost of $70.[897] Cal Advocates multiplied its calculated unit cost by the number of trees SDG&E plans to inspect in 2024 to develop its TY O&M forecast of $12.700 million.[898]

20.3.5 SDG&E Wildfire Mitigation and Vegetation Management Capital Expenditures

Exhibit 13 of SDG&E's testimony also discusses capital costs associated with Wildfire Mitigation and Vegetation Management. Capital projects in this area are designed to reduce the risk of wildfire and the impacts of Public Safety Power Shut-Offs (PSPS) on customers. This work includes overhead and underground system hardening, which are the largest capital projects in this category.[899]

SDG&E does not request 2022 and 2023 wildfire-related costs in this GRC. SDG&E states that it "will seek cost recovery for years 2022 and 2023 through Tracks 2 and 3 of this proceeding on an actual basis."[900] Therefore, Cal Advocates' brief only makes recommendations concerning 2024 capital expenditures.

SDG&E requests $738.348 million for capital costs associated with Wildfire Mitigation and Vegetation Management.[901] Most of the costs (more than 90 percent) are

[894] Ex. SDG&E-13-2R-E at JTW-73, Table JW-20.

[895] Ex. CA-07 at 18.

[896] Ex. CA-07 at 18.

[897] Ex. CA-07 at 18.

[898] See Ex. SDG&E-13-WP-2R-E at 107; Ex. CA-07 at 18.

[899] Ex. SDG&E-13-2R-E at JTW-93, lines 5-6.

[900] Ex. SDG&E-13-2R-E at JTW-16.

[901] Ex. SDG&E-13-2R-E at JTW-93, Table JW-31.

tied to Grid Design and System Hardening because SDG&E plans to significantly increase the scope of its system hardening activities.[902]

Cal Advocates recommends that the Commission adopt a 2024 capital forecast of $630.856 million for costs associated with Wildfire Mitigation and System Hardening.[903] Cal Advocates' 2024 capital forecast is $107.492 million less than SDG&E's forecast.[904] Cal Advocates opposes SDG&E's forecasts for activities associated with Grid Design and System Hardening.[905]

- **Grid Design and System Hardening**

SDG&E requests $690.987 million for 2024 capital costs associated with Grid Design and System Hardening.[906] Cal Advocates recommends that the Commission adopt a forecast of $583.495 million, which is $107.492 million less than SDG&E's forecast.[907] Cal Advocates disputes SDG&E's forecasts for the following categories: Overhead System Covered Conductor, Overhead System Traditional Hardening, Lightning Arrestor Replacement Program, and Strategic Undergrounding.[908]

- **Overhead System Covered Conductor**

SDG&E requests $159.619 million for 2024 capital costs associated with Overhead System Covered Conductor.[909] Cal Advocates recommends that the Commission adopt a capital forecast of $114.000 million, which is $45.619 million less than SDG&E's forecast.[910] Exhibit (Ex.) CA-21 of Cal Advocates' testimony presents a

[902] Ex. SDG&E-13-2R-E at JTW-93, Table JW-31.

[903] Ex. CA-07 at 21.

[904] Ex. CA-07 at 21.

[905] Ex. CA-07 at 21.

[906] Ex. SDG&E-13-2R-E at JTW-93, Table JW-31.

[907] Ex. CA-07 at 23.

[908] Ex. CA-07 at 23.

[909] Ex. SDG&E-13-2R-E, page JTW-109.

[910] Ex. CA-07 at 23.

variable unit cost cap structure for overhead and underground system hardening.[911] Cal Advocates used SDG&E's 2022-2024 cost and mileage forecasts to develop unit costs for covered conductor system hardening.[912] Cal Advocates set the average of these unit costs ($1.140 million per mile) as the unit cost cap for covered conductor system hardening in the riskiest 20% of circuit segments in HFTDs.[913] The unit cost caps for covered conductor system hardening decrease as the risk associated with circuit segments decreases.[914] As stated in Ex. CA-21, "Our proposal encourages the utility to target the riskiest circuit segments for hardening."[915] Cal Advocates used the unit cost caps presented in Exhibit CA-21 to develop its forecast for covered conductor system hardening.[916] SDG&E plans to harden circuit segments in Tier 3 and Tier 2 areas, so Cal Advocates used the covered conductor unit cost for the riskiest 20% of circuit segments ($1.140 million per mile).[917] Cal Advocates multiplied this unit cost by the total number of miles SDG&E plans to harden in Tier 3 and Tier 2 areas to develop its capital forecast of $114.000 million.[918]

- **Overhead System Traditional Hardening**

SDG&E requests $5.479 million for 2024 capital costs associated with Overhead System Traditional Hardening.[919] Cal Advocates recommends that the Commission adopt a 2024 capital forecast of $4.698 million, which is $0.781 million less than SDG&E's forecast.[920] Cal Advocates used 2021 cost and mileage data to calculate a unit

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[911] Ex. CA-07 at 23.

[912] Ex. CA-07 at 23.

[913] Ex. CA-07 at 23.

[914] Ex. CA-21 at 13, Table 2.

[915] Ex. CA-21 at 18, lines 3-4; For more information on the variable unit cost cap structure, please refer to Ex. CA-21.

[916] See Ex. CA-21 at 13, Table 2.

[917] Ex. CA-07 at 24.

[918] Ex. SDG&E-13-CWP-2R-E at 84.

[919] Ex. CA-07 at 24.

[920] Ex. CA-07 at 24.

cost for traditional system hardening in Tier 3 areas of HFTDs.[921] Cal Advocates multiplied this unit cost by the number of miles SDG&E plans to harden in 2024 (all of which are in Tier 3 areas) to develop its capital forecast of $4.698 million.[922]

- **Lightning Arrestor Replacement Program**

SDG&E requests $3.557 million for 2024 capital costs associated with the Lightning Arrestor Replacement Program.[923] Cal Advocates recommends that the Commission adopt a forecast of $3.200 million, which is $0.357 million less than SDG&E's forecast.[924] The Lightning Arrestor Replacement Program is comprised of two sub-programs: the Lightning Arrestor Removal/Replacement Program and the Avian Protection Program.[925] Cal Advocates accepts SDG&E's 2024 forecast of $1.371 million for the Avian Protection Program; however, it disputes SDG&E's 2024 forecast for the Lightning Arrestor Removal/Replacement Program.[926] Cal Advocates used 2021 data provided by SDG&E to calculate unit costs for lightning arrestor removal/replacement in Tier 3 and Tier 2 areas.[927] Cal Advocates multiplied its Tier 3 and Tier 2 unit costs by the number of lightning arrestors SDG&E plans to remove/replace in Tier 3 and Tier 2 areas, respectively.[928] Using this method, Cal Advocates was able to develop its 2024 capital forecast of 3.200 million.[929]

[921] Ex. CA-07 at 24.

[922] See Ex. SDG&E-13-CWP-2R-E at 120; Ex. CA-07 at 24-25.

[923] Ex. SDG&E-13-2R-E at JTW-122, lines 4-6.

[924] Ex. CA-07 at 25.

[925] Ex. CA-07 at 25.

[926] Ex. SDG&E-13-2R-E at JTW-123, Table JW-47.

[927] Ex. CA-07 at 25.

[928] Ex. SDG&E-13-CWP-2R-E at 156.

[929] Ex. CA-07 at 25.

- **Strategic Undergrounding**

SDG&E requests $411.501 million for 2024 capital costs associated with Strategic Undergrounding.[930] Cal Advocates recommends a 2024 capital forecast of $350.766 million, which is $60.735 million less than SDG&E's forecast.[931] Cal Advocates utilized the unit cost caps presented in Ex. CA-21 to develop its capital forecast for Strategic Undergrounding.[932] In Ex. CA-21, Cal Advocates used SDG&E's 2024 cost and mileage forecasts to calculate unit costs for undergrounding in Tier 3 and Tier 2 areas.[933] Cal Advocates set the average of these two-unit costs ($2.340 million per mile) as the unit cost cap for undergrounding in the riskiest 20% of circuit segments of HFTDs.[934] Cal Advocates multiplied this unit cost by the number of miles SDG&E plans to underground in 2024 to develop its 2024 capital forecast of $350.766 million.[935]

- **Proposal to Establish a Two-Way Balancing Account for Costs Associated with WMP Implementation**

SDG&E requests establishment of a two-way balancing account to record O&M expenses and capital costs associated with WMP implementation. This balancing account would be named the Wildfire Mitigation Plan Balancing Account (WMPBA) and would replace SDG&E's existing Wildfire Mitigation Plan Memorandum Account (WMPMA).[936] SDG&E argues that this account would allow it to "maintain flexibility" when implementing wildfire mitigation strategies.[937] Cal Advocates opposes the creation of a WMPBA. The O&M and capital costs associated with the implementation of the WMP should continue to be recorded in the WMPMA.[938] The WMPMA allows Cal

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930 Ex. SDG&E-13 at JTW-133.

931 Ex. CA-07 at 25.

932 Ex. CA-07 at 25.

933 Ex. CA-07 at 25.

934 Ex. CA-21 at 13, Table 21-2.

935 See Ex. SDG&E-13-CWP-2R-E at 227; Ex. CA-07 at 26.

936 Ex. SDG&E-13-2R-E at JTW-18.

937 Ex. SDG&E-13-2R-E at JTW-19.

938 Ex. CA-07 at 26.

Advocates to assess the reasonableness and effectiveness of WMP spending before the costs are passed on to ratepayers.[939] The WMPBA would not provide the same level of regulatory oversight.[940] The cost of WMP activities (e.g., system hardening and undergrounding) is substantial and can shift significantly with even the slightest modifications to project scope and details.[941] The WMPMA allows Cal Advocates to ensure that SDG&E's WMP spending is reasonable, effective, and presents a net benefit to ratepayers.[942]

21 CUSTOMER SERVICES

21.1 Customer Information System Replacement Program

SCG's Customer Information System (CIS) Replacement Program is intended to replace the current CIS and supporting subsystems. CIS replacement is anticipated to start in 2024 and go into service in 2026.[943] The CIS Replacement Program Phases include: Plan/Analyze Phase; Design/Build & Validate Phase; Test Phase; Deploy Phase; and Post Go-Live Support Phase.[944]

SCG's forecasts $20.247 million[945] for CIS Replacement Program expenses in TY 2024 while the corresponding Cal Advocates forecast is $9.98 million, or $10.28 million lower than SCG's request.[946]

SCG's forecast is based on a four-year average that includes future costs associated with all the CIS Replacement Program Phases, most of which are expected to be incurred beyond the test year. To calculate the labor and non-labor O&M expenses for

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[939] Ex. CA-07 at 26.

[940] Ex. CA-07 at 26.

[941] Ex. CA-07 at 26.

[942] Ex. CA-07 at 26.

[943] Ex. SCG-13, Prepared Direct Testimony of Evan D. Goldman (Customer Information System Replacement Program), at EDG-1

[944] Ex. SCG-13-WP-2E at 12 (CIS Replacement Program Forecast - By Phase).

[945] Ex. SCG-13-WP-2E at 2.

[946] Ex. CA-10, Report on the Results of Operations for San Diego Gas & Electric Company Southern California Gas Company Test Year 2024 General Rate Case, SCG and SDG&E Customer Services, at 10.

TY 2024, SCG first projected costs for all five of the CIS Replacement Program Phases, from 2024 through 2027, and then took a four-year average of those costs, which was then added to the Base Year (BY) 2021 "actual" to forecast TY 2024.[947]

Cal Advocates opposes SCG's TY 2024 forecast for the CIS Replacement Program. SCG's forecast is overstated because it includes activities for several program phases that are estimated to be completed in years beyond TY 2024. Including these phases in the calculation inflates the test year forecast.

Table 21-1 shows SCG's CIS Replacement Program forecast by program phase:

Table 21-1
SCG Customer Information Systems Replacement Program
Non-Shared O&M Expenses
Forecast by Phase
(Dollars in thousands)

O&M by Phase (Dollars in thousands)	Pre-Planning (2022-2023)	Plan & Analyze	Design, Build & Validate	Test	Deployment	Post Go Live Stabilization	Total (TY2024-2027)
Direct Labor	$794	$505	$858	$2,009	$2,481	$272	$6,124
Non-Labor	$6,070	$7,566	$11,641	$14,468	$23,400	$16,708	$73,782
Total Direct	$6,864	$8,071	$12,498	$16,477	$25,881	$16,980	$79,907
V&S	$140	$89	$151	$355	$438	$48	$1,081
Grand Total	**$7,004**	**$8,160**	**$12,650**	**$16,831**	**$26,319**	**$17,028**	**$80,988**

Source: SCG-13-WP-2E at 12.

Cal Advocates used the Plan & Analyze Phase to estimate TY 2024 O&M expenses. The Plan & Analyze Phase's estimated completion date is July 2024, which is within the timing of this GRC. The projected cost of this phase was added to the BY 2021 adjusted-recorded expense of $1.815 million[948] to derive Cal Advocates' TY 2024 forecast of $9.98 million.[949]

In response to a discovery request from Cal Advocates, SCG provided the estimated completion dates of the CIS Replacement Program Phases:[950]

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947 Ex. CA-10 at 10.

948 Ex. SCG-13-WP-2E at2.

949 Ex. CA-10 at 11.

950 SCG's response to DR PubAdv-SCG-MCL-030, Q.7a.

Project Phase	Estimated Completion Date
Plan & Analyze	7/31/2024
Design, Build & Validate	4/30/2025
Test	12/31/2025
Deployment	6/30/2026
Post Go Live Stabilization	3/31/2027

In Sempra's TY 2019 GRC (D.19-09-051), the Commission authorized $1.250 million in funding to study the CIS replacement;[951] SCG spent $1.814 million[952] in 2021 to conduct a study to examine the importance and rationale for the CIS replacement.

Cal Advocates reviewed the study results, "Replacement Assessment Final Report," dated October 2021,[953] and found that the report did not provide a cost benefit analysis or any documentation to substantiate the savings benefits to ratepayers of the CIS Replacement Program. Cal Advocates asked in discovery whether SCG took into account any savings in its four-year average for the CIS Replacement Program.

SCG responded:

> SoCalGas did not take into account any savings in its 4-year average for the CIS Replacement Program. The forecasted CIS replacement costs are incremental and expected to occur over the duration of the program until the Stabilization Phase is complete. There are no forecasted savings expected over the duration of the program.[954]

Cal Advocates also asked SCG to provide the cost benefit analysis or study performed that SCG relied on to determine that the CIS Replacement Program is needed. SCG responded: "In considering CIS replacement, SoCalGas considered the age of the current legacy CIS system, as well as the key drivers identified in the CIS Replacement

[951] Ex. SCG-13 at EDG-3; SCG's response to DR PubAdv-SCG-MCL-100, Q.2a, Q.2b.

[952] Ex. SCG-13-WP-2E at 3; SCG's response to DR PubAdv-SCG-MCL-030, Q.2a, 2b. SCG spent $514,000 in labor and $1.301 million in non-labor expenses associated with the CIS Replacement Program in 2021.

[953] Ex. SCG-13-WP-2E at 13-34.

[954] SCG's response to DR PubAdv-SCG-MCL-030, Q.1g.

Assessment. Although a cost benefit analysis was performed, SoCalGas primarily relied upon these key drivers making the determination to replace its legacy CIS system."[955]

SCG has not provided sufficient information to justify the use of a four-year projected average including all five phases for the CIS replacement program. These future forecasts also do not include any potential ratepayer benefit. Absent ratepayer benefits, there is no justification for approving ratepayer funding of new projects.[956] Cal Advocates' TY 2024 estimate of $9.98 million for SCG's CIS Replacement Program is reasonable and should be adopted.

SoCalGas forecasts capital costs for 2022 – 2026. CIS Replacement is expected to go into service in 2026, with additional funding requested through post-test year ratemaking.[957] SCG's capital expenditure forecast is discussed in section 45, which addresses post-test year ratemaking.

SDG&E presents a number of regulatory account proposals; these are discussed in other sections of this brief.

21.2 Customer Services Field and Advanced Meter Operations

21.2.1 SCG Customer Services – Field And Advanced Meter Operations

21.2.1.1 Non-Shared Expenses

SCG forecasts $209.71 million[958] in Customer Services (CS) – Field and Advanced Meter Operations non-shared[959] O&M expenses for TY 2024. SCG's forecast of $209.71 million is an increase of $31.17 million over its 2021 adjusted-recorded expenses of $178.54 million.[960]

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[955] SCG's response to DR PubAdv-SCG-MCL-030, Q.1e.

[956] For projects not directly related to safety or reliability.

[957] Ex. SCG-13 at EDG-20.

[958] Ex. SCG-14-R at DJR-15, Table DJR-6.

[959] Ex. SCG-14-R at DJR-15. For purposes of this general rate case, SoCalGas treats costs for services received from Corporate Center as Non-Shared Services costs, consistent with any other outside vendor costs incurred by the utility.

[960] Ex. SCG-14-R at DJR-15.

Cal Advocates' TY 2024 estimate for this cost category is $200.305 million, which is $9.408 million lower than SCG's forecast, and $21.8 million above the 2021 figure.[961]

SCG's CS – Field and Advanced Meter Operations is divided into six non-shared O&M cost categories: Field Operations, Field Supervision, Field Support, Field Dispatch, Field Meter Set Assembly (MSA) Inspection, and Field Advanced Meter Operations.[962]

Cal Advocates does not oppose SCG's test year forecasts for Supervision, Support, Dispatch and MSA Inspection, which total $66.29 million.[963] However, Cal Advocates takes issue with SCG's test year forecast for Operations, and Advanced Meter Operations.

21.2.1.1.1 Customer Service – Operations

The CS Operations category includes labor and non-labor costs for field technicians to provide service at customer premises for both customer- and company-generated work orders.[964] SCG forecasts $129.221 million for its Customer Services Operations ($121.532 million labor and $7.689 million non-labor) expenses.[965] SCG used its 2021 adjusted-recorded expenses as the base year and added incremental costs to forecast TY 2024 for labor and non-labor expenses.[966]

Cal Advocates recommends $124.401 million for TY 2024 for SCG's CS Operations expenses, which is $4.82 million lower than SCG's funding request. Cal Advocates used SCG's 2019 recorded expenses of $101.304 million ($94.064 million

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[961] Ex. CA-10 at 16. Cal Advocates confirms that the correct dollar amount for the TY2024 estimate for CS – Field and Advanced Meter Operations non-shared O&M expenses is $200.305 million, not $197.9 as previously stated.

[962] Ex. SCG-14-R at DJR-1 to DJR-3.

[963] Ex. CA-10 at 17-18.

[964] Ex. SCG-14-WP-R-E at 6.

[965] Ex. SCG-14-WP-R-E at 8.

[966] Ex. SCG-14-WP-R-E at 7. For summary of TY 2024 incremental O&M expenses see Ex. SCG-14-R at DJR-22, Table DJR-12.

labor and $7.240 million non-labor)[967] as the basis for its forecast calculation. Cal Advocates' TY 2024 estimate includes substantial incremental funding of $23.097 million for Personal Protective Equipment (PPE), Field Employee Skills Training, Safety Related Field Orders, and Order Volume.[968]

SCG's forecasts for labor and non-labor expenses are not justified. SCG's use of 2021 adjusted-recorded expenses to calculate its forecast means that its TY 2024 expenses are overstated. In contrast, Cal Advocates relied on 2019 recorded expenses as the basis for its test year forecast because recorded expenses for labor and non-labor are comparable to prior and recent years.[969] Cal Advocates did not use 2020 or 2021 adjusted-recorded data because work order volumes decreased during those years due to the COVID-19 pandemic measures in place at the time.[970] As mentioned above, in calculating its TY 2024 estimate, Cal Advocates included an upward adjustment of $23.097 million[971] associated with mitigation activities for training, PPE, safety related orders, and order volume. Cal Advocates' recommendation of $124.401 million includes a reasonable level of incremental funding to address SCG's proposed activities related to CS Field Operations.

21.2.1.1.2 Customer Services – Advanced Meter Operations

CS Advanced Meter Operations includes labor and non-labor costs associated with the Advanced Meter Operations organization and the Field Systems and Analytics

[967] Ex. SCG-14-WP-R-E at 10.

[968] Ex. SCG-14-R at DJR-22, Table DJR-12.

[969] Ex. CA-10 at 20.

[970] Ex. SCG-14-WP-R-E at 6. SCG's forecast explanations for year 2020 and 2021 state: "The COVID-19 pandemic affected multiple order types in 2020 and 2021. Both internal and external forces made these years unusual and not representative for forecasting TY 2024. COVID-19-impacted orders were forecasted using 2019 historical order volumes. Non-COVID-19-impacted orders were forecasted using BY 2021 historical order volumes."

[971] Ex. SCG-14-R at DJR-22.

organization.[972] SCG forecasts $14.201 million[973] for Advanced Meter Operations ($5.610 million labor and $8.591 million non-labor) expenses. SCG used its 2021 adjusted-recorded expenses for the base year and added incremental funding requests to forecast TY 2024 for labor and non-labor expenses.[974]

Cal Advocates' recommendation is $9.614 million, $4.587 million lower than SCG's forecast. Cal Advocates agrees with SCG's on using 2024 adjusted-recorded expenses to estimate labor expenses of $5.610 million. However, Cal Advocates' estimate of $4.004 million for non-labor expenses is based on 2021 recorded, but not adjusted, expenses.[975]

Table 21-2 below shows SCG's non-labor recorded expenses for 2017-2021 and Cal Advocates' and SCG's TY 2024 non-labor forecasts.

Table 21-2
SCG CS – Advanced Meter Operations
Non-Shared O&M Expenses
2017 - 2021 Non-Labor Recorded Expenses
(in Thousands of 2021 Dollars)

Description	2017	2018	2019	2020	2021	SCG 2024	Cal Advocates 2024
Non-Labor	$0	$0	$2,645	$3,246	$4,004	$8,591	$4,004

Source: 2017-2021 data from Ex. SCG-14-WP-R-E at 139. SCG 2024 forecast from Ex. SCG-14-WP-R-E at 133.

SCG's forecast for non-labor expenses is not adequately justified. SCG's forecast is a sizable increase over the recent recorded figures. Cal Advocates used SCG's recorded, but not adjusted, 2021 expense of $4.004 million to estimate non-labor expense. Cal Advocates relied on recorded expenses as the basis for its forecast of because doing so accounts for some of the variability in different recorded years. Cal Advocates did not use 2021 the adjusted-recorded amount because it includes corrections

[972] Ex. SCG-14-R at. DJR-32.

[973] Ex. SCG-14-WP-R-E at 133.

[974] Ex. SCG-14-WP-R-E at 133.

[975] Ex. SCG-14-WP-R-E at 138.

of mischarges transferred to different cost centers as well as COVID-19 related costs.[976] Cal Advocates' recommendation exceeds the 2021 base year cost of $3.981 million, and $4.004 million is a reasonable estimate for TY 2024 and should be adopted.[977]

21.2.1.2 Shared Expenses

SCG forecasts $1.617 million in CS Field Staff Manager shared services O&M expenses for TY 2024.[978] Cal Advocates does not oppose this request.[979]

21.2.1.3 Capital Projects

SCG presents the business justifications for capital costs associated with information technology systems that support CS – Field and Advanced Meter Operations for the forecast years 2022, 2023 and 2024.[980] Cal Advocates does not take issue with the business justifications for these IT-related capital projects.[981]

Cal Advocates' recommendations regarding 2022-2024 IT-related capital expenditures associated with such projects are discussed in section 27, which addresses Information Technology.

21.2.2 SDG&E Customer Services – Field Operations

21.2.2.1 Non-Shared Expenses

SDG&E forecasts $40.337 million for its Customer Services - Field Operations non-shared O&M expenses for TY 2024.[982] SDG&E's forecast of $40.337 million is an increase of $6.995 million over its 2021 adjusted-recorded expenses of $33.342 million.[983] The corresponding Cal Advocates recommendation is $37.210 million.[984] Cal

[976] Ex. SCG-14-WP-R-E at 140 -141.

[977] Ex. CA-10 at 23.

[978] Ex. SCG-14-R at DJR-43, Table DJR-25.

[979] Ex. CA-10 at 24.

[980] Ex. SCG-14-R at DJR-45.

[981] Ex. CA-10 at 24-25.

[982] Ex. SDG&E-17-R at DHT-13.

[983] Ex. SDG&E-17-R, at DHT-13, Table DHT-10.

[984] Cal Advocates confirms that the correct dollar amount of its recommendation is $37.210 million, not $36.488 million as previously stated.

Advocates' recommendation is $3.127 million lower than SDG&E's forecast of $40.337 million.[985]

SDG&E's CS Field Operations consists of the five non-shared O&M cost categories: Customer Field Operations, Customer Field Operations Supervision, Work Management, Customer Field Operations Support, and Smart Meter Operations.[986] SDG&E used the 2021 base year because it reflects the expense level associated with current departmental activity.[987] Cal Advocates does not oppose SDG&E's forecasts for Customer Field Operations of $16.769 million, Customer Field Operations Supervision of $1.468 million, and Work Management of $3.534 million.[988]

Cal Advocates takes issue with SDG&E's test year forecast for Customer Field Operations Support of $5.279 million and Smart Meter Operations of $13.287 million.[989]

21.2.2.1.1 Customer Field Operations Support

Customer Field Operations Support activities include centralized training, quality assurance, meter access group, safety, compliance and regulatory group, field operations strategy and analytics group, and CS technical advisors.[990] SDG&E forecasts $5.279 million for its Customer Field Operations Support ($3.742 million labor and $1.537 million non-labor)[991] expenses. Cal Advocates recommends $4.181 million ($3.466 million labor and $0.715 million non-labor) for the test year.

SDG&E's funding request for its labor and non-labor test year forecast is not adequately justified. SDG&E's request for incremental funding of $1.704 million over 2021 expense levels is not supported. Cal Advocates' forecast is based on 2022 adjusted-

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[985] Cal Advocates confirms that the correct dollar amount of its recommendation is $3.127 million lower than SDG&E's forecast and not $3.849 million as previously stated.

[986] Ex. SDG&E-17-R at DHT-13.

[987] Ex. SDG&E-17-R at DHT-15.

[988] Ex. CA-10 at 27.

[989] Ex. SDG&E-17-R at DHT-13.

[990] Ex. SDG&E-17-R at DHT-25.

[991] Ex. SDG&E-17-R at DHT-25, Table DHT-20.

recorded labor expense of $3.466 million[992] and 2021 adjusted-recorded for non-labor expense of $0.715 million.

Cal Advocates requested explanation of the non-labor expenses incurred in 2020:[993]

> Provide supporting documentation and explain the increase in Non-labor from $234,000 in year 2019 to $1.331 million in year 2020.

SDG&E responded:

> The increase related to Field Service Delivery (FSD)[994] ($857K) from 2019 to 2020 is primarily due to scope of work and timing of payments based on consulting agreements for pre-foundational preparation including; overall roadmap development; foundational work including operational process development and organizational planning, vendor RFP prep, and development of technology proof of concept.

SDG&E's response demonstrates that the increase of $857,000 for year 2020 is a one-time expense for pre-foundational work for the FSD Project and should be normalized to estimate TY 2024 for non-labor expense. Cal Advocates made a normalized adjustment to 2020 non-labor expense, which reduced non-labor expense by $857,000 as shown in the table below.

Table 21-3
Cal Advocates' Adjustment Calculation
(in $000s of dollars)

SDG&E - Customer Field Operations Support Non-Labor Adjustment	**2017**	**2018**	**2019**	**2020**	**2021**	**2022[995] Adj. Rec**
Non-Labor (In Thousands of Dollars)	$165	$170	$234	$474 1.331 - 857=474	$715	$637

[992] Ex. SDG&E-17-R at 67.

[993] SDG&E's response to DR PubAdv-SCG-MCL-115, Q.5d.

[994] Ex. SDG&E-17-R at DHT-44. The Field Service Delivery Project is a multi-year program to implement technology solutions for field operations and business organizations.

[995] Ex. SDG&E-17-WP-R at 68.

Cal Advocates observes that the non-labor expenses incurred in 2020 were the highest level compared to the past three years but comparable to base year 2021 and 2022 adjusted-recorded of $0.637 million.[996]

Cal Advocates recommends a forecast of $4.180 million for TY 2024 ($3.465 million for labor and $0.715 million for non-labor expenses). Cal Advocates' forecast for Customer Field Operations Support is consistent with recorded expense levels to allow SDG&E to maintain its current level of Customer Field Operations Support.

21.2.2.1.2 Smart Meter Operations

SDG&E's Smart Meter Operations activities include providing customer services on premises, responding to customer inquiries, and providing metering services for SDG&E meters.[997] SDG&E's forecasts $13.287 million for its Smart Meter Operations ($9.884 labor and $3.403 million non-labor)[998] expenses for TY 2024.

Cal Advocates recommends $11.259 million for TY 2024 ($9.884 million for labor and $1.375 million for non-labor expenses). Cal Advocates does not oppose SDG&E's funding request for labor of $9.884 million for the test year. Cal Advocates finds SDG&E's funding request for its non-labor test year forecast to be excessive. Cal Advocates recommends $1.375 million for non-labor expenses for TY 2024 associated with the capital project Smart Meter 2.0. SDG&E's workpapers show that the non-labor request is primarily to fund this project.[999] Cal Advocates adjusted the non-labor request of $2.750 million[1000] by 50% of the total or $1.375 million. Cal Advocates' adjustment moderates SDG&E's forecast test year non-labor increase that is over five times higher than recorded 2021 expenses. Cal Advocates recommends an estimate of $11.259 million as a reasonable TY 2024 expense level for SDG&E's Smart Meter Operations.[1001]

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[996] Ex. SDG&E-17-WP-R at 68.

[997] Ex. SDG&E-17-R at DHT-30.

[998] Ex. SDG&E-17-R at DHT-30, Table DHT-24.

[999] Ex. SDG&E-17-WP-R at 83.

[1000] Ex. SDG&E-17-WP-R at 83.

[1001] Ex. CA-10 at 31.

21.2.2.2 Capital Expenditures

SDG&E requests $22.833 million in 2022, $52.849 million in 2023, and $81.418 million in 2024 for capital expenditures for three CS Field Operations Projects: Smart Meter 2.0, Field Service Delivery (FSD) & Dispatch/Data Project, and Smart Meter Product/Upgrade Project. Cal Advocates opposes SDG&E's business rationale for the proposed capital projects and TY 2024 forecast, as discussed below.

Table 21-4 summarizes SDG&E's requests and Cal Advocates' recommendations for CS Field Operations capital projects.

Table 21-4
CS Field Operations
2022-2024 Capital Expenditure Forecast
(in Thousands of 2021 Dollars)

Description	Cal Advocates Recommended			SDG&E Proposed[1002]		
	2022	2023	2024	2022	2023	2024
Smart Meter 2.0	$2,146	$16,401	$29,229	$4,292	$32,802	$58,459
FSD Scheduling & Dispatch/Data	$13,400	$13,400	$13,400	$13,400	$13,839	$19,296
Smart Meter Product/Upgrade	$5,141	$5,141	$0	$5,141	$6,208	$3,663
Total	$20,687	$34,942	$42,629	$22,833	$52,849	$81,418

21.2.2.2.1 Smart Meter 2.0

SDG&E's forecasts $4.292 million for 2022, $32.802 million for 2023, and $58.459 million for 2024.[1003] Cal Advocates' corresponding recommendations are $2.146 million for 2022, $16.401 million for 2023, and $29.229 million for 2024.

SDG&E states that its capital forecast requested for Smart Meter 2.0 is to replace current electric meters and gas meters with attached gas AMI modules over the timeframe of 2023 through 2030. SDG&E is replacing existing meters that were deployed and installed starting in 2009.[1004] SDG&E recognizes in this GRC that the

[1002] Ex. SDG&E-17-R at DHT-41, Table DHT-30.

[1003] Ex. SDG&E-17-R at DHT-30, Table DHT-24.

[1004] Ex. SDG&E-17-R at DHT-41.

meters deployed in 2009 and 2010 are at the end of their useful life and experiencing issues that make these meters fail prematurely.[1005]

Cal Advocates sought additional information from SDG&E in discovery:[1006]

> 1a. Project cost support inclusive of calculations and support for those calculations clearly identifying how the amounts for each year (2022, 2023, and 2024) were determined.

SDG&E responded:

> SDG&E objects to this request pursuant to Rule 10.1 of the Commission's Rules of Practice and Procedure on the grounds that it is vague and ambiguous to the phrase "Project cost support." Notwithstanding the objection noted above, for purposes of this data response, SDG&E interprets project cost support as costs broken down between labor and non-labor. Subject to and without waiving this objection, SDG&E responds by answering Question 1(a) as follows: SDG&E developed its project cost estimates based on subject matter experts and proprietary vendor input.

SDG&E did not provide documentation to clearly demonstrate, analyze and assess the Smart Meters 2.0 Project costs. SDG&E fails to adequately support the significant level of funding requested in 2023 and 2024 for this program. Cal Advocates does not take issue with SDG&E's justification for the current meter replacement initiative, but the program's cost estimates must be reviewed and adequately justified. SDG&E's current business plan fails to fully substantiate the significant level of funding requested for this program in this GRC cycle. Although Cal Advocates does not oppose SDG&E's moving forward with a program to replace meters as required, Cal Advocates proposes to moderate the level of funding requested by SDG&E. Accordingly, the program should be funded at 50% of SDG&E's requested funding. Cal Advocates recommends capital expenditure forecasts of $2.146 million for 2022, $16.401 million for 2023, and $29.229 million for 2024.[1007]

[1005] Ex. SDG&E-17-R at DHT-41.

[1006] Response to DR PubAdv-SDG&E-LMW-043, Q.1a.

[1007] Ex. CA-10 at 34.

21.2.2.2.2 Field Service Delivery Scheduling & Dispatch Phase/Data Project

SDG&E's forecasts $13.400 million for 2022, $13.839 million for 2023, and $19.296 million for 2024.[1008] Cal Advocates' corresponding forecasts are $13.400 million for 2022, 2023 and 2024.

Table 21-5 summarizes SDG&E's requests and Cal Advocates' recommendations for the Field Service Deliver (FSD) Projects capital expenditures.

Table 21-5
SDG&E CS – Field Service Delivery Project
2022-2024 Capital Expenditure Forecast
(in Thousands of 2021 Dollars)

Description	Cal Advocates Recommended			SDG&E Proposed		
	2022[1009]	2023	2024	2022	2023	2024
FSD Project	$13,400	$13,400	$13,400	$13,400	$13,839	$19,296
Total	$13,400	$13,400	$13,400	$13,400	$13,839	$19,296

Source: 2022-2024 data from Ex. SDG&E-17-R at DHT-41, Table DHT-30.

SDG&E states that the FSD Scheduling & Dispatch-Phase/Data Project is a multi-year program to implement technology solutions for field operations and business organizations. The FSD platform includes replacing unsupported software, consolidating software applications and improving customer service.[1010]

Cal Advocates learned through discovery that the FSD Project consists of Phase 1 and Phase 2. The Phase 1 estimated completion date is June 2024 for Electric Operations and the Phase 2 estimated completion date is February 2025, which is beyond TY 2024 and falls in the Post-Test Year period.[1011]

Cal Advocates requested that SDG&E provide supportive information on the FSD:[1012]

[1008] Ex. SDG&E-17-R at DHT-41, Table DHT-30.

[1009] Ex. SDG&E-17-R at DHT-41, Table DHT-30.

[1010] Ex. SDG&E-17-R at DHT-44.

[1011] Response to DR PubAdv-SDG&E-MCL-115, Q.1a -f.

[1012] Response to DR PubAdv-SDG&E-MCL115, Q.1a-f.

> Provide the cost benefit analysis or study performed that SDG&E's management relied upon to determine that the FSD Project is needed. If a cost benefit analysis or study was not performed, state why.

SDG&E responded:

> As this project was required due to the need to replace unsupported software, there was not a formal cost benefit analysis conducted. Potential benefit information is anecdotal based on stakeholder interviews identifying potential enhancements being incorporated into the FSD software.

Cal Advocates requested additional information on SDG&E's FSD Project's savings benefits:[1013]

> Provide the dollar amount per year of Saving benefits that the new technology software solution(s) within SDG&E's FSD Project will provide to ratepayers.
>
> SDG&E responded:
>
> The FSD Project was to replace end-of-life, unsupported software. There are no documented annual hard savings identified beyond current service levels.

SDG&E's DR response do not support the funding request of $13.400 million for 2022, $13.839 million for 2023 and $19.296 million for 2024 for this capital project. Cal Advocates recommends adopting the 2022 adjusted-recorded amount of $13.400 million for 2022, 2023, and 2024.[1014]

21.2.2.2.3 Smart Meter Product/Upgrade Project

SDG&E forecasts $5.141 million for 2022, $6.208 million for 2023 and $3.663 million for 2024.[1015] Cal Advocates' corresponding forecasts are $5.141 million for 2022 and 2023 and $0 for 2024.

[1013] Response to DR PubAdv-SDG&E-MCL115, Q.1a-f.

[1014] Ex. CA-10 at 36-37.

[1015] Ex. SDG&E-17-R at DHT-45.

Table 21-6 summarizes SDG&E's requests and Cal Advocates' recommendations for Smart Meter Product/Upgrade Project capital expenditures.

Table 21-6
SDG&E CS – Smart Meter Product/Upgrade Project
2022-2024 Capital Expenditure Forecast
(in Thousands of 2021 Dollars)

Description	Cal Advocates Recommended			SDG&E Proposed[1016]		
	2022	2023	2024	2022	2023	2024
Smart Meter Product/ Upgrade	$5,141	$5,141	$0	$5,141	$6,208	$3,663
Total	$5,141	$5,141	$0	$5,141	$6,208	$3,663

Source: 2022-2024 data from Ex. SDG&E-17-R at DHT-41, Table DHT-30.

Cal Advocates finds the business rationale of the Smart Meter Product/Update unjustified. Cal Advocates opposes SDG&E's forecast for the Smart Meter Product/Upgrade Project. Cal Advocates reviewed SDG&E's testimony, workpapers, numerous DR responses, and information provided in virtual meetings with SDG&E. SDG&E has not provided sufficient information or analysis to justify its forecast. Cal Advocates recommends $5.141 million for 2022 and 2023 and $0 for 2024. Cal Advocates used its 2022 adjusted-recorded expenses as a basis to estimate costs for the proposed activities for the capital project, Smart Meter Product/Upgrade. Cal Advocates proposes no funding for 2024.[1017]

Cal Advocates learned through discovery that SDG&E did not perform a cost benefit analysis for the Smart Meter Product/Upgrade Project. SDG&E states that upgrades are conducted every few years and will continually be conducted until the decommissioning of the metering system as a result of vendor support of the platform concluding or should the Smart Meter 2.0 Program gradually replace the existing system.[1018]

[1016] Ex. SDG&E-17-R at DHT-41, Table DHT-30.

[1017] Ex. CA-10 at 37-38.

[1018] SDG&E's response to DR PubAdv-SDG&E-MCL-123, Q.1.

In an effort to learn about the Smart Meter Product/Upgrade capital request, Cal Advocates asked:[1019]

> Provide the date and year of original purchases of each software that SDG&E is upgrading in 2022, 2023, and 2024. Provide the cost of any prior upgrades broken down by software and by year.
>
> SDG&E responded:
>
> SDG&E objects to this request pursuant to Rule 10.1 of the Commission's Rules of Practice and Procedure on the grounds that the timeframe encompassed in this request is not relevant to the subject matter involved in the pending proceeding and therefore, the burden expense and intrusiveness of this request outweighs the likelihood that the information sought will lead to the discovery of relevant and admissible evidence. In particular, this request seeks information from 2008, which is beyond the scope of any issue relevant to the test year 2024 GRC application. Notwithstanding the objection noted above, for purposes of this data response, SDG&E provides de Resolution and date of software implementation and integration. Subject to and without waiving this objection, SDG&E responds by answering Question 3 as follows: Pursuant to Resolution E-4094, SDG&E entered into contracts with private vendors to implement Phase I of its Advanced Metering Infrastructure (AMI) Project. Phase I of SDG&E's AMI Project consist of developing a new information technology system, integrating that system into the company's existing information and billing systems, preparing for AMI meter installation and physically installing the meters in customer premises. The software utilized to implement and integrate the AMI was instituted around the 2008 timeframe.

SDG&E's DR response does not justify the Smart Meter/Upgrade Project and does not support the funding request for this capital project. Cal Advocates recommends adopting the 2022 adjusted-recorded amount of $5.141 million for 2022, $5.141 million for 2023, and $0 funding for 2024.[1020]

[1019] SDG&E's response to DR PubAdv-SDG&E-MCL-123, Q.3.

[1020] Ex. CA-10 at 39.

21.3 21.3 Customer Services Office Operations

21.3.1 21.3.1 SCG Non-Shared Expenses

Customer Services Office Operations supports the following activities within Customer Services: Customer Contact Center Operations and Support, Billing Services, Branch Offices and Authorized Payment locations, Measurement Data Operations, Credit and Collections, Postage, Remittance Processing, Customer Services Office Operations Technology & Support, and Uncollectible rate.[1021]

SCG requests $83.892 million, which is an increase of $4.774 million over its 2021 adjusted-recorded expenses of $79.118 million.[1022] SCG used an adjusted-recorded forecast for 2021 as the basis for its labor and non-labor forecast for TY 2024. Incremental funding requests were then added to the base year to determine a total funding request. Cal Advocates does not oppose SCG request.[1023]

21.3.2 SCG Shared Expenses

Customer Services Office Operations shared services are Payment Processing and Manager of Remittance Processing. SCG's request for these functions is $4.556 million for TY 2024 or an increase of $0.210 million from its 2021 adjusted-recorded shared expenses of $4.346 million.[1024] Cal Advocates does not oppose this request.[1025]

21.3.3 SDG&E Non-Shared Expenses

SDG&E's Customer Services Office Operations support activities within Customer Services to deliver and provide customers with Billing, Credit and Collections, Remittance Processing, Postage, Branch Offices, and Customer Contact Center among other services.[1026] SDG&E forecast of $37.512 million[1027] is an increase of $2.708 million over the 2021 expense levels of $34.804 million. SDG&E used an adjusted-recorded forecast

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[1021] Ex. SCG-15-R-2E at BMS-1 to BMS-2.

[1022] Ex. SCG-15-R-2E at BMS-iv, Table BMS-1, BMS-8 to BMS-9, Table BMS-10.

[1023] Ex. CA-10 at 40-41.

[1024] Ex. SCG-15-R-2E at BMS-42, Table BMS-38, Ex. SCG-15-WP-E at 112, 119.

[1025] Ex. CA-10 at 41-43.

[1026] Ex. SCG-18-R-E at SFB-iii.

[1027] Ex. SCG-18-R-E at SFB-1, Table SFB-1, SFB-5, Table SFB-3.

wherein the most recent year, 2021, was used as the basis for the forecast for TY 2024. Incremental funding requests were then added to the base year to determine a total funding request. Cal Advocates does not oppose SDG&E's forecast for TY 2024.

21.3.4 SCG Capital Expenditures

SCG presents the business justification for capital costs for forecast years 2022, 2023 and 2024 for information technology systems that support Customer Service Office Operations.

SCG's requests capital expenditures for 2022-2024 for capital projects for CS Office Operations. These projects include: Centralized Customer Data Management, CCC Technology Modernization, Advanced Meter HeadEnd and Meter Data Management System Next-Generation (AclaraOne), Gas Measurement and Analysis System (GMAS), SB 711 Bill Volatility Project, Project Monaco, Speech Analytics and Workforce Management Upgrades, Major Market to Cloud (M2C) Billing Viewer, Advanced Meter HeadEnd and Meter Data Management System (MDMS) Refresh, Intelligent Workload Distribution (IWD) and CQMX Replacement.[1028]

Cal Advocates does not oppose the business rationale for the proposed capital projects for CS Office Operations.[1029] Cal Advocates' recommendations regarding the capital expenditures associated with such projects are discussed elsewhere in this brief, such as in section 27 for Information Technology.

21.3.5 SDG&E Capital Expenditures

SDG&E presents the business justification for the capital costs for forecast years 2022, 2023 and 2024 for information technology systems that support CS Office Operations. SDG&E's requests capital expenditures 2022-2024 for capital projects for CS Office Operations. SDG&E's capital projects: Contact Center of the Future, Customer Energy Network and the CIS Regulatory and Enhancement.[1030] The Contact Center of the Future Project is an integration of digital technology into the area of

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[1028] Ex. SCG-15-R-2E at BMS-47, Table BMS-44.

[1029] Ex. CA-10 at 44-46.

[1030] Ex. SCG-18-R-E at SFB-38, Table SFB-28.

customer services and customer contact center. The Customer Energy Network Project is a replacement of an application that will support delivery of customer data to Third Parties, update the management of Third-Party authorizations and subscriptions among other customer services associated with users' self-service functionality. The CIS Regulatory and Enhancement Project is part of SDG&E's CIS platform improvements related to regulatory requirements among other services. Cal Advocates does not take issue with SDG&E's business rationale for the proposed capital projects for CS Office Operations.[1031] The capital expenditure associated with such projects are discussed elsewhere in this brief.

21.4 21.4 Customer Services Information

21.4.1 SCG Non-Shared Expenses

SCG forecasts $27.178 million in Customer Services – Information non-shared O&M expenses for TY 2024.[1032] Cal Advocates recommends a lower forecast of $26.159 million,[1033] due to an adjustment in the Customer Solutions cost category associated with non-labor expenses for the Innovative Kitchen Management pilot project.

SCG's Customer Services – Information (CS-I) area consists of three non-shared O&M cost categories: CS-I Strategic Communications and Engagement, CS-I Customer Programs and Assistance, and CS-I Customer Solutions.[1034] Cal Advocates does not take issue with SCG's forecasts for Strategy Communications and Engagement, and Customer Programs and Assistance. Cal Advocates takes issue with SCG's test year forecast for Customer Solutions.

Customer Solutions activities include providing account management and customer services to customer segments such as small and medium business customers, developers and residential customers in areas such as regulatory, tariffs, air quality,

[1031] Ex. CA-10 at 46-47.

[1032] Ex. SCG-16-WP-R-E at 1.

[1033] Cal Advocates confirms that the correct dollar amount is $26.159 million, not $26.207 million.

[1034] Ex. SCG-16-2E at BCP-13, Table BCP-7.

contracts, market and forecast analysis, education, customer programs and training in various customer segments.[1035]

SCG requests $11.676 million in Customer Solutions expenses for TY 2024. Cal Advocates recommends $10.656 million. Table 21-7 shows SCG's adjusted-recorded expenses for 2017-2021, and Cal Advocates' and SCG's TY 2024 forecasts for Customer Solutions.

Table 21-7
SCG CS-I Customer Solutions
2017-2021 Adjusted-recorded and 2024 Expense Forecast
(in Thousands of Dollars)

Description Customer Solutions	2017	2018	2019	2020	2021	SGG 2024	Cal Adv 2024
Labor	$7,351	$7,120	$7,203	$7,640	$7,833	$9,876	$9,379
Non-Labor	$1,445	$2,255	$1,323	$1,355	$2,632	$1,800	$1,277
Total	$8,796	$9,375	$8,526	$8,996	$10,465	$11,676	$10,656

Source: 2017-2021 data from Ex. SCG-16-WP-R-E at 25.

SCG's funding request of $11.676 million for its labor and non-labor test year forecast is not justified. SCG's request for incremental funding of $1.211 million over 2021 expense levels is not supported. Cal Advocates recommends $10.656 million for the test year.

Cal Advocates' recommendation is based on 2022 adjusted-recorded labor expense of $9.379 million[1036] and a normalized adjustment for non-labor expenses totaling $1.277 million. Cal Advocates asked SCG to explain the significant increase in non-labor costs from 2020 to 2021:[1037]

> Provide supporting documentation and explain the increase in Non-labor from $1,355,000 in year 2020 to $2,632,000 in year 2021.

SCG's responded:

[1035] Ex. SCG-16-2E at BCP-35.

[1036] Ex. SCG-16-WP-R-E at 25.

[1037] SCG's response to DR PubAdv-SCG-MCL-010, Q.3b.

> The primary variance driver of non-labor is the implementation of the Innovative Kitchen Management project.[1038] The project did not exist prior to 2021 and the 2021 non-labor costs associated with that project totaled $1,335,972 million.

Cal Advocates opposes SCG's inclusion in BY 2021 of $1.335 million in incremental funding. It is not appropriate for SCG to request ratepayer funding for a project that benefits only certain customers in the commercial food service industry. The project costs would be an unreasonable burden on SCG's residential customers. SCG has presented no evidence of clear benefits to residential and other customer segments not in the commercial food service industry. Absent such a showing, the Commission should deny SCG's request. Cal Advocates recommends a normalized adjustment of $1.277 million to non-labor expenses to arrive at its TY 2024 recommendation. Cal Advocates' forecast is consistent with recorded expense levels to allow SCG to maintain its current level of Customer Solutions. Cal Advocates recommends a forecast of $10.656 million for TY 2024 ($9.379 million for labor and $1.277 million for non-labor expenses) for CS - Customer Solutions.[1039]

21.4.2 SDG&E Non-Shared Expenses

SDG&E forecasts $24.353 million[1040] in Customer Services - Information non-shared[1041] O&M expenses for TY 2024. Cal Advocates does not take issue with this request.[1042]

[1038] Ex. SCG-16-E at BCP-40 to BCP-41, n. 65. SCG's Innovative Kitchen Management Project launched in 2021 and targeted commercial food service customers. "The project implementation involves offering energy efficiency portfolio diversification through natural gas appliance upgrades, maintenance, and repairs."

[1039] Ex. CA-10 at 51.

[1040] Ex. SDG&E-19-E at SFB-8, Table SFB-6.

[1041] Ex. SDG&E-19-E at SFB-7. For purposes of this GRC, SDG&E's non-shared O&M costs of labor and non-labor activities required to deliver services benefiting SDG&E and its customers do not need to be allocated to other business units.

[1042] Ex. CA-10 at 52-53.

22 SUPPLY MANAGEMENT, LOGISTICS AND SUPPLIER DIVERSITY

22.1 SCG Supply Management, Logistics, and Diversity

SCG's Supply Management, Logistics, and Supplier Diversity department manages the overall purchase, distribution, inventory, and management of materials, supplies, and services in support of SCG. These goods and services include gas distribution and transmission equipment, such as piping, meters, fleet vehicles and equipment, construction services, engineering services, environmental services, and other professional and technical services. Supply Management, Logistics, and Supplier Diversity also undertakes administrative activities and general office support, office supply, and document management.[1043]

22.1.1 SCG Supply Management, Logistics, and Diversity – O&M

SCG requests $35.489 million for non-shared and shared services for its Supply Management, Logistics, and Supplier Diversity department.[1044]

Cal Advocates does not oppose SCG's request.[1045]

22.2 SDG&E Supply Management, Logistics, and Diversity

SDG&E's Supply Management Department manages the overall purchase, distribution, receipt, delivery, inventory, and management of materials and services for SDG&E. These materials and services include gas and electric transmission and distribution equipment (e.g., transformers, piping, cable, and meters), construction services, electric generation maintenance materials/services, operations support materials/services (e.g., fleet vehicles and services, facility equipment and services), Information Technology (IT) and telecommunications products/services, engineering services, environmental, and other professional/technical services. In addition, the Supply Management Department also supports the administrative functions associated with general office support services, such as phone service, office supplies, travel

[1043] Ex. SCG-17E at JC 2.

[1044] Ex. SCG-17E at JC iii.

[1045] Ex. CA-11 at 8.

services and document management. The department is also responsible for the development and execution of SDG&E's overall procurement strategies.[1046]

22.2.1 SDG&E Supply Management, Logistics, and Diversity – O&M

SDG&E requests $20.719 million for both non-shared and shared services for its Supply Management, Logistics, and Supplier Diversity department for Test Year (TY) 2024 operations and maintenance (O&M) costs.[1047]

Cal Advocates does not oppose SDG&E's request.[1048]

23 CLEAN TRANSPORTATION (SDG&E ONLY)

23.1 SDG&E Clean Transportation

SDG&E's Clean Transportation department enables zero emission vehicle (ZEV) adoption throughout SDG&E's service territory by creating and implementing programs to facilitate the development of the ZEV market. This is accomplished through a team of specialized personnel, which include: project managers, policy managers and advisors, customer engagement and customer solutions advisors, and data analysts. The department's activities are broken down into three functional areas: Business Development, Data Analytics and Systems; Program Management; and Customer Experience.[1049]

23.1.1 SDG&E Clean Transportation Expense – O&M

SDG&E requests $4.831 million for TY 2024 O&M expenses for its Clean Transportation expense.[1050]

Cal Advocates does not oppose SDG&E's request.[1051]

[1046] SDG&E-20 at DC 1.

[1047] *Ibid.*

[1048] Ex. CA-11 at 8.

[1049] Ex. SDG&E-21 at JLR 2.

[1050] Ex. SDG&E-21 at JLR 1.

[1051] Ex. CA-11 at 9.

24 FLEET SERVICES

24.1 SCG Fleet Services

SCG Fleet Services acquires, maintains, repairs, and salvages vehicles and related equipment to support the delivery of energy to 21.8 million consumers through 5.9 million gas meters in more than 500 communities. Fleet Services manages a mix of vehicles consisting of over-the road (OTR) vehicles (for example, automobiles, light-, medium-, and heavy-duty trucks) and non-over-the-road (non-OTR) vehicles (for example, power-operated equipment, trailers, and forklifts). Fleet Services provides daily critical support to the gas distribution and transmission operating crews, advanced meter operations, customer services field operations, and the SCG's capital construction program.[1052]

24.1.1 SCG Fleet Services Expense - Lease and License – O&M

SCG requests $49.323 million for its fleet additions and replacements for TY 2024.[1053]

Cal Advocates recommends a reduction to $29.069 million for SCG's fleet additions and replacements for TY 2024.[1054]

Cal Advocates makes this downward adjustment because its forecast is based on 2020 recorded adjusted as this represents the highest costs of SCG's recorded years. Cal Advocates' recommendation is that SCG's forecasting methodology is unreliable notwithstanding the purported support and rationale.[1055]

It was SCG's management's decision to stay within the spending authorized by the Commission in the Test Year (TY) 2019 GRC Decision (D.19-09-051), rather than to add vehicles or delay the replacement of vehicles reaching their useful lives. If SCG added

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1052 Ex. SCG-18R-E at MF -1.

1053 Ex. SCG-18R-E at 13.

1054 Ex. CA-11 at 16-20.

1055 *Ibid.*

vehicles when needed, rather than curtail spending resulting in under-procurement, then that is the nature of ratemaking.

Historical data proves SCG does not add/replace vehicles as authorized. Although SCG forecasts a significant increase (over 100%) from the 2021 base year to TY 2024, SCG typically spends near the Commission Authorized amounts or well below. From 2014 - 2019, SCG forecasted 3,965 vehicles, yet only actually replaced/added 2,020 vehicles. Thus, ratepayers paid for 1,945 vehicles that SCG never purchased and SCG was not required to refund those costs. SCG's current TY 2024 forecast is significantly greater than historic. SCG's currently forecasts 3,100 vehicles from 2022 - 2024 (on average 1,033 per year). In contrast from 2017 to 2021, SCG added/replaced 991 vehicles (on average 198) vehicles per year. The total reduction that Cal Advocates has made to SCG's request is only a fraction of what SCG failed to procure from what was authorized from 2014 to 2019 timeframe. These facts prove SCG historically over forecasts its vehicle needs, and in this current rate case does the same. Cal Advocates reasserts its former position in the 2017 Sempra GRC, which the Commission adopted, that SCG failed to provide sufficient evidence to warrant an excessive increase in its TY 2024 forecast.[1056]

Cal Advocates recommends a reduction of \$20.254 million to SCG's original request of \$49.323 million for total recovery of \$29.069 million for SCG's fleet additions and replacements.

24.1.2 SCG Fleet Services Expense - Maintenance Operations – O&M

SCG's requests \$17.821 million for TY 2024 fleet additions/maintenance operation expense for TY 2024.[1057]

Cal Advocates recommends a \$2.281 million reduction to SCG's TY 2024 request of \$17.821 million.[1058]

[1056] *Ibid.*

[1057] Ex. SCG-18R-E at 25.

[1058] Ex. CA-11 at 20-21.

Cal Advocates makes this downward adjustment because it opposes these increases related to 1) laptop purchases that will not recur in the test year, 2) duplicative training costs, and 3) incremental non-labor costs.[1059] SCG does not dispute these facts and admits the inclusion of laptop costs that will not occur, and duplicative training costs was an error.

As to laptop purchases, SCG identified an error in Exhibit SCG-18-WP-R, workpaper 2RF002.000 Maintenance Operations, page 229. SoCalGas determined that the forecast of $570,000 for laptops should be the total cost and should not recur over the forecast period.[1060]

As to duplicative training costs, SCG identified an error in Exhibit SCG-18-WP-R, workpaper 2RF002.000, page 229. SCG determined that the forecast for incremental training costs were already included in the incremental labor cost.[1061]

As to incremental non-labor costs, despite Cal Advocates' request for more information, SCG has provided no proof that these additional vehicles will be added outside a proposed forecast. This incremental adjustment is discretionary given Cal Advocates' argument related to lease and license vehicles costs which is at the discretion of SCG regardless of the funds approved in a rate case.[1062]

Cal Advocates recommends a reduction of $2.281 million to SCG's original request of $17.821 million for total recovery of $15.54 million for SCG's TY 2024 fleet additions/maintenance operation expense.

24.1.3 SCG Fleet Services Expense - Maintenance Operations – O&M

SCG requests $12.332 million for incremental fuel cost increase associated with SCG's incremental vehicle additions for TY 2024.[1063]

[1059] *Ibid.*

[1060] *Ibid.*

[1061] *Ibid.*

[1062] Ex. CA-11 at 20-21

[1063] Ex. SCG-18R-E at 25.

Cal Advocates opposes the incremental fuel cost increase associated with SCG's forecasted incremental vehicle additions resulting in a reduction of $1.021 million to SCG's TY 2024 request of $12.332 million.[1064]

Cal Advocates makes this downward adjustment because, as stated above, these additional vehicles will not be added as SCG's overly aggressive vehicle forecast essentially exceeds its need and procurement in its Lease and License cost history. As a result, in opposing this incremental increase, Cal Advocates recommends using SCG's base year expense of $11.311 million.[1065]

Cal Advocates recommends a reduction of $1.021 million to SCG's original request of $12.332 million for a total recovery of $11.311 million for SCG's TY 2024 incremental fuel cost increase associated with SCG's forecasted incremental vehicle additions.

24.1.4 SCG Fleet Services Expense - Fleet Management – O&M

SCG is requesting $2.635 million for Telematics Software Subscription for TY 2024.[1066]

Cal Advocates recommends a reduction of $881,000.[1067]

Cal Advocates makes this downward adjustment because SCG has acknowledged that its Telematics Software Subscription is available at a lower cost. SCG states the new annual Telematic Software fees are $1.754 million. Based on this, Cal Advocates lowers SCG's 2024 forecast by $881,000.[1068]

SCG disagrees with Cal Advocates' proposed forecast for telematics notwithstanding that the cost used to make the forecast is lower. Although SCG switched vendors and the costs and fees of the telematics system have changed, SCG is still

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[1064] Ex. CA-11 at 22.

[1065] *Ibid.*

[1066] Ex. SCG-18R-E at 30.

[1067] Ex. CA-11 at 22-23.

[1068] *Ibid.*

planning on expanding its telematics by installing video capabilities which would add significant costs to the telematics program and argues in its rebuttal testimony that the original requested amount should not be altered.[1069] SCG should not be allowed to add new forecast items in its rebuttal testimony when these items were not originally in the GRC Application. SCG did not mention installing video capabilities in testimony or in its data request responses. Cal Advocates considers this an unsupported additional justification, and it should not be considered.

Cal Advocates recommends a reduction of $881,000 to SCG's request of $2.635 million, for a total amount of $1.754 million.

24.2 SDG&E Fleet Services

SDG&E's Fleet Services responsibilities include the design, acquisition, maintenance, repair, fueling, and disposal of vehicles and related equipment to support SDG&E's operating groups in the transmission and delivery of natural gas and electric service to SDG&E's customers. SDG&E Fleet Services manages over-the-road (OTR) vehicles like automobiles, sport utility vehicles (SUV), light-duty trucks, medium-duty trucks, heavy-duty trucks, and trailers as well as non-over-the road (non-OTR) vehicles and equipment like forklifts, construction equipment, off-road vehicles, generators, and lifting equipment. Fleet Services provides critical daily support to SDG&E crews to ensure that vehicles and equipment are ready and available for use.[1070]

24.2.1 SDG&E Fleet Services Expense - Lease and License Costs – O&M

SDG&E requests $24.050 million for its Fleet Services Expense - Lease and License Costs for TY 2024.[1071] SDG&E's request is an increase of $8.106 million (51 percent) above 2021 adjusted-recorded costs.

[1069] Ex. SCG-218 at MF 21.

[1070] Ex. SDG&E-22 at AA 1.

[1071] Ex. SDG&E-22 at AA 17.

Cal Advocates recommends $16.660 million, a reduction of $7.390 million.[1072] Cal Advocates' recommendation is based on 2020 recorded adjusted as this represents the highest recorded year's costs.[1073] Cal Advocates makes this downward adjustment because SDG&E's forecasting methodology is unreliable notwithstanding the purported support and any rationale.[1074]

1) Historical data proves SDG&E does not add/replace vehicles as authorized.
2) Although SDG&E forecasts a significant increase from the 2021 base year to the 2024 forecast year, typically SDG&E spends well below or near the Commission Authorized amounts.

As noted in Cal Advocates testimony, from 2014 to 2019, SDG&E forecasted 1,741 vehicles, yet only replaced/added 629 vehicles. This shows SDG&E significantly over-forecasted its previous vehicle requests. In comparing SDG&E's historic vehicle additions to SDG&E's current forecast it is shown the current forecast is again significantly greater than historic. SDG&E's current forecast of 845 vehicles from 2022 – 2024 is, on average, approximately 280 per year. In contrast, from 2017 to 2021, SDG&E added/replaced 608 vehicles or, on average, 121 vehicles per year.[1075]

It was SDG&E's decision to stay below the spending authorized by the Commission in the Test Year (TY) 2019 GRC Decision (D.19-09-051) or delay the replacement of vehicles reaching their useful lives, rather than to add vehicles. If SDG&E added vehicles when needed, rather than curtail spending resulting in under-procurement, then that is the nature of ratemaking and in some instances SDG&E over-forecasts resulting in over-collection. However, when SDG&E over-collects funding in rates, the money is not refunded back to ratepayers, so it is not reasonable to curtail spending into future rate cases when there is a possible under-collection.

[1072] Ex. CA-11 at 23-27.

[1073] *Ibid.*

[1074] *Ibid.*

[1075] *Ibid.*

From 2012 - 2021, there is a general upward trend in spending. However, over the last 10 years spending remains relatively flat until 2017, then increases 9% from 2017 - 2018, 15% from 2018 - 2019, and remains flat from 2019 - 2021. This is in contrast to SDG&E's current request which is higher than the base year. In SDG&E's previous rate case (A.17-10-007/008), SDG&E requested an overly aggressive forecast. Cal Advocates (formerly ORA) opposed the forecast and recommended the base year and the Commission agreed with Cal Advocates' recommendation. Cal Advocates reasserts its former position that SDG&E failed to provide sufficient evidence to warrant an excessive increase in its TY 2024 forecast.[1076]

Cal Advocates recommends a reduction of $7.390 million to SDG&E's TY 2024 forecast of $24.050 million for a total of $16.660 million for TY 2024.

24.2.2 SDG&E Fleet Services Expense - Maintenance Operations – O&M

SDG&E requests $9.934 million for its Fleet Services Expense – Maintenance Operation Costs for TY 2024.[1077]

Cal Advocates recommends a reduction of $3.282 million, to $6.652 million for this request.[1078]

Cal Advocates makes this downward adjustment because SDG&E's incremental cost is based on the price of fuel when fuel costs were at an excessively high level. SDG&E uses a 4-year average of $6.000 million as the forecast base then incrementally raises the forecast by $3.920 million. SDG&E's reliance on a fuel price at a specific point in time is not a reasonable basis to increase a fuel forecast. Cal Advocates recommends using SDG&E's base year of $6.652 million for this request.[1079]

Cal Advocates recommends a reduction of $3.282 million to SDG&E's TY 2024 request of $9.934 million for a total of $6.652 million.

[1076] *Ibid.*

[1077] Ex. SDG&E-22 at AA 29.

[1078] Ex. CA-11 at 27-28.

[1079] *Ibid.*

24.2.3 SDG&E Fleet Services Expense - Maintenance Operations – Garage Operations – O&M

SDG&E requests $15.109 million for its Fleet Services Expense – Garage Operation expense for TY 2024.[1080]

Cal Advocates recommends a reduction of $2.360 million to SDG&E's TY 2024 request of $15.109 million.[1081]

Cal Advocates makes this downward adjustment because SDG&E adjusted TY 2024 request by $2.747 million. Cal Advocates questioned the adjustments as follows:

- Incremental Non-Labor maintenance costs of $1.509 million associated with 1FS001.003.
- Incremental Non-Labor maintenance costs of $851,000 associated with vehicle additions associated with 1FS001.002.
- Replacement Plan and Salvage.

Cal Advocates' recommendation is based on the fact that SDG&E presented no proof that these additional vehicles will be added outside an overly aggressive vehicle forecast.

Cal Advocates recommends $6.652 million, a reduction of $2.360 million to SDG&E's TY 2024 request of $15.109 million.

25 REAL ESTATE, LAND SERVICES, AND FACILITY OPERATIONS

25.1 SCG Real Estate, Land Services and Facility Operations Expense

SCG's Facility Operations and Real Estate groups are responsible for planning, acquiring, designing, constructing, operating, and maintaining over two million square feet of leased and fee-owned property, comprised of 108 staffed locations, including general offices, bases, multi-use sites, branch offices, and telecommunication sites. Facility Operations and Real Estate are also tasked with providing the organization with safe, compliant, reliable, and suitable working environments for its employees.[1082]

[1080] Ex. SDG&E-22 at AA 29.

[1081] Ex. CA-11 at 29.

[1082] Ex. SCG-19-R-II-E at BKG 1 and 2.

25.1.1 SCG Real Estate & Facility Operations, including shared and non-shared services – O&M

SCG requests $51.296 million for its Test Year (TY) 2024 estimated Operation and Maintenance (O&M) for Real Estate & Facility Operations, including shared and non-shared services. The TY 2024 request represents $22.858 million for Real Estate, and $28.439 million for Facility Operations.[1083]

Cal Advocates does not oppose SCG's request.[1084]

25.1.2 SCG Real Estate and Facility Operations Capital - Fleet Alternative Refueling and Infrastructure and Improvements - Control Center Modernization (CCM) - Capital

SCG requests recovery of capital costs for its Control Center Modernization (CCM)/ Distributions Operations Control Center (DOCC) as follows: 2022 - $7.108 million; 2023 - $29.825 million; 2024 - $40.281 million, for a total project cost of $77.214 million.[1085]

Cal Advocates recommends recovery for this capital request via a Tier 2 advice letter. Cal Advocates also recommends if actual total project costs exceed the forecasted costs by 10%, SCG will provide a reasonableness analysis showing why actual costs exceeded forecast.[1086]

It should be noted that in the 2019 GRC Decision 19-09-051, the Commission authorized SoCalGas to proceed with the DOCC project, finding that SoCalGas provided sufficient evidence and justification for the necessity of these projects. DOCC was funded as follows; $400,000 in 2017, $3.156 million in 2018, and $25.901 million in 2019 using a zero-based forecast.[1087]

[1083] Ex. SCG 19- R-II-E at BKG iv.

[1084] Ex. CA-11 at 30.

[1085] Ex. SCG-19 R-II-E at 25, 37.

[1086] Ex. CA-11 at 34-39.

[1087] *Ibid.*

The project scope has changed from a smaller, less complicated project to a larger, more complicated and expansive project. In the previous GRC, SCG requested approximately $16 million for the relocation and construction of the Gas Control Center. In this current general rate case, the request to construct the CCM Building is approximately $77 million, and the current scope of construction is a new 68,000 square foot facility. SDG&E has no plans for the disposition of the current control site once SCG completes the CCM building.[1088]

Cal Advocates' recommendation for recovery of SCG's capital request via a Tier 2 advice letter protects ratepayers from a potential undue burden in rates due to changes in management's commitment to the project, delays in project completion, additional changes in project scope, over forecasted costs, and maintaining current assets in rate base that may not be used and useful in the future.[1089]

Given the change in SCG's plan, the date of completion of the project creates the possibility of the project going into the post-test year. The fact that the project was approved and funded in the last general rate case which SCG chose to forego for a more enhanced plan, a Tier 2 advice letter is appropriate and justified as it protects the ratepayer from SCG altering its plan yet again and allows SCG to later fund the project in rates.

25.1.3 SCG Hydrogen Re-fueling Station - Capital

SCG requests recovery of capital costs for its Hydrogen Refueling Station as follows; 2022 - $621,000, 2023 - $20.739 million, 2024 - $8.415 million, for a total request of $29.775 million.[1090]

Cal Advocates opposes this project because SCG currently has access to hydrogen refueling stations in its service territory and the market is expanding to meet the fueling of larger vehicles. This allows for successful refueling of its current fleet and proposed

[1088] *Ibid.*

[1089] *Ibid.*

[1090] Ex. SCG-19 R-II-2E at 25, 37.

fleet, thereby eliminating any need or justification for SCG to build its own refueling station. Further, SCG provided no evidence of any real value to ratepayers that supports the spending of almost $30 million for a utility owned, public access hydrogen vehicle refueling station.[1091]

In its rebuttal testimony SCG disagrees with Cal Advocates' reduction because SCG leverages hydrogen public infrastructure for its current hydrogen pilot vehicles but has experienced a lack of reliability in available hydrogen fuel. SCG argues that this can pose a risk to customer response times and emergency support. SCG claims that it has had to position its hydrogen pilot vehicles in locations that have multiple fueling stations nearby to mitigate this fuel availability concern and train employees to fuel the HFCEVs before the tank is half-empty. As discussed in data request PAO-SCG-043-LMW_SCG-19_4108_4107 Q9, most existing hydrogen refueling stations rely on hydrogen transportation, creating a capacity constraint. SCG further argues that by constructing hydrogen refueling stations that produce hydrogen on-site, SCG is helping to increase the reliability of available hydrogen.[1092]

Despite these drawbacks in alleged customer response time and capacity constraints, Cal Advocates is unaware of a quantified cost benefit justification why spending $30 million for the project is reasonable.

Cal Advocates opposes the funding of this project and opposes the creation of a newly proposed Hydrogen Refueling Station Balancing Account.

25.2 SDG&E Real Estate & Facility Operations, including shared and non-shared services

SDG&E's Real Estate, Land Services & Facilities Operations (REL&F) forecasts for SDG&E expenses for Rents and Operating Expenses, Corporate Real Estate, Real Estate Planning, Facility Operations, Tribal Relations & Land Services, Real Estate Resources, and associated Capital Programs.[1093]

[1091] Ex. CA-11 at 39-42.

[1092] Ex. SCG-212 at 45-48 and SCG-219E at 18.

[1093] Ex. SDG&E-23 at DT iv.

25.2.1 SDG&E Real Estate and Facility Operations Expense – O&M

SDG&E requests $38.208 million for its Real Estate and Facility Operations Expense for TY 2024.[1094]

Cal Advocates recommends a reduction of $1.015 million to SDG&E's TY 2024 of $38.208 million.[1095]

Cal Advocates makes this downward adjustment because SDG&E uses a 3-year average of $2.581 million as the forecast base then incrementally raises the forecast by $1.015 million as follows: Add 24/7/365 guards on site at each of the following C&O's: Beach Cities, Eastern, Northcoast, Northeast, Orange County.[1096]

Cal Advocates asked for justification through data requests for this incremental increase. SDG&E responded that there is a need for additional security. However, to date it has spent $0 on additional security. Cal Advocates notes that SDG&E has had resources to add security to these facilities but failed to do so, including after Cal Advocates requested information that justified such added security (from May of 2022 to January 25, 2023). If an actual security need existed, SDG&E is mandated by law to have acted on it pursuant to Public Utils. Code Section 451. The fact that to date, SDG&E has not added additional security which calls into question the justification for this request.[1097]

Cal Advocates recommends $37.193 million for TY 2024, a reduction of $1.015 million to SDG&E's request of $38.208 million.

[1094] Ex. SDG&E-23 at 17.

[1095] Ex. CA-11 at 31.

[1096] *Ibid.*

[1097] *Ibid.*

25.2.2 SDG&E Real Estate and Facility Operations - Business Unit Expansion, Kearny Mesa Phase II - Capital

SDG&E requests recovery of capital cost for its business unit expansion/ Kearny Mesa Phase II Request as follows; 2022 - $250,000, 2023 - $2.5 million, 2024 - $19.026 million, for a total request of $21.776 million.[1098]

Cal Advocates recommends no funding for Phase II of the Kearny Mesa Master Plan project, but does not oppose funding for Phase I.[1099]

Cal Advocates understands Phase II of the Master Plan requests increases in interior storage capacity, concurrently creating conditioned interior storage capacity through the design and construction of new warehouse structures, and the demolition of existing structures. SDG&E's continued justification is based on (but not limited to) disparate storage, constrained growth, comprised storage safety and efficiency, and the inefficiencies in the coordination and management of inventory.[1100]

Cal Advocates is not convinced that these issues identified by SDG&E warrant spending almost $22 million on Phase II of the project. Cal Advocates determined, via data requests, that SDG&E has been aware of these storage issues since 2013.[1101]

Rather than expending funds at a reasonable pace and rate to resolve its storage issues, SDG&E management chose to fund other projects it considered more important to the complete exclusion of this project. For example, in the previous GRC management considered it more important to request funding of over $41 million to refresh and remodel its Century Park (CP) Buildings.[1102]

For a project with the scope and complexity of the entire Master Plan (Phase I, II, and III), SDG&E has only spent approximately $300,000 to date on Phase II, creating uncertainty whether Phase II will be completed on schedule. Further, given the project is

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[1098] Ex. SDG&E-24 at 39.

[1099] Ex. CA-11 at 44-49.

[1100] *Ibid.*

[1101] *Ibid.*

[1102] *Ibid.*

still in the design phase and with management's tendency to reprioritize projects, a reasonable question arises whether the project will be started at all within this GRC cycle and whether it will be used and useful by the project's current estimated completion date of November 30, 2024.[1103]

SDG&E's justification to include Phase II as part of this GRC is inadequate. SDG&E initially identified a storage issue in preparing for the master plan in 2013. Yet, after almost a decade, SDG&E now proposes to rush into Phase II of the project while funding other projects in the past.[1104] Cal Advocates concludes storage is not an overwhelming critical issue, and SDG&E has reasonably adjusted for any deficiencies for its storage requirements over the years.[1105]

In rebuttal, SDG&E cites that a cost/benefit analysis is not a requirement in GRCs for the Commission to determine the reasonableness of a certain project.[1106] This argument is contrary to Public Utils. Code Section 451 which provides:

> All charges demanded or received by any public utility or by any two or more public utilities for any product or commodity furnished or to be furnished or any services rendered or to be rendered shall be just and reasonable.

The justification and reasonableness required by this provision includes a cost/benefit assessment. The fact that SDG&E takes the position that a cost/benefit analysis is not a requirement in GRCs proves the company has done no such analysis for this program. Clearly, the construction of a large project without one diminishes the support for such a project as SDG&E is unable to show whether the cost of construction is prudent based on the benefits it will provide to ratepayers. Here, Cal Advocates' argument that there is inadequate justification for the project is supported by the fact that no cost/benefit analysis was done.

[1103] *Ibid.*

[1104] *Ibid.*

[1105] *Ibid.*

[1106] Ex. SDG&E-223 at DT-6-7.

Also, SDG&E claims in rebuttal that it is fully committed to the project which is currently underway. SDG&E states that through March 2023 it has incurred $811,000 in Programming, design, and permitting costs.[1107] Cal Advocates does not consider spending $811,000 on a $21.716 million dollar project to be committed spending, considering management's tendency to reprioritize spending[1108] or delay the project until the post-test year.

Cal Advocates recommends denial of funding for Phase II and, upon completion of Phase I, SDG&E should request funding for Phase II in the next GRC.

25.2.3 SDG&E Mission Skills Training Center - Capital

SDG&E requests recovery of capital cost for its business unit expansion/ Mission Hills Training Center Request as follows: 2022 - $805,000; 2023 - $10.432 million; 2024 - $10.223 million; for a total of $21.460 million.[1109]

SDG&E requests over $21 million to build a new 16,000 square foot (sf) 2-story building in anticipation of increasing staffing levels by 15-20 new positions, training demands, and new technology requirements. Cal Advocates opposes the project because SDG&E provides no support for the justification of its proposed Skills Training Center expansion. SDG&E predicates the expansion on an "anticipated" need of anywhere from 15 – 20 full time employees (FTE). SDG&E fails to provide why its current footprint cannot be repurposed to meet an "anticipated" demand. A demand that will be supposedly realized by 2024 but may also not be as extensive as planned, thereby not requiring as much space. Currently, albeit not as efficiently, SDG&E is able to provide adequate training. SDG&E provided no evidence that its current training is costing ratepayers an amount that will justify a $21 million project cost.[1110]

[1107] *Ibid.*

[1108] Ex. CA-11 at 46 (Table 11-24).

[1109] Ex. SDG&E-24 at 39.

[1110] Ex. CA-11 at 49-54.

Furthermore, SDG&E's predicted completion date of December 2024[1111] may move into the post-test year due to inevitable construction delays, and management may reprioritize projects or find an alternative solution not yet considered to accommodate the increase in FTE's. Given SDG&E's tendency to reprioritize projects and the project's justification based on adding additional personnel on a date that could move into the post-test year, Cal Advocates recommends recovery for this project via a Tier 2 advice letter. Cal Advocates recommends including a provision in the Tier 2 advice letter if actual total project costs exceed the forecasted costs by 10%, SDG&E will be required to provide a reasonableness review to analyze why actual costs exceeded forecast. Ultimately, this recommendation protects ratepayers from a potential undue burden in rates due to changes in management's commitment to the project, delays in project completion, changes in project scope and over or under forecasted costs.[1112]

SDG&E in its rebuttal testimony argues that recovery of this capital expenditure is correctly addressed through the GRC and not a Tier 2 advice letter which it claims is an alternative process outside the GRC.[1113] On the contrary, the Advice Letter process is an implementation mechanism for the larger proceedings, such as the GRC and Applications, that allows the Commission an expedited avenue for reviewing proposals that have already been considered or passed upon but found untimely, if not unnecessary, when it was presented.

Cal Advocates considers a Tier 2 advice letter is a reasonable condition as part of the GRC process when a project's completion date is uncertain and likely moving into the post-test year and when SDG&E management has the discretion to shift funding to other projects.

[1111] Ex. SDG&E-223 at DT-9.

[1112] Ex. CA-11 at 49-54.

[1113] Ex. SDG&E-223 at DT-9.

26 ENVIRONMENTAL SERVICES

26.1 SCG Environmental Services

SCG's Environmental Services consists of employees who provide guidance and support to SCG on compliance in the areas of natural resources, water quality, hazardous materials and waste (HazMat), air quality, and land planning. Environmental Services assists in SCG's efforts to comply with federal, state, regional, and local environmental laws, rules, regulations, and ordinances, as well as internal company policies and procedures. Environmental Services' responsibilities include: (i) tracking and analyzing environmental regulations; (ii) developing compliance policies, procedures, and tools; (iii) developing and delivering training materials; (iv) developing and implementing internal quality assurance and quality control procedures; (v) screening projects for environmental compliance, (vi) developing plans to avoid and/or minimize potential project environmental impacts; and (vii) developing and obtaining environmental permits and plans. Environmental Services is also responsible for managing two SCG Treatment, Storage, and Disposal Facilities (TSDFs), the remediation of contaminated media at current and former utility and third-party sites, and for responding to emergency release events.[1114]

26.1.1 SCG Environmental Services Expense - O&M

SCG requests $25,810,000 for its Environmental Services Department O&M expenses for TY 2024.[1115]

Cal Advocates does not oppose SCG's request.[1116]

26.2 SDG&E Environmental Services

Environmental Services oversees SDG&E's compliance with federal, state, regional, and local environmental statutes, rules, and regulations, including laws protecting air quality, water quality, hazardous materials, hazardous waste, cultural resources, natural (biological) resources, and environmental permitting. Environmental

[1114] Ex. SCG-20-R at AJG 1 and 2.

[1115] Ex. SCG-20-R at AJG-1.

[1116] Ex. CA-11 at 55.

Services also manages field-based environmental representatives (FERs) that are located at various SDG&E sites to support day-to-day compliance operations, including generation facilities, substations, and Construction & Operations facilities. These FERs manage the Environmental Safety Compliance Management Program for the Company. Environmental Services also manages a California certified environmental laboratory, two SDG&E treatment, storage, and disposal facilities, the remediation of contaminated soils at current and former utility sites, emergency hazardous waste release events, and a hazardous waste vendor audit program.[1117]

26.2.1 SDG&E Environmental Services Expense – O&M

SDG&E requests $9,976,000 for its Environmental Services and SONGS Departments for operations and maintenance (O&M) expenses for TY 2024.[1118]

Cal Advocates does not oppose SDG&E's request.

27 INFORMATION TECHNOLOGY

27.1 SCG Information Technology

SCG’s Informational Technology activities include supporting applications, hardware, and software, some of which are used for risk assessment and management across the Companies. SCG’s business clients rely on IT to provide ongoing operational as well supporting transformation initiatives for numerous business functions to deliver safe and reliable service to its customers. The business functions include, but are not limited to, asset management, work management and measurement, fuel and power, outage management, gas and electric facilities, transportation, procurement and settlement, financial management, accounting, customer field operations, meter reading, customer energy management, smart meter data management, routing, scheduling, dispatching, revenue cycle, customer assistance, customer contact functions, operational analytics, and process automation.[1119]

[1117] Ex. SDG&E-24 at BAS-1

[1118] Ex. SDG&E-24 at BAS-1.

[1119] Ex. SCG-21-R-E at TLB/WJE 1 and 2.

27.1.1 SCG Information Technology Expense – O&M

SCG requests $56,784,000 in Information Technology O&M expenses for TY 2024.[1120]

Cal Advocates does not oppose SCG's request of $56,784, 000.[1121]

27.1.2 SCG Information Technology - Capital

SCG requests capital cost recovery for its Information Technology spending as follows, 2022 - $253.159 million, 2023 - $229.046 million, 2024 - $174.827 million.[1122]

As noted in Cal Advocates' report, on March 13, 2023, SCG provided 2022 recorded adjusted data. The 2022 recorded adjusted capital expenditures were $215.271 million. Due to timing, Cal Advocates could not incorporate this data into its forecast and RO Model but recommends that this recorded figure be adopted for 2022.[1123]

Additionally, Cal Advocates recommends removal of SCG's SAP Transformation Project which results in a downward adjustment of $42.882 million in 2023 and $22.562 million in 2024.[1124]

SCG's SAP Transformation Project should be removed because Cal Advocates requested cost support (inclusive of calculations and support for those calculations) clearly identifying how the amounts for each year (2022, 2023, and 2024) were determined. In response SCG provided high level amounts in generalities that did not explain how those amounts were determined. SCG also failed to provide calculations supporting the determination of those amounts.[1125] SCG has the burden of proof in this proceeding and its application should already have this information. Despite getting a second chance to provide the Commission this information through responses to Cal Advocates data request, SCG failed to do so.

[1120] Ex. SCG-21-R-E at 1.

[1121] Ex. CA-11 at 56.

[1122] Ex. SCG-21-R-E-WP at 1.

[1123] EX. CA-11 at 60 Footnote 100.

[1124] Ex. CA-11 at 62-66.

[1125] *Ibid.*

Despite Cal Advocates' request, SCG also failed to provide any business justification for the SAP Transformation Project and its spending other than broad assertions about increased efficiency, finance/accounting benefits and infrastructure stability.[1126]

In addition to the inadequate cost support and business justification, Cal Advocates takes issue with whether the timeline for project completion provided by SCG is reasonable. SCG's timeline for this complex IT project includes business case approvals, a draft RFP, learning designs, learning realizations, initiation, execution, monitoring, and organizational change management and the project is forecasted to be completed by year-end 2024. In an environment where SCG proposes starting and completing approximately 120 projects with distinct ID's and descriptions creates a dynamic environment. Within this dynamic environment, delays are common, and can relate to insufficient staffing, availability of resources, poor quality control and design, and overly optimistic scheduling.[1127]

Reasonable forecasting involves a level of both quantitative and qualitative support. SCG failed to provide a reasonable level of quantitative and qualitative support to justify over $70 million in requested funding for the SAP Transformation Project. This inadequate level of support coupled with an environment of discretionary spending results in an unreasonable forecast. Further, even if SCG provides additional narrative and cost estimates to support its request, the timing of the project completion is no longer tenable, SCG seeks $42 million in 2023, which is already halfway through the year. Based on this, Cal Advocates recommends this project be subject to either removal from funding in this rate case or subject to post-test year ratemaking.[1128]

[1126] *Ibid.*

[1127] *Ibid.*

[1128] *Ibid.*

Cal Advocates recommends removal of the SAP Transformation Project resulting in a revised request of $247.991 million for 2022, $186.164 million for 2023, and $152.265 million for 2024.

27.2 SDG&E Informational Technology

SDG&E's Information services include supporting applications, hardware, and software, some of which are used for risk assessment and management across the Companies. Sempra claims that its business clients rely on IT to provide ongoing operational support as well as supporting transformation initiatives for numerous business functions to deliver safe and reliable service to our customers. The business functions include, but are not limited to, asset management, work management and measurement, fuel and power, outage management, gas and electric facilities, transportation, procurement and settlement, financial management, accounting, customer field operations, meter reading, customer energy management, smart meter data management, routing, scheduling, dispatching, revenue cycle, customer assistance, customer contact functions, operational analytics, and process automation.[1129]

27.2.1 SDG&E Information Technology Expense - Non-Shared Operational Application – O&M

SDG&E requests $20.382 million in O&M costs for its Customer Information System (CIS) for TY 2024.[1130] Cal Advocates recommends $9.346 million, a reduction of $11.016 million to this request.[1131] Cal Advocates makes this downward adjustment because SDG&E uses the 2021 base year of $10.678 million as the forecast then incrementally increases the forecast by $9.704 million.[1132]

Cal Advocates requested support for the increase in 2022 (Labor - $2.668 million and Non-Labor - $7.505 million) related to the 2024 CIS replacement costs increase and SDG&E responded that the 2021 Base Year costs only included partial year actuals in

[1129] Ex SDG&E-25-R at TLB/WJE 1 and 2.

[1130] Ex. SDG&E-25-R at 13.

[1131] Ex. CA-11 at 5, 56-59.

[1132] Ex. CA-11 at 56-59.

O&M, as the majority of 2021 costs were included in the CIS balanced program. The increase in the forecast year is to account for full year expenses for labor and non-labor.[1133] Cal Advocates followed up this request by asking SDG&E to provide actual 2022 expenses broken out by labor and non-labor inclusive of the support for how these costs are related to the CIS balanced program. SDG&E responded that it would provide 2022 recorded expenditures by March 13, 2023, as required by an ALJ Ruling.[1134] Nevertheless, Sempra should have been able to provide actual 2022 recorded data that was available when it responded to the data request.

SDG&E did not provide any actual costs for 2022 when asked or support its position with actual 2022 costs and continues to base its estimate on a partial year of 2021 costs. Therefore, there is no support for SDG&E's requested costs. Cal Advocates recommends that SDG&E continue to record these costs in the CIS balancing account. Continuing to record these costs to the balancing account will allow for more accurate historical expenditures. SDG&E's current estimate, which is based on a partial year of costs and historical data, lacks justification and supporting data. Cal Advocates recommends an adjustment of $11.016 million to SDG&E's 2024 forecast request.[1135]

27.2.2 SDG&E Information Technology Expense - Shared Operational Infrastructure – O&M

SDG&E requests $33.667 million for its shared IT expenses for TY 2024.[1136]

Cal Advocates recommends a reduction of $2.176 million in costs for SDG&E's Smart Meter 2.0 Telecom Data Plan.

Cal Advocates makes this downward adjustment based on the argument contained in CA-10 (Campbell), opposing the Smart Meter 2.0 project resulting in a reduction of $2.176 million to SDG&E's TY 2024 forecast of $33.667 million.[1137]

[1133] Ex. CA-11 at 58-59.

[1134] Ex. CA-11 at 59.

[1135] Ex. CA-11 at 59.

[1136] Ex. SDG&E-25-R at 17.

[1137] Ex. CA-11 at 59-60 also see CA-10 at 33.

27.2.3 SDG&E Information Technology - Capital

SDG&Es requests IT capital expenditures as follows; 2022 - $220.012 million, 2023 - $208.793 million, 2024 - $214.186 million.[1138]

Cal Advocates recommended forecasts of $199.3 million for 2022, $172.3 million for 2023, and $162.0 million for 2024.[1139]

As noted in Cal Advocates' report, on March 13, 2023, SDG&E-provided 2022 recorded adjusted data. The 2022 recorded adjusted capital expenditures were $170.804 million. Due to timing, Cal Advocates did not have time to incorporate into its forecast and RO Model but recommends that this recorded figure be adopted for 2022.[1140]

Additionally, Cal Advocates recommends partial funding of the Smart Meter 2.0 project, with no funding for the i) Field Delivery and Scheduling & Dispatch/Data Analytics and ii) Smart Meter 2022 - 2024 Upgrades projects. These downward adjustments result in a forecast of $199.3 million, $172.3 million, and $162.0 million for the years 2022 - 2024 respectively.[1141]

Supporting its recommendation, Cal Advocates based much of its analysis pursuant to CA-10 (Campbell) testimony regarding Smart Meter 2.0 as well as the other capital projects noted above.[1142] Cal Advocates CA-11 (Waterworth) testimony is supported by CA-10's recommendations. SDG&E did not support its forecast despite data requests from Cal Advocates asking for detailed cost support. The data provided by SDG&E was primarily comprised of tables separated by only labor and non-labor with no support for how those amounts were determined.[1143]

[1138] Ex. SDG&E-25-R at WPs at 24, 37, 80, 112, 120, 143, 167, 198, 272, 287, 304, 310 and 391.

[1139] Ex. CA-11 at 66.

[1140] Ex. CA-11 at 66, n. 108.

[1141] Ex. CA-11 at 66-69.

[1142] Ex. CA-11 at 33.

[1143] Ex. CA-11 at 67-70.

28 CYBERSECURITY

28.1 SCG Cybersecurity

SCG's Cybersecurity department is responsible for cybersecurity risk management of the information and operational technologies for SoCalGas, San Diego Gas & Electric Company (SDG&E), and Sempra Energy Corporate Center (Sempra or Corporate Center) collectively (the Companies). The IT organization is transitioning to a digital focused operating model.[1144]

28.1.1 SCG Cybersecurity Expense – O&M

SCG requests $3,970,000 in Cybersecurity O&M expenses for TY 2024.[1145]

Cal Advocates does not oppose SCG's request.[1146]

28.1.2 SCG Cybersecurity - Capital

SCG requests capital expenses of for its Cyber Security activities as follows: 2022 - $28.842 million, 2023 - $36.788 million, 2024 - $42,915 million.[1147]

Cal Advocates initial recommendation was a forecast of $20.554 million, $23.570 million, and $23.570 million for the years 2022 - 2024 respectively.[1148] However, in rebuttal SCG accurately noted Cal Advocates benchmarking its recommendation was in error. Alternatively, Cal Advocates recommends adopting the actual recorded costs for 2022 with a 2-year balancing account for 2023 and 2024.

Cal Advocates makes this downward adjustment because SCG's total request from 2022 - 2024 is over $108 million and is significantly greater than in previous cases. Comparatively, SCG spent over $47 million for its most recent 3 historical years (2019 - 2021), an increase of $61 million (or 130%) greater than the 3-year forecast period 2022 - 2024.[1149]

[1144] Ex. SCG-22-R at LRM 1 and 2.

[1145] Ex. SCG-22-R at WPs at 5, 14.

[1146] Ex. CA-11 at 71.

[1147] Ex. SCG-22-R at WPs 4, 15, 26, 35 and 47.

[1148] Ex. CA-11 at 75-81.

[1149] *Ibid.*

Cal Advocates opposes SCG's forecast based on inadequate cost support for the significant increase.[1150]

SCG's forecast spending is significantly higher than in previous rate cases. Comparatively, over a 3-year period (2019 - 2021) SCG spent approximately $47 million, yet in this current rate case forecast spending is over $108 million from 2022 – 2024, an increase of $61 million (or 130%). Further, SCG's forecasted spending quadrupled from the 2021 base year spend of approximately $10 million to $43 million in 2024.

SCG recorded adjusted capital expenditures of $18.146 million for 2022. Given that SCG's 2022 capital forecast is $28.842 million, this shows that SCG clearly over-forecasted capital spending in this category for all the years from 2022 – 2024.[1151] Here, SCG over-forecasted by $10.696 million. This is a significant difference.

Alternatively, Cal Advocates recommends a two-way balancing account for the remaining GRC period and a reevaluation if the account is needed in the next GRC.

28.2 SDG&E Cybersecurity

The Cybersecurity department is responsible for cybersecurity risk management of the information and operational technologies for Southern California Gas Company (SoCalGas), SDG&E, and Sempra Energy Corporate Center (Sempra or Corporate Center) collectively (the Companies). As highlighted in the Information Technology (IT) Policy testimony of Ben Gordon (Exhibit (Ex.) SDG&E-25, Chapter 1), the IT organization is transitioning to a digital focused operating model.[1152]

28.2.1 SDG&E Cybersecurity Expense – Shared – O&M

SDG&E requests $16.377 million for Cyber Security spending for TY 2024.[1153]

Cal Advocates recommends a reduction of $2.532 million for SDG&E's Cyber Security spending.[1154]

[1150] *Ibid.*

[1151] Ex. CA-11 p. 76 Footnote 125.

[1152] Ex. SDG&E-26-R at LRM 1.

[1153] Ex. SDG&E 26-R at LRM 15.

[1154] Ex. CA-11 at 71-75.

Cal Advocates makes this downward adjustment because SDG&E's request is $2.585 million or 18.7% above its 2021 recorded expenses for Cyber Security. Specifically, Cal Advocates opposes the 2022 incremental costs in labor and non-labor as SDG&E did not hire nor utilize the forecasted request in 2022.[1155]

For the labor portion of SDG&E's incremental increase, the hiring of the 6.8 full time employees (FTEs) was ~~authorized~~ forecasted in 2022. However, SDG&E failed to show any expenditures related to 2022 incremental labor costs, which makes SDG&E needs for the incremental funding inexistent or at the very least, highly questionable. Cal Advocates' recommendation is based on this uncertainty and lack of factual justification for this cost. Accordingly, Cal Advocates recommends an adjustment of $1.632 million to the TY 2024 forecast.[1156]

For the non-labor portion of SDG&E's incremental increase, $744,000 of the $900,000 forecasted for 2022 in professional services appeared unspent ~~was~~ authorized for 2022.[1157]

As was previously discussed relating to Cal Advocates' recommendation regarding its SDG&E Cybersecurity labor adjustment, SDG&E failed to show any expenditures related to this 2022 incremental increase which creates a level of uncertainty whether SDG&E needs the incremental funding or not. Cal Advocates' recommendation is based on this uncertainty and lack of factual justification. Accordingly, Cal Advocates recommends an adjustment of $900,000.[1158]

In 2022 SDG&E forecasted $15.677 million, yet only spent $13.174 million, a difference of $2.503 million. SDG&E's forecast for 2024 is $16.377 million which is similar to 2022. Despite SDG&E's claimed need, the incremental increases are not necessary, and these forecasted costs may never be expended creating an over-collection that is not favorable to ratepayers.

[1155] *Ibid.*

[1156] *Ibid.*

[1157] *Ibid.*

[1158] *Ibid.*

Cal Advocates recommends a reduction of $2.532 million to SDG&E's TY 2024 forecast of $16.377 million, for a total of $13.845 million for TY 2024.

28.2.2 SDG&E Cyber Security- O&M and Capital

SDG&E requests $16.377 million for the Test Year (TY) 2024 for operations and maintenance (O&M) costs for both non-shared and shared services, and capital costs for Cybersecurity. The capital request for 2022 is $8.424 million, 2023 is $9.660 million, and 2024 is $9.660 million.[1159]

Cal Advocates does not oppose SDG&E's request of $16.377 million (O&M) and capital costs as follows: 2022 – 8.424 million; 2023 – 9.660 million; and 2024 – 9. 660 million.[1160]

29 CORPORATE CENTER – GENERAL ADMINISTRATION

Sempra requests a total of $130.063 million in General Administration costs for TY 2024.[1161] Cal Advocates does not oppose this request.[1162]

30 INSURANCE

Sempra requests a total of $399.4 million in insurance costs for TY 2024.[1163] Cal Advocates does not oppose this request,[1164] which includes $237.913 million[1165] for Wildfire Liability Insurance. Cal Advocates recommends the following:

1159 Ex. SDG&E-26-R at LRM 1.

1160 Ex. CA-11 at 82.

1161 Ex. SCG-23-R-E/SDG&E-27-R-E, Revised Prepared Direct Testimony of Derick R. Cooper (Corporate Center – General Administration), at DRC-iv.

1162 Ex. CA-12-E, Report on the Results of Operations for San Diego Gas & Electric Company Southern California Gas Company Test Year 2024 General Rate Case, Corporate Center – General Administration and Insurance, Errata, at 14-19.

1163 Ex. SCG-224-E/SDG&E-228-E: Chapter 1, Rebuttal Testimony of Dennis J. Gaughan (Corporate Center - Insurance) Chapter 1 Errata, at DJG-1 and n. 1 ("Cal Advocates mistakenly references a total of $400.2 million as the Companies' total forecast … The error relates to the $27.494 million that Cal Advocates identifies as the Companies' forecast for Property Insurance. The number should be $26.727 million. Using the correct $26.727 million figure for the Companies' Property Insurance forecast results in a corrected total of $399.4 million.").

1164 Ex. CA-12-E at 1-13.

1165 Ex. SCG-24/SDGE-28, Prepared Direct Testimony of Dennis J. Gaughan (Corporate Center – Insurance) (Public Version), at DJG-9.

- Liability Insurance Premium Balancing Account (LIPBA) treatment for wildfire liability insurance costs should continue subject to conditions for amounts over $250 million.

- Sempra should consider implementing a self-insurance program if its wildfire liability insurance costs increase above $250 million.

- Ratepayer funding of wildfire liability insurance should be capped at $1 billion of coverage.

The Sempra Utilities request reauthorization of their two-way LIPBAs for the TY 2024 GRC period due to the continued price uncertainty in the insurance market.[1166] Under the LIPBA mechanism, Sempra must submit a Tier 2 advice letter to recover any costs recorded in the LIPBAs that are above the authorized liability insurance amounts.

LIPBAs should be reauthorized for every category of liability insurance to allow Sempra to continue to address uncertainties associated with liability insurance premiums in a timely manner and to ensure adequate coverage. However, wildfire liability LIPBAs should receive more scrutiny. Cal Advocates recommends approving a one-way LIPBA for wildfire liability insurance up to $250 million. For expenses between $250 million and $333 million, the Tier 2 advice letter filing should include justification for the additional expenses. If wildfire liability insurance exceeds $333 million in annual expenses, Sempra should submit a Tier 3 advice letter where all of the expenses would be subject to a reasonableness review.[1167] Sempra believes such a review is unnecessary.[1168] Cal Advocates disagrees. Its proposed modification to the wildfire liability LIPBAs would facilitate the necessary scrutiny of any significant increase above the current forecast.

If Sempra were to self-insure at $250 million as discussed below, it would not be required to submit any advice letters between GRCs.

[1166] SCG-24/SDG&E-28 at DJG-24 to DJG-25.

[1167] Ex. CA-12-E at 11, 12.

[1168] Ex. SCG-224-E/SDG&E-228-E at DJG-9 to DJG-10.

Cal Advocates does not dispute Sempra's forecast methodology for wildfire liability insurance expenses. The wildfire liability insurance and reinsurance markets have been highly volatile and costs are likely to continue to escalate, as they have historically for Sempra and for the other California investor-owned utilities. Sempra's wildfire liability insurance costs have roughly tripled over the past five years.[1169] Sempra claims that it has not yet reached the threshold at which self-insurance would make sense.[1170] But if Sempra were to self-insure at the current level of premium costs of approximately $250 million annually over the four years of this GRC cycle, it would accrue one billion dollars of coverage and meet the threshold to seek reimbursement from the Assembly Bill (AB) 1054 Wildfire Fund.[1171] Accordingly, the utility would no longer need to request a revenue requirement for wildfire liability insurance, saving ratepayers $500 million over a period of six years.[1172]

The following tables present hypothetical premium increases compared to self-insurance. Table 30-1 depicts a wildfire liability insurance premium increase of $40 million per year, assuming current trends. Table 30-2 depicts a wildfire liability premium increase of $20 million per year. Table 30-3 depicts the total cost of wildfire liability insurance at current rates over a period of six years. Table 30-4 depicts the total cost to self-insure for wildfire liability insurance at a rate of $250 million per year.[1173]

[1169] Ex. CA-12-E at 7-8.

[1170] Ex. SCG-24/SDG&E-28 at DJG-23.

[1171] Stats. 2019, Ch. 79 (Holden) codified as Pub. Util. Code §§ 3280 to 3297.

[1172] Ex. CA-12-E at 8.

[1173] Ex. CA-12-E at 8-9.

Table 30-1
Wildfire Liability Insurance Cost Projections
Increase of $40 million/year average
(Thousands of nominal dollars)

2024	2025	2026	2027	2028	2029	Total
$240,000	$280,000	$320,000	$360,000	$400,000	$440,000	$2,040,000

Table 30-2
Wildfire Liability Insurance Cost Projections
Increase of $20 million/year average
(Thousands of nominal dollars)

2024	2025	2026	2027	2028	2029	Total
$240,000	$260,000	$280,000	$300,000	$320,000	$340,000	$1,740,000

Table 30-3
Wildfire Liability Insurance Cost Projections
No cost increases
(Thousands of nominal dollars)

2024	2025	2026	2027	2028	2029	Total
$240,000	$240,000	$240,000	$240,000	$240,000	$240,000	$1,440,000

Table 30-4
Self-Insurance Analysis
(Thousands of nominal dollars)

2024	2025	2026	2027	2028	2029	Total
$250,000	$250,000	$250,000	$250,000	-	-	$1,000,000

Tables 30-1 through 30-4 illustrate several scenarios that result in ratepayers' saving expenses over a six-year period, regardless of whether insurance costs rise. If costs continue to rise drastically, the Commission should direct Sempra to actively consider implementing a wildfire liability self-insurance program.[1174]

Sempra had a significant claim history early in the 2000's, but has since improved its claim history, with no wildfire claims made in the past 12 years. Meanwhile, the wildfire insurance market continues to become more expensive regardless of Sempra's safety record or improved safety performance. If insurance follows the trendline of the previous six years, tripling in cost and increasing by an average of $40 million a year (with no claims made), the cost to ratepayers would be $2.1 billion over six years, compared to a cost of $1 billion dollars to self-insure, assuming no claim payouts occur over the next six years. Even if wildfire liability insurance increases by $20 million a year, ratepayers would be responsible for an additional $750 million over a six-year period.[1175]

Cal Advocates acknowledges that this period is outside the typical length of a four-year GRC cycle, and that Sempra's current costs associated with wildfire insurance have not yet reached the threshold where self-insurance is more cost-effective than standard insurance during a four-year time frame. The conventional insurance market also exposes Sempra and its ratepayers to less risk and protects them from $4 billion dollars' worth of liability costs, with a tradeoff of higher costs in the long run.[1176]

In the past 12 years, Sempra has submitted no wildfire-related claims to insurance companies, and it has still paid roughly $1.2 billion in premiums to those companies over the past six years. Had Sempra begun self-insurance six years ago, it likely would not require $240 million annually in premium costs for this GRC. It is true that self-insurance initially would be more expensive than conventional insurance, but the

[1174] Ex. CA-12-E at 9.

[1175] Ex. CA-12-E at 9-10.

[1176] Ex. CA-12-E at 10.

potential for cost-savings is substantial. The risks involved expose Sempra and its ratepayers to $6 billion in liability. Wildfire claims have not occurred in 12 years. If such losses began to occur, Sempra's wildfire liability insurance would likely rapidly rise in a manner like other investor-owned utilities with high claim histories, and Sempra may need to adopt self-insurance for wildfire liability risk as a result.[1177]

Cal Advocates acknowledges that, as Sempra has noted,[1178] self-insurance costs initially would be equal to or slightly higher than Sempra's request in this GRC of $237.9 million. However, if insurance costs were to increase over $250 million per year, the cost savings would gradually begin to accrue. Thus, Sempra should actively consider a self-insurance program.[1179] In response to Cal Advocates' recommendation, the Sempra Utilities "acknowledge that if their wildfire liability insurance costs were to increase to $250 million, the facts, circumstances, market conditions, and their own loss histories could present a scenario where the Companies would be compelled to discuss and consider self-insurance."[1180]

In making its recommendation, Cal Advocates considered Sempra's service territory, investment in grid-hardening, and claim history. Cal Advocates also considered the number of ignitions started, an important safety performance metric that Cal Advocates previously used to assess self-insurance feasibility in PG&E's rate case. The average number of ignitions for SDG&E and SCE hovers around 25. Based on this metric alone, the risk for Sempra is lower than that for PG&E. The insurance market is not based entirely on risk perception and claim history, but also on a lack of insurance capacity, as demonstrated by costs increasing for Sempra regardless of claim history. A self-insurance program has the potential to outperform market conditions, as these are being hindered by the severe losses of insurance companies worldwide, not necessarily a

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[1177] Ex. CA-12-E at 10.

[1178] Ex. SCG-24/SDG&E-28 at DJG-23.

[1179] Ex. CA-12-E at 11.

[1180] Ex. SCG-224-E/SDG&E-228-E: Chapter 1 at DJG-14.

risk-assessment of Sempra's safety metrics.[1181] If prices for wildfire liability insurance were as low as they have been historically, at a "rate online"[1182] of about ten cents for every dollar of coverage purchased, this would be an acceptable threshold for risk-transfer products. Since those prices have since jumped to 24 cents and higher for every dollar of coverage and are projected to continue to increase as insurance capacity decreases, self-insurance is worthy of consideration.[1183]

Sempra is required to carry $1 billion of wildfire liability insurance to gain access to the AB 1054 wildfire fund.[1184] If Sempra is purchasing higher coverage limits that exceed $1 billion in wildfire liability insurance, it is an unnecessary ratepayer expenditure. The total amount of wildfire liability insurance coverage purchased by Sempra should be no more than $1 billion. Any purchases above that amount should be refunded to ratepayers, as coverage for wildfire liability insurance above $1 billion exists in the form of the AB 1054 wildfire fund.[1185]

31 COMPENSATION AND BENEFITS

31.1 Total Compensation Study

Cal Advocates takes no position on this issue.

31.2 Short-Term Incentive Compensation (ICP)

Sempra asserts that its total rewards programs are structured to attract, motivate, and retain a high-performing workforce. SoCalGas and SDG&E each offer a total rewards program that includes base pay, short-term incentives, long-term incentives, recognition awards, benefits, and retirement plans. The compensation and benefits programs provided to SoCalGas and SDG&E employees, retirees, and their eligible dependents reflect the impacts of the marketplace, collective bargaining, and government

[1181] Ex. CA-12-E at 11.

[1182] Ex. SCG-24/SDG&E-28 at DJG-23, n. 34 ("One measurement of insurance cost is 'rate online,' which is the percentage derived by dividing insurance premium by the coverage limit.").

[1183] Ex. CA-12-E at 11-12.

[1184] Pub. Utilities Code §§ 3293, 3280(f).

[1185] Ex. CA-12-E at 12.

regulation.[1186] Sempra does not request ratepayer funding for long-term incentives in this GRC.[1187] Cal Advocates does not oppose Sempra's requests for Spot Cash or Recognition Programs.[1188]

As part of its overall total compensation plan, Sempra offers the opportunity to earn short-term incentive-based compensation to all non-represented employees, subject to achievement of the Incentive Compensation Plan's (ICP) performance measures.[1189] These performance measures include company goals related to safety and safety management systems, customers and stakeholders, and financial health. The weighting of each metric is different for each utility, and for executives. Non-executives also have an "individual performance component," while executives do not.[1190]

Cal Advocates conducted discovery regarding Sempra's ICP-eligible employee headcounts.[1191] Although union roles are not ICP-eligible, Sempra includes represented employees in its ICP-eligible headcount because "union employees on temporary management assignments are eligible for ICP during the temporary management assignments."[1192] Cal Advocates requested the actual recorded headcounts of ICP-eligible employees for 2017-2021. SoCalGas's historical headcounts trend downward slightly in the 2017-2019 period, then increase by 2.5% in 2019-2020, and increase again by 4.4% in 2020-2021. SoCalGas's projected TY 2024 employee headcount is 23.36% higher than the 2021 recorded actual. SDG&E's historical headcounts trend downwards

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[1186] Ex. SCG-25-R-E/SDG&E-29-R-E, Revised Prepared Direct Testimony of Debbie S. Robinson (Corporate Center – Compensation And Benefits) Errata, at DSR-4.

[1187] Ex. SCG-25-R-E/SDG&E-29-R-E at DSR-20.

[1188] Ex. CA-13-E, Report on the Results of Operations for San Diego Gas & Electric Company Southern California Gas Company Test Year 2024 General Rate Case, Compensation & Benefits, and Pension & Postretirement Benefits Other than Pension, Errata, at 5.

[1189] Ex. SCG-25-R-E/SDG&E-29-R-E at DSR-9.

[1190] Ex. SCG-25-R-E/SDG&E-29-R-E at DSR-10 to DSR-11.

[1191] "ICP-eligible headcount" is those employees that Sempra has deemed eligible for ICP benefits. All references in this brief to "headcount" are to the ICP-eligible headcount.

[1192] SoCalGas's response to Data Request PubAdv-SCG-CE3-080 and SDG&E's response to Data Request PubAdv-SDGE-CE3-146.

from 2017-2018 before rising 10.1% to the historical peak in 2020. From 2020-2021, SDG&E's historical headcount drops 3.5%. SDG&E's projected TY 2024 employee headcount is 18.3% higher than the 2021 recorded actual.[1193]

Given the large increases in Sempra's projected headcounts compared to historical trends, Cal Advocates asked Sempra to explain why these projected headcount increases are necessary and prudent.[1194] SoCalGas responded:

> In addition to headcount growth to support SoCalGas's key priorities and projects, such as the Control Center Modernization, SoCalGas is experiencing upward pressure on resource needs due to evolving and increasing federal and state regulatory requirements. For example, new pipeline requirements have been implemented by the Gas Transmission Safety Rule… Additional requirements related to detailed risk assessment, data collection, and reporting are being developed in the Risk-Based Decision-Making Framework proceeding… Further…, SoCalGas's headcount reflects each cost witness area's forecasted needs to achieve the activities set forth in their respective testimony.[1195]

SDG&E responded that its forecasted headcounts included support for:

> …evolving regulatory requirements to support the need for additional resources including the Gas Transmission Safety Rules (GTSR), changes related to risk-informed decision making framework (R.20-07-013), increasingly expanded wildfire mitigation efforts to address public safety needs and respond to legislative requirements, and new CPUC programs, such as the Arrearage Management Payment (AMP) program and Percentage of Income Payment Plan (PIPP) pilot.[1196]

Sempra's headcount projections include support for projects that are incremental to the funding requested in its GRC testimony. Incremental funding for projects not

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[1193] Ex. CA-13-E at 5-6.

[1194] SoCalGas's response to Data Request PubAdv-SCG-CE3-080 and SDG&E's response to Data Request PubAdv-SDG&E-CE3-146.

[1195] SoCalGas's response to Data Request PubAdv-SCG-CE3-080 and SDG&E's response to Data Request PubAdv-SDG&E-CE3-146.

[1196] SoCalGas's response to Data Request PubAdv-SCG-CE3-080 and SDG&E's response to Data Request PubAdv-SDG&E-CE3-146.

included in Sempra's GRC testimony should be recovered in the memorandum accounts associated with those projects.[1197]

Cal Advocates analyzed the historical data provided in Sempra's workpapers and data request responses and discovered that the average annual labor inflation rate is 1.6% for SoCalGas and 1.5% for SDG&E. These historical labor inflation rates produce TY 2024 headcounts of 8,570 and 4,883 for SoCalGas and SDG&E, respectively. Cal Advocates recommends the use of historical labor inflation over Sempra's zero-based methodology because Sempra's forecasted headcounts are overinflated by the addition of incremental employees and Sempra's labor inflation rates fluctuate widely in the forecast years 2022-2024. Cal Advocates recommends headcounts for TY 2024 that are 15% lower than SoCalGas's forecast of 10,080 and 9% lower than SDG&E's forecast of 5,388.[1198]

In SCE's TY 2018 GRC, the Commission ordered the removal of "the costs of incentives tied to 'core earnings' and utility financial performance."[1199] Here, both utilities include a financial health metric in their calculations, ranging from 4% to 28%.[1200] Cal Advocates recommends the removal of the financial health component of Sempra's ICP plan funding request. SoCalGas's ICP plan financial health metric is 4% for non-executives and 27% for executives.[1201] SDG&E's ICP plan financial health metric is 10% for non-executives and 28% for executives.[1202]

In addition to the financial performance metric mentioned above, other categories the Commission has considered in the past include customer service metrics based on

[1197] Ex. CA-13-E at 7.

[1198] Ex. CA-13-E at 7.

[1199] D.19-05-020, *Decision on Test Year 2018 General Rate Case for Southern California Edison Company*, at 186.

[1200] Ex. SCG-25-R-E/SDG&E-29-R-E at DSR-10 to DSR -11.

[1201] Ex. SCG-25-R-E/SDG&E-29-R-E at DSR-10, Table DR-4 and DSR-11, Table DR-5.

[1202] Ex. SCG-25-R-E/SDG&E-29-R-E at DSR-10, Table DR-4 and DSR-11, Table DR-5.

surveys[1203] and metrics that included lobbying or policy shaping.[1204] And through the years the utilities have changed and modified their performance measures, perhaps dropping a metric or two or adding a new metric, changing the percentages, and changing the scores that need to be achieved for payout. Ultimately, there is no consistency from year to year or from one GRC to the next, nor is there consistency from one utility to another.[1205]

Therefore, Cal Advocates recommends that the remaining (non-financial) portions of ICP be shared equally between ratepayers and shareholders. There is strong precedent for shareholder funding of significant amounts of short-term incentives. In PG&E's TY 2014 GRC, for example, the Commission explained "the sharing of cost responsibility promotes a reasonable matching of costs with benefits experienced both by ratepayers and shareholders."[1206] This concept has been more recently upheld in SCE's TY 2019 GRC. Addressing SCE's Short-Term Incentive Program request, the Commission first applied a ratio to reduce SCE's adopted labor forecast and then further reduced the resulting forecast by 50 percent.[1207]

Cal Advocates recommends that ratepayers only fund 50% of Sempra's ICP funding request, after the labor inflation rate adjustment and removal of the financial health metric. This results in a Cal Advocates ICP program funding recommendation for SoCalGas and SDG&E of $54.401 million and $33.180 million, respectively.[1208]

[1203] D.14-08-032, *Decision Authorizing Pacific Gas and Electric Company's General Rate Case Revenue Requirement for 2014-2016*, at 522 ("We further reduce PG&E's revenue requirements … to exclude the Customer Satisfaction STIP metric … PG&E has not demonstrated a convincing correlation between actual customer benefits and the metrics tracked by the STIP.").

[1204] D.21-08-036, *Decision on Test Year 2021 General Rate Case for Southern California Edison Company*, at 432 ("We … exclude ratepayer funding for costs associated with policy shaping goals … We find unpersuasive SCE's arguments that its policy and regulatory goals are primarily intended to benefit customers.").

[1205] Ex. CA-13-E at 7-8.

[1206] D.14-08-032 at 522.

[1207] D.21-08-036 at 433.

[1208] Ex. CA-13-E at 8-10.

31.3 Employee Health Benefits

Sempra provides employees with group health benefits, including medical, dental, vision, employee assistance, and wellness programs. Medical, dental, and vision insurance costs are shared between Sempra and its employees. The level of cost sharing varies according to the type of benefit and the level of coverage selected. Certain basic benefits are provided at no cost to the employee, including basic life, basic accidental death and dismemberment, long-term disability, employee assistance program, and business travel accident insurance.[1209]

31.3.1 Medical

SoCalGas's and SDG&E's forecasted TY 2024 medical plans costs are $128 million and $73 million, respectively.[1210] Sempra provides employees and their dependents with medical coverage through several medical plan designs that are provided by Anthem or Kaiser Permanente. Sempra and their employees share the cost of the medical plan, with employees paying a portion of medical premiums, co-payments for office visits and prescriptions, and in some plans, deductibles, and coinsurance.[1211] Eighty-eight percent of SoCalGas's employees and 89% of SDG&E's employees are covered under the company's medical plans.[1212]

Cal Advocates made discovery requests for historical medical enrollment information and employee headcounts. In response, Sempra provided historical employee headcounts and stated, "Recorded headcount for historical years was not used as the basis for the medical cost forecast. The medical forecast was developed using the actual 2022 benefit enrollment elections made during the annual enrollment in 2021."[1213] Sempra provided the number of annual medical enrollment elections for the historical

[1209] Ex. SCG-25-R-E/SDG&E-29-R-E at DSR-22 to DSR-23.

[1210] Ex. SCG-25-R-E/SDG&E-29-R-E at DSR-23 to DSR-24.

[1211] Ex. SCG-25-R-E/SDG&E-29-R-E at DSR-28.

[1212] Ex. SCG-25-R-E/SDG&E-29-R-E at DSR-25.

[1213] Sempra's responses to Data Requests PubAdv-SCG-CE3-016 and PubAdv-SDG&E-CE3-026.

years 2017-2020.[1214] Cal Advocates calculated the ratio of medical enrollment elections to employee headcounts for 2017-2020; SoCalGas's and SDG&E's average medical enrollment percentages are 92% and 87%, respectively. Cal Advocates excluded 2021 in the calculation of historical average medical enrollment because the 2021 actual headcounts provided by Sempra substantially deviated from the 2017-2020 historical trends.[1215]

Although Sempra states that employee headcounts are not used for the medical forecast, Sempra's projected medical enrollment headcounts for years 2022-2024 for medical costs are identical to Sempra's ICP-eligible employee headcount forecast for years 2022-2024, meaning Sempra's current medical cost projections assume 100% enrollment and should be adjusted using the ICP methodology. Cal Advocates recommends an additional adjustment to reflect that each utility has a significantly lower enrollment than 100% for its medical health plans. For SCG, 92% of its TY 2024 medical plan funding request results in a Cal Advocates recommendation of $103.690 million and, for SDG&E, 87% of its TY 2024 medical plan funding request results in a Cal Advocates recommendation of $55.209 million.[1216]

Sempra's projected medical cost rate increases are 6.25% per year for 2023 and 2024.[1217] Cal Advocates does not oppose Sempra's requested medical escalation rate.[1218]

31.3.2 Dental

SoCalGas's and SDG&E's requested TY 2024 dental plan costs are $6.064 million and $4.772 million, respectively.[1219] Sempra dental plans are administered through Delta Dental, Met Life Safeguard Dental, and Blue Cross Dental Net. Ninety-three percent of

[1214] Sempra's responses to Data Requests PubADV-SCG-CE3-111 and PubAdv-SDG&E-CE3-183.

[1215] Ex. CA-13-E at 12.

[1216] Ex. CA-13-E at 12-13.

[1217] Ex. SCG-25-R-E/SDG&E-29-R-E at DSR-28.

[1218] Ex. CA-13-E at 13.

[1219] Ex. SCG-25-R-E/SDG&E-29-R-E at DSR-28.

Sempra's employees are enrolled in a dental insurance plan, with 85% of enrolled employees electing to participate in the Delta Dental Plan.[1220]

The 2021 recorded actual headcount and the forecast 2022-2024 headcounts used in Sempra's projected dental cost assumptions are identical to the headcounts used in Sempra's projected medical assumptions. Cal Advocates recommends applying the same adjustment methodology used to calculate Cal Advocates' TY 2024 medical cost recommendation to calculate Cal Advocates' TY 2024 dental cost recommendation. This results in a Cal Advocates TY 2024 forecast dental cost recommendation for SoCalGas and SDG&E of $4.868 million and $3.866 million, respectively.[1221]

31.3.3 Vision

SoCalGas's and SDG&E's forecasted TY 2024 vision plan costs are $0.677 million and $0.379 million, respectively.[1222] Sempra offers a vision care plan administered through VSP. Employees, and their eligible enrolled dependents, can use any provider they choose, but their out-of-pocket costs will be lower if they choose an in-network provider.[1223]

The 2021 recorded actual headcount and the forecast 2022-2024 headcounts used in Sempra's projected vision cost assumptions are identical to the headcounts used in Sempra's projected medical assumptions. Cal Advocates recommends applying the same adjustment methodology used to calculate Cal Advocates' TY 2024 medical cost recommendation to calculate Cal Advocates' TY 2024 vision cost recommendation. This results in a Cal Advocates TY 2024 vision cost forecast recommendation for SoCalGas and SDG&E of $0.528 million and $0.287 million, respectively.[1224]

[1220] Ex. SCG-25-R-E/SDG&E-29-R-E at DSR-29.

[1221] Ex. CA-13-E at 13-14.

[1222] Ex. SCG-25-R-E/SDG&E-29-R-E at DSR-30.

[1223] Ex. SCG-25-R-E/SDG&E-29-R-E at DSR-30 to DSR-31.

[1224] Ex. CA-13-E at 14.

31.3.4 Wellness

SoCalGas's and SDG&E's requested TY 2024 wellness costs are 1.179 million and $1.202 million, respectively.[1225] Cal Advocates does not oppose these requests.[1226]

31.3.5 Employee Assistance Program

SoCalGas's and SDG&E's requested TY 2024 Employee Assistance Program (EAP) costs are $1.121 million and $0.468 million, respectively.[1227] Cal Advocates does not oppose these requests.[1228]

31.4 Welfare Benefits

Welfare benefits provide financial resources to employees in the event of injury or disability and to survivors in the event of the employee's death. Sempra provides certain basic benefits at no cost to the employee including basic life, basic accidental death and dismemberment, long-term disability, employee assistance program, and business travel accident insurance.[1229]

31.4.1 Survivor Benefits

Survivor benefits include life insurance, accidental death and dismemberment (AD&D) insurance, and business travel insurance.[1230] SoCalGas's and SDG&E's requested TY 2024 expenses for these welfare benefit programs are $1.732 million and $0.716 million, respectively.[1231] Cal Advocates does not oppose these requests.

31.5 Retirement Benefits

SoCalGas's and SDG&E's requested TY 2024 Retirement Benefits expenses are $35.784 million and $24.392 million, respectively.[1232] Sempra provides retirement benefits to all regular employees which include a defined benefit pension plan, a defined

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[1225] Ex. SCG-25-R-E/SDG&E-29-R-E at DSR-31.

[1226] Ex. CA-13-E at 14-15.

[1227] Ex. SCG-25-R-E/SDG&E-29-R-E at DSR-33.

[1228] Ex. CA-13-E at 15.

[1229] Ex. SCG-25-R-E/SDG&E-29-R-E at DSR-35.

[1230] Ex. SCG-25-R-E/SDG&E-29-R-E at DSR-34.

[1231] Ex. SCG-25-R-E/SDG&E-29-R-E at DSR-35.

[1232] Ex. SCG-25-R-E/SDG&E-29-R-E at DSR-2, DSR-3.

contribution (401k) retirement savings plan, and postretirement health and welfare benefits.[1233]

Approximately 93% of Sempra employees participate in the defined contribution retirement savings plan, and the average elective deferral contribution rate is 12% of eligible pay. Employees are eligible to participate in the plan upon hire with company matching contributions vesting after one year of service. The basic company matching contribution is equal to one-half of the first 6% of the employee's contributions of eligible pay. In addition, employees receive a "stretch match" equal to one-fifth of the next 5% of the employee's contributions.[1234]

Employees whose benefits or pay exceed Internal Revenue Service (IRS) limitations specified under the IRC also participate in the Cash Balance Restoration Plan, which maintains participation at the same percentage level as all other employees. Certain management employees also participate in a nonqualified retirement savings plan or deferred compensation plan.[1235]

31.5.1 Nonqualified Retirement Savings Plan

The nonqualified retirement savings plan, or deferred compensation plan, allows pre-tax contributions for employees, subject to IRS compensation and contribution limits. Company matching contributions mirror the company matching contributions provided under the RSP. Participants are eligible for company matching contributions after one year of service. Projected costs are based on actual 2021 costs adjusted for labor inflation.[1236] SoCalGas's and SDG&E's forecasted TY 2024 costs for company matching contributions under the nonqualified retirement savings plan are $0.317 million and $0.268 million, respectively.[1237]

[1233] Ex. SCG-25-R-E/SDG&E-29-R-E at DSR-36.

[1234] Ex. SCG-25-R-E/SDG&E-29-R-E at DSR-36 to DSR-37.

[1235] Ex. SCG-25-R-E/SDG&E-29-R-E at DSR-36.

[1236] Ex. SCG-25-R-E/SDG&E-29-R-E at DSR-37.

[1237] Ex. SCG-25-R-E/SDG&E-29-R-E at DSR-37.

Cal Advocates recommends using the methodology in the above ICP discussion to adjust Sempra's nonqualified retirements savings plan funding request. In addition, Cal Advocates recommends ratepayer funding of no more than 50% of nonqualified retirements savings plans, consistent with GRC precedent.[1238] In Sempra's TY 2019 GRC, the Commission upheld equal sharing of these costs between ratepayers and shareholders:

> With respect to both the Nonqualified Savings Plan and Supplemental Pension, we find that these plans are generally applicable only to executives and other high-income employees. Thus, we find that these plans benefit both shareholders and ratepayers and so it is reasonable for both to share costs equally. This is consistent with past GRC decisions where the Commission deemed that 50 percent shareholder funding of costs is appropriate and reasonable.[1239]

Cal Advocates' recommendations result in TY 2024 nonqualified retirement savings plan funding amounts of $0.135 million and $0.122 million for SoCalGas and SDG&E, respectively.[1240] Sempra takes issue with Cal Advocates' recommendation but recognizes that it is current practice and requests it continue as a minimum: "SDG&E and SoCalGas request that the Commission approve the Nonqualified Retirement Savings Plan and Supplemental Pension requests as submitted; or, at a minimum, continue the Commission's current practice of 50 percent ratepayer funding of these costs."[1241]

31.5.2 Supplemental Pension

SoCalGas and SDG&E offer two supplemental pension plans, the Supplemental Executive Retirement Plan, which covers a small number of senior executives, and the Cash Balance Restoration Plan. The Cash Balance Restoration Plan restores benefits for employees whose earnings or benefits exceed the limitations established by the Employee Retirement and Income Security Act, allowing employees who exceed the limits to

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[1238] D.19-09-051 (Sempra TY2019 GRC) at 553, D.19-05-020 (SCE TY2018 GRC) at 193, D.15-11-021 (SCE TY2015 GRC) at 261, D.14-08-032 (PG&E TY2014 GRC) at 535.

[1239] D.19-09-051 at 553.

[1240] Ex. CA-13-E at 18.

[1241] Ex. SCG-225/SDG&E-229, Rebuttal Testimony of Debbie S. Robinson (Corporate Center – Compensation and Benefits), at DSR-23.

continue to accrue benefits. Benefits are accrued under the same formula and are subject to the same vesting conditions as the broad-based retirement plan. The plan merely restores benefits that would otherwise be lost due to statutory limits under broad-based retirement plans.[1242] SoCalGas's and SDG&E's forecasted TY 2024 expense for supplemental pension plans is $2.206 million and $1.945 million, respectively.[1243]

The Commission has consistently ordered ratepayers and shareholders to equally share this expense.[1244] In Sempra's TY 2019 GRC, for example, the Commission found that supplemental pension plans "benefit both shareholders and ratepayers and so it is reasonable for both to share costs equally."[1245] Accordingly, Cal Advocates recommends ratepayer funding of no more than 50%, for TY 2024 supplemental pension plan funding amounts of $1.103 million and $0.973 million for SoCalGas and SDG&E, respectively. Sempra disagrees with Cal Advocates' recommendation but recognizes that it is current practice and requests it continue as a minimum: "SDG&E and SoCalGas request that the Commission approve the Nonqualified Retirement Savings Plan and Supplemental Pension requests as submitted; or, at a minimum, continue the Commission's current practice of 50 percent ratepayer funding of these costs."[1246]

31.5.3 Other Benefit Programs and Fees

SoCalGas and SDG&E request TY 2024 expenses of $6.7 million and $2.2 million, respectively, for other benefit programs.[1247] Cal Advocates does not oppose these requests.[1248]

[1242] Ex. SCG-25-R-E/SDG&E-29-R-E at DSR-38.

[1243] Ex. SCG-25-R-E/SDG&E-29-R-E at DSR-38.

[1244] D.19-09-051 at 553, D.19-05-020 at 193.

[1245] D.19-09-051 at 553.

[1246] Ex. SCG-225/SDG&E-229 at DSR-23.

[1247] Ex. SCG-25-R-E/SDG&E-29-R-E at DSR-39.

[1248] Ex. CA-13-E at 19-20.

32 PENSION AND POST-RETIREMENT BENEFITS OTHER THAN PENSIONS

Cal Advocates does not oppose[1249] SoCalGas's forecast of $170.7 million[1250] for Pension and Post-Retirement Benefits Other than Pensions (PBOP) expenses. Cal Advocates does not oppose[1251] SDG&E's forecast of $ $34.5 million[1252] for Pension and PBOP expenses. Cal Advocates also does not oppose Sempra's request to continue the two-way balancing of variances between authorized and actual contributions to the PBOP plan.[1253]

33 PEOPLE AND CULTURE DEPARTMENT

33.1 SCG People and Culture

SCG's People and Culture department is responsible for three key areas of responsibility: (1) sourcing, hiring, developing, training, and retaining employees, (2) establishing, implementing, and managing related programs, policies, and guidelines to ensure compliance and alignment to best practices, and (3) administering and managing SoCalGas's Long-Term Disability program, wellness programs, drug and alcohol testing/compliance programs, leave and absence policies, and self-insured workers' compensation program.[1254]

33.1.1 SCG People and Culture Department Shared - O&M

SCG requests $324,000 for TY 2024 People and Culture Department Shared O&M expenses.[1255]

[1249] Ex. CA-13-E at 2-3, 21-23.

[1250] Ex. SCG-26/SDG&E-30, Prepared Direct Testimony of Peter H. Andersen (Pension and Postretirement Benefits Other Than Pension), at PHA-ii.

[1251] Ex. CA-13-E at 2-3, 21-23.

[1252] Ex. SCG-26/SDG&E-30 at PHA-ii.

[1253] Ex. CA-13-E at 24.

[1254] Ex. SCG-28-R-E at AMN-1.

[1255] Ex. SCG-28-R-E at AMN-1.

Cal Advocates does not oppose SCG's request.[1256]

33.1.2 SCG Executive Offices - O&M

SCG requests $4.006 million for its Executive Offices O&M expenses for TY 2024.[1257]

Cal Advocates does not oppose SCG's request.[1258]

33.1.3 SCG Labor Relations and Wellness - O&M

SCG requests $3.457 million for TY 2024 Labor Relations and Wellness O&M expenses.[1259]

Cal Advocates does not oppose SCG's request.[1260]

33.1.4 SCG Organizational Effectiveness - O&M

SCG requests $3.143 million for TY 2024 Organizational Effectiveness O&M expenses.[1261]

Cal Advocates does not oppose SCG's request.[1262]

33.1.5 SCG Performance Management - O&M

SCG requests $1.547 million for TY 2024 Performance Management O&M expenses.[1263]

Cal Advocates does not oppose SCG's request.[1264]

33.1.6 SCG Diversity, Equity, and Inclusion - O&M

SCG requests $886,000 for TY 2024 Diversity, Equity, and Inclusion O&M expenses.[1265]

[1256] Ex. CA-14-E at 10.

[1257] Ex. SCG-28-R-E at AMN-9.

[1258] Ex. CA-14-E at 26.

[1259] Ex. SCG-28-R-E at AMN-9.

[1260] Ex. CA-14-E at 26.

[1261] Ex. SCG-28-R-E at AMN-9.

[1262] Ex. CA-14-E at 26.

[1263] Ex. SCG-28-R-E at AMN-9.

[1264] Ex. CA-14-E at 26.

[1265] Ex. SCG-28-R-E at AMN-9.

Cal Advocates does not oppose SCG's request.[1266]

33.1.7 SCG Human Resources and Employee Services - O&M

SCG requests $12.451 million for TY 2024 Human Resources and Employee Services O&M expenses.[1267] SCG's HR and Employee Services department is responsible for developing compensation programs, employee care services, Ethics & Workplace Investigations, research and analysis, staffing, etc.[1268]

Cal Advocates recommends $11.113 million for SCG's Human Resources and Employee Services O&M expenses, which is $1.338 million less than SCG's forecast.[1269]

Cal Advocates makes this downward adjustment because SCG did not provide any documentation to demonstrate that its 2021 recorded costs of $11.113 million, the highest recorded for the five-year period (2017-2021), are insufficient to address TY 2024 activities. SCG also failed to provide any documentation that explained and demonstrated specifically why SCG's current staffing level is incapable of supporting the anticipated increase in TY 2024 program activities.[1270]

SCG states that Human Resources and Employee Services function has changed in recent years, primarily due to increases in regulatory requirements, increases in Workers Compensation & Long-Term Disability cases, additional hiring, additional reporting requirements, and the expansion of the Ethics & Investigations team. Cal Advocates requested additional documentation to track recorded costs and to verify these assertions SCG made but SCG objected to Cal Advocates' request.[1271]

SCG's 2021 expenses include the recent changes in functions it claims justifies the

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[1266] Ex. CA-14-E at 26.

[1267] Ex. SCG 28-R-E at AMN 9.

[1268] Ex. SCG-28-R-E at AMN-9.

[1269] Ex. CA-14-E at 27-29.

[1270] Ex. CA-14-E at 27-29.

[1271] Ex. CA-14-E at 27-29.

increase in TY 2024 costs and captures the increase in the related costs, which are the highest recorded for the five-year period (2017-2021).[1272] SCG did not justify its request for additional TY 2024 funding over 2021 recorded levels, and its support for proposed TY activities lacks detail.

Cal Advocates' recommendation of $11.113 million utilizing SCG's 2021 recorded expenses is reasonable.

33.1.8 SCG Workers Compensation and Long-Term Disability - O&M

SCG requests $23.801 million for TY 2024 Workers Compensation and Long-Term Disability (LTD) O&M expenses.[1273] SCG's Workers Compensation (WC) benefits are mandated benefits provided to employees working in the State of California who are injured on the job. SCG's Long-Term Disability (LTD) Plan allows eligible employees to receive income replacement benefits when they are unable to work due to a qualifying serious medical condition.[1274]

Cal Advocates recommends $22.807 million for SCG's Workers Compensation and Long-Term Disability O&M expenses, which is $994,000 less than SCG's forecast.[1275]

SCG's 5-year historical Long-Term disability data shows that the expenses fluctuated between 2017-2021, averaging $5.128 million. SCG calculated its forecast by escalating its 2021 base year recorded data for estimated changes in labor costs.[1276]

In its rebuttal, SCG asserts that Cal Advocates recommended forecast methodology for SCG's LTD costs is inconsistent with Cal Advocates' recommendation for SDG&E's LTD costs.[1277] SCG claims that Cal Advocates argues a different forecast

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[1272] Ex. CA-14-E at 27-29.

[1273] Ex. SCG-28-R-E at AMN-29.

[1274] Ex. SCG-28-R-E at AMN-29.

[1275] Ex. CA-14-E at 29-32.

[1276] Ex. CA-14-E at 29-32.

[1277] Ex. SCG-228 at AMN-12.

methodology despite both companies experiencing similar growth patterns in LTD costs and headcount. Cal Advocates disagrees with SCG' assertion that both companies experiencing similar growth patterns in LTD costs. For SDG&E, the recorded data shows cost decreased from 2017 to 2019 and then increased from 2019 to 2021[1278] while for SCG, the LTD cost fluctuated between 2017 to 2021, and actually decreased from 2020 to 2021.[1279]

Cal Advocates makes this downward adjustment using a three-year average of LTD expenses, while SCG relies on 2021 recorded adjusted expense alone. A three-year average is appropriate for forecast LTD expenses because of the variability and uncertainty of LTD expenses each year. SCG's reliance on 2021 recorded adjusted expenses alone inflates its TY 2024 forecast.

SCG utilized three-ear average plus escalated factors to forecast its TY 2024 Workers Compensation O&M expense. Cal Advocates recommends the same forecast method for LTD expense for TY 2024, for a combined Workers Compensation and LTD forecast O&M expense of $22.807 million.[1280]

33.2 SDG&E People and Culture

SDG&E requires its employees to possess the qualifications, experience, and skills necessary to perform their work safely and effectively. The People and Culture department is responsible for three key areas of responsibility: (1) attracting, hiring, developing, training, and retaining employees; (2) establishing, implementing, and managing employee-related programs, policies, and guidelines to ensure compliance; and (3) administering and managing SDG&E's LTD, wellness programs, drug and alcohol testing/compliance programs, leave and absence policies, and self-insured workers' compensation program.[1281]

[1278] Ex. CA-14-E at 63-65.

[1279] Ex. CA-14-E at 29-32.

[1280] Ex. CA-14-E at 29-32.

[1281] Ex. SDG&E-32 at ADT 1.

33.2.1 SDG&E People and Culture Department Shared - O&M

SDG&E requests $1.969 million for TY 2024 People and Culture Department Shared O&M expenses.[1282]

Cal Advocates does not oppose SDG&E's request.[1283]

33.2.2 SDG&E People and Culture Workers' Compensation - O&M

SDG&E requests $3.828 million for TY 2024 People and Culture Workers' Compensation O&M expenses.[1284]

Cal Advocates does not oppose SDG&E's request.[1285]

33.2.3 SDG&E People and Culture Total Disability - O&M

SDG&E requests $287,000 for TY 2024 People and Culture Total Disability O&M expenses.[1286]

Cal Advocates does not oppose SDG&E's request.[1287]

33.2.4 SDG&E People and Culture Executive Offices - O&M

SDG&E requests $1.976 million for TY 2024 People and Culture Executive Offices O&M expenses.[1288]

Cal Advocates does not oppose SDG&E's request.[1289]

33.2.5 SDG&E People and Culture Business Improvement and Process Optimization - O&M

SDG&E requests $261,000 for TY 2024People and Culture Business Improvement and Process Optimization O&M expenses4.[1290]

[1282] Ex. SDG&E-32 at AGT 10.

[1283] Ex. CA-14-E at 42.

[1284] Ex. SDG&E-32-WP at 16.

[1285] Ex. CA-14-E at 58.

[1286] Ex. SDG&E-32-WP at 11.

[1287] Ex. CA-14-E at 58.

[1288] Ex. SDG&E-32-WP at 82.

[1289] Ex. CA-14-E at 58.

[1290] Ex. SDG&E-32-WP at 75.

Cal Advocates does not oppose SDG&E's request.[1291]

33.2.6 SDG&E People and Culture Business Optimization - O&M

SDG&E requests $113,000 for TY 2024 People and Culture Business Optimization O&M expenses.[1292]

Cal Advocates does not oppose SDG&E's request.[1293]

33.2.7 SDG&E VP- People and Culture - O&M

SDG&E requests $1.021 million for TY 2024 VP- People and Culture O&M expenses.[1294] SDG&E's VP-People and Culture is responsible for providing leadership and strategic direction to employees.[1295] Cal Advocates recommends $721,000 for SDG&E's VP- People and Culture O&M expenses, which is $300,000 less than SDG&E's forecast.[1296] Cal Advocates made this downward adjustment because SDG&E's TY 2024 request is $300,000 higher than 2021 recorded adjusted expenses of $721,000. SDG&E's request utilized its 2021 recorded costs of $721,000 plus incremental non-labor request of $300,000 for executive catering costs that were not incurred in 2021 due to COVID-19 restrictions.[1297]

Cal Advocates does not take issue with SDG&E's labor forecast for TY 2024, but with SDG&E's TY 2024 incremental non-labor request of $300,000 for Executive Catering activities. SDG&E did not provide any supporting documentation as requested by Cal Advocates that can demonstrate that its executive catering activities were necessary and required to operate and maintain its business or had any benefit to ratepayers.[1298]

[1291] Ex. CA-14-E at 58.

[1292] Ex. SDG&E-32-WP at 70.

[1293] Ex. CA-14-E at 58.

[1294] Ex. SDG&E-32 at AGT 11.

[1295] Ex. CA-14-E at 59-61.

[1296] *Ibid.*

[1297] *Ibid.*

[1298] *Ibid.*

Cal Advocates recommends SDG&E's 2021 adjusted recorded expenses of $721,000[1299] for TY 2024.

33.2.8 SDG&E Human Resources - O&M

SGG&E requests $2.901 million for TY 2024 Human Resources O&M expenses.[1300]. SDG&E's Human Resources Department O&M expenses are for work activities related to the labor and non-labor costs of employees.[1301]

Cal Advocates recommends $2.250 million for SDG&E's Human Resources O&M expenses, which is $651,000 less than SDG&E's forecast.[1302]

Cal Advocates made this downward adjustment because SDG&E's request includes costs for additional positions. SDG&E states that the total number of 21.1 full time employees (FTEs) in the adjusted forecast for 2024 is an increase of 5.1 FTEs from the base year of 2021. Cal Advocates requested that SDG&E provide documentation that explains and demonstrated specifically why SDG&E's current staffing level was unable to address the anticipated increase in in TY 2024 program activities. SDG&E objected to Cal Advocates' request and did not provide the requested documentation.[1303]

Given that the expenses incurred in 2021 were the highest level over the 2017-2021 historical period, Cal Advocates' recommendation of $2.250 million for TY 2024 is reasonable.

33.2.9 SDG&E Long-Term Disability - O&M

SDG&E requests $2.857 million for in TY 2024 Long-Term Disability (LTD) O&M expenses.[1304] SDG&E provides Long-Term Disability benefit which provide income replacement when an employee suffers from a serious health condition.[1305]

[1299] *Ibid.*

[1300] SDG&E-32 at AGT 15.

[1301] Ex. CA-14-E at 61-63.

[1302] *Ibid.*

[1303] *Ibid.*

[1304] Ex. SDG&E-32 at AGT 14.

[1305] Ex. SDG&E-32 at AGT-14.

Cal Advocates recommends $2.259 million for SDG&E's LTD O&M expenses, which is $598,000 less than SDG&E's forecast.[1306]

Cal Advocates makes this downward adjustment because SDG&E's recorded LTD expenses decreased each year over the three-year period (2017-2019) averaging $1.067 million. SDG&E's recorded expenses for its Long-Term Disability Expenses increased from 2019 to 2021, averaging $1.749 million. Cal Advocates requested that SDG&E provide documentation that explains the decrease and increase in expenses and identify the line-item detail associated with the increase in expense related to the $1.38 million from 2019 to 2020. SDG&E did not provide the requested information.[1307]

SDG&E utilized a zero-based forecast methodology for its TY 2024 forecast and states that the zero-based forecast methodology accurately reflects the estimated changes in headcount, which cannot be forecasted using any other method. Cal Advocates asked SDG&E to provide support that demonstrates the estimated changes in headcount. SDG&E objected to Cal Advocates' request. SDG&E also failed to provide any documentation that explains how the zero-based forecast methodology accurately reflects the estimated changes in headcount rather than utilizing five-year, four-year, three- year averages or base year forecast methodology. Cal Advocates calculated SDG&E's 2019-2021 3-year historical average and escalated it for estimated changes in labor costs to derive its LTD O&M expenses recommendation for TY 2024, which results in an estimate of $2.212 million.[1308]

SDG&E's responses to Cal Advocates data requests on this activity are insufficient and incomplete and do not justify SDG&E's TY 2024 forecast of $2.857 million. SDG&E's 2021 expense level is the highest over the 5-year period and captures recent increases in activities and costs (compared to the years 2017-2019 when the costs decreased each year).[1309]

[1306] Ex. CA-14-E at 63-65.

[1307] *Ibid.*

[1308] *Ibid.*

[1309] *Ibid.*

Cal Advocates' recommendation using SDG&E's 2021 recorded expenses of $2.259 million as a basis to establish the LTD expenses level in TY 2024 is reasonable and should be adopted.

33.2.10 SDG&E Diversity and Inclusion - O&M

SDG&E requests $946,000 for TY 2024 Diversity and Inclusion O&M expenses.[1310] SDG&E's Diversity & Inclusion department is responsible for developing and directing Company-wide strategic business objectives to increase representation and advance a culture of inclusion and belonging.[1311]

Cal Advocates recommends $485,000 for SDG&E's Diversity and Inclusion O&M expenses, which is $461,000 less than SDG&E's forecast.[1312]

Cal Advocates makes this downward adjustment because SDG&E's recorded expenses remained flat for four consecutive years between 2017 through 2020, averaging $163,000 and increased by $324,000 in 2021 from $161,000 in 2020. SDG&E has not provided verifiable, line-item detail that demonstrates the specific activities associated with the requested increase over 2021 recorded expenses of $485,000. SDG&E also failed to provide any supporting documentation that can verity its TY 2024 request of $946,000. Cal Advocates' recommendation using 2021 adjusted recorded data is reasonable.[1313]

33.2.11 SDG&E Diversity and Workforce Management - O&M

SDG&E requests $3.057 million for TY 2024 Diversity and Workforce Management O&M expenses.[1314] SDG&E's Diversity and Workforce Management department is responsible for employee-related functions, such as Staffing & Workforce

[1310] Ex. SDG&E-32 at AGT 35.

[1311] *Ibid.*

[1312] Ex. CA-14-E at 65-67.

[1313] *Ibid.*

[1314] Ex. SDG&E-32 at AGT 21.

Readiness, Staffing Operations, Compliance & Human Resource Information Systems (HRIS) and Relocations.[1315]

Cal Advocates recommends $2.608 million for SDG&E's Diversity and Workforce Management O&M expenses, which is $449,000 less than SDG&E's forecast.[1316]

Cal Advocates makes this downward adjustment because SDG&E's historical Labor expenses fluctuated over the five years (2017-2021). Non-Labor costs remained at a low level for three consecutive years between 2017 through 2019, averaging $680,000. SDG&E's expenses increased by $701,000 in 2020 over 2019 from $416,000 to $1.117 million, before decreasing by $211,000 in 2021. SDG&E has not provided verifiable, line-item detail that demonstrates the specific activities associated with the requested increase over 2021 recorded expenses of $449,000.[1317] In its rebuttal, SDG&E asserts that SDG&E saw an increase in relocation costs, but the relocation cost data SDG&E provided in response to Cal Advocates data request all shows continuous decrease from 2020 to 2022.[1318]

Cal Advocates recommendation using SDG&E's 2021 recorded expenses of $2.608 million is reasonable.

33.2.12 SDG&E Organizational Effectiveness - O&M

SDG&E requests $2.427 million for TY 2024 Organizational Effectiveness O&M expenses. SDG&E's Organization Effectiveness department is responsible for providing organization development programs and services for SDG&E.[1319]

Cal Advocates recommends $1.819 million for SDG&E's Organizational Effectiveness O&M expenses, which is $608,000 less than SDG&E's forecast.[1320]

[1315] Ex. SDGE-32, at AGT-21.

[1316] Ex. CA-14-E at 67-68.

[1317] *Ibid.*

[1318] Ex. SDG&E-232 at AGT-18.

[1319] Ex. SDGE-32 at AGT-25.

[1320] Ex. CA-14-E at 68-70.

Cal Advocates makes this downward adjustment because SDG&E's incremental request of 33% over 2021 recorded adjusted expense is not justified. SDG&E's adjusted recorded expenses decreased between 2017 and 2021, from $2.103 million in 2017 to $1.819 million in 2021. Cal Advocates requested that SDG&E provide documentation to support its $2.43 million expense forecasts for TY 2024. SDG&E objected to Cal Advocates' request and did not provide the documentation. SDG&E also fails to provide documentation that explains and demonstrates specifically why SDG&E's current staffing level cannot support the anticipated increase in program activities.[1321]

SDG&E is including $80,370 in TY 2024 forecast for expenses for two projects, Human Performance (Just Culture) Program and Working Foreman Leadership Training Program. These projects have already authorized a total of $230,000 in expenses in the 2019 GRC. SDG&E confirms that the Organizational Effectiveness Department had two projects named Human Performance (Just Culture) Program and Working Foreman Leadership Training Program in the 2019 GRC that were deferred. SDG&E's ratepayers should not be required to provide funding a second time for the same or similar projects that were authorized in SDG&E's last GRC simply because SDG&E decided to delay the projects. SDG&E did not incur any expenses from 2019 to 2021 for these projects. SDG&E did not provide documentation demonstrating that its 2021 recorded adjusted expenses are insufficient to address its TY 2024 activities for Organizational Effectiveness activities.[1322]

Cal Advocates' TY 2024 forecast of $1.819 million for Organizational Effectiveness activities using SDG&E's 2021 adjusted recorded expense is reasonable.

34 ADMINISTRATIVE AND GENERAL

34.1 SCG Administrative and General

SCG's Administration and General activities include accounting, financial and business planning, regulatory support and analysis, case management, legal, business

[1321] *Ibid.*

[1322] *Ibid.*

strategy and energy policy, community relations and communications. SCG states that these functions are necessary in order to attend to its customers, maintain its internal controls, support internal clients and external stakeholders, and meet accounting/regulatory/legal requirements.[1323]

34.1.1 SCG Administrative and General Area and Franchise Fees – O&M

SCG requests recovery for Test-Year 2024 (TY 2024) forecasts administrative and general area and franchise fees O&M costs for total shared services of $5.946 million.[1324]

Cal Advocates does not oppose SCG's request.[1325]

34.1.2 SCG Controller/Chief Financial - O&M

SCG requests recovery of $632,000 for non-labor and labor expenses for its Controller/Chief Financial O&M.

Cal Advocates does not oppose SCG's request.[1326]

34.1.3 SCG Claims Payment & Recovery (Legal) - O&M

SCG requests $8.467 million recovery for TY 2024 Non-Shared O&M expenses for Administrative and General Department-Claims Payment & Recovery (Legal).[1327] SCG's Claims Management department is responsible for investigating claims and related activities and conducts loss control and prevention activities.[1328]

Cal Advocates recommends $6.527 million, a downward adjustment of $1.940 million because SCG's historical data shows continuous decrease in expenses and SCG failed to provide support for the requested increase in its TY forecast.[1329]

SCG did not provide any documentation that explained the continuous decrease or

[1323] Ex. SCG-29-R-E at SPM 1.

[1324] Ex. SCG-29-R-E at SPM-2.

[1325] Ex. CA-14-E at 10.

[1326] Ex. CA-14-E at 34.

[1327] Ex. SCG-29-R-E-WP-R at 61.

[1328] Ex. SCG-29-R-E at SPM-26.

[1329] Ex. CA-14-E at 38.

any data that identified the line-item detail associated with the decrease in expenses from $15.317 million in 2018 to $2.793 million in 2020. SCG also did not provide documentation that explained or identified the activities associated with the increase in expenses from $2.793 million in 2020 to $5.650 million in 2021. SCG asserts that the nature, unpredictability, and volatility of events that could occur that would cause the Company to incur additional unanticipated costs but failed to provide documentation Cal Advocates requested to verify its assertion. SCG did not provide documentation to justify its request for incremental funding of 50% over 2021 recorded expenses in the TY for its non-labor expenses.[1330] SCG has the burden of proof in a GRC to support its request as reasonable.

It should also be noted that SCG claims that it used 5-year average methodology in 2019 GRC, but Cal Advocates recommendation is to use 3-year average methodology in this GRC. As mentioned in Cal Advocates report, SCG's five-year adjusted average method includes 2018 data which is the highest recorded data over a 10-year period and thus alone inflates its TY 2024 forecast.[1331]

Cal Advocates recommends $6.527 million for SCG's Claims Payments and Recovery O&M expenses for TY 2024.[1332]

34.1.4 SCG Accounting Research & Business Controls - O&M

SCG requests recovery of $509,000 for TY 2024 Accounting Research &Business Controls O&M expenses.[1333]

Cal Advocates does not oppose SCG's request.[1334]

34.1.5 SCG Accounting Operations - O&M

SCG requests recovery of $4.839 million for TY 2024 Accounting Operations

[1330] *Ibid.*

[1331] *Ibid.*

[1332] Ex. CA-14-E at 34.

[1333] Ex. SCG-29-R-E-WP-R at 23.

[1334] Ex. CA-14-E at 34.

O&M expenses.[1335]

Cal Advocates does not oppose SCG's request.[1336]

34.1.6 SCG Financial Systems and Innovation - O&M

SCG's requests $1.282 million for TY 2024 Financial Systems and Innovation O&M expenses.[1337]

Cal Advocates does not oppose SCG's request.[1338]

34.1.7 SCG Legal - O&M

SCG's requests $8.744 million for TY 2024Legal O&M Expenses.[1339]

Cal Advocates does not oppose SCG's request.[1340]

34.1.8 SCG Finance - O&M

SCG requests $2.247 million for TY 2024 Finance O&M expenses.[1341]

Cal Advocates does not oppose SCG's request.[1342]

34.1.9 SCG Regulatory Tariffs and Info - O&M

SCG requests $1.016 million for TY 2024 Regulatory Tariffs and Info O&M Expenses.[1343]

Cal Advocates does not oppose SCG's request.[1344]

34.1.10 SCG Financial and Operational Planning - O&M

SCG requests $5.936 million for TY 2024 Financial and Operational Planning O&M expenses.[1345]

1335 Ex. SCG-29-R-E- WP-R at 10.

1336 Ex. CA-14-E at 34.

1337 Ex. SCG-29-R-E- WP-R at 17.

1338 Ex. CA-14-E at 34.

1339 Ex. SCG-29-R-WP-R at 84.

1340 Ex. CA-14-E at 34.

1341 Ex. SCG-29-R-WP-R at 35.

1342 Ex. CA-14-E at 34.

1343 Ex. SCG-29-R-E-WP-R at 78.

1344 Ex. CA-14-E at 34.

1345 Ex. SCG-29-R-E-WP-R at 35.

Cal Advocates does not oppose SCG's request.[1346]

34.1.11 SCG Business Strategy and Energy Policy - O&M

SCG requests $4.869 million TY 2024 Business Strategy and Energy Policy O&M expenses.[1347] SCG's Business Strategy and Energy Policy department is responsible for policy and legislative analysis, decarbonization planning, engagement and outreach related to existing and proposed state and federal policies.[1348]

Cal Advocates recommends $3.377 million for this request.[1349, 1350]

Cal Advocates makes $1.492 million downward adjustment because SCG did not provide any documentation and line-item details to support this request.[1351] For labor expense, SCG did not provide any verifiable or traceable documentation that could justify or demonstrate its need for additional full-time employees (FTEs) in its TY forecast.[1352] For non-labor expense, SCG states.

> Cal Advocates' proposed reduction in non-labor to $0.590 million fails to acknowledge the fact that SoCalGas's ~$0.700 million increase to $1.133 million request is attributable to incremental consulting services related to the Gas System Planning Order Instituting Rulemaking (OIR) (Rulemaking 20-01-007) proceedings.[1353]

Cal Advocates disagrees with SCG's assertion. Note that SCG did not provide any of the supporting documentation Cal Advocates requested that could verify both its labor and non-labor expense forecasts.[1354]

1346 Ex. CA-14-E at 34.

1347 Ex. SCG-29-R-E-WP-R at 67.

1348 Ex. SCG-29-R-E, at SPM-28.

1349 Ex. CA-14-E at 34.

1350 Ex. CEJA also recommended a $1.993 million downward adjustment for this BSEP category in SCG's rebuttal testimony at SPM-5.

1351 Ex. CA-14-E at 36.

1352 Ex. CA-14-E at 37.

1353 Ex. CA-14-E at 34.

1354 Ex. SCG's response to Cal Advocates data request PubAdv-SCG-RA6-092, Q.1j.

Furthermore, Cal Advocates' recommendation is higher than SCG's 2020 and 2021 expense level for this category, and SCG's recorded cost data exhibit fluctuations between 2017 and 2021. SCG did not provide any documentation showing the increase or decrease in expenses between 2017 and 2021.[1355] SCG has the burden of proof in a GRC to support its request as reasonable.

34.1.12 SCG Innovation Support - O&M

SCG requests $309,000 for its Innovation Support O&M expenses.[1356]

Cal Advocates does not oppose SCG's request.[1357]

34.2 SDG&E Administrative and General

SDG&E's Administrative and General divisions are responsible for the Company's accounting, financial planning and analysis, legal and claims, regulatory analysis and case management, and community relations functions. These functions are necessary to support the electric and natural gas operational activities that serve its customers and other key external stakeholders. A&G costs consist primarily of labor costs for full-time equivalents (FTEs), associated non-labor costs, and the payment of third-party claims against the Company.

The total costs of these divisions include both shared and non-shared service costs. Certain departments and groups within these divisions are considered shared service functions in which services are performed by SDG&E on behalf of Southern California Gas Company (SCG) and Sempra Energy Corporate Center (Sempra or Corporate Center).[1358]

34.2.1 SDG&E Administrative and General Shared - O&M

SDG&E requests $11.769 million for TY 2024 Administrative and General Department Shared O&M expenses.[1359]

[1355] *Ibid.*

[1356] Ex. SCG-29-R-E-WP-R at 5.

[1357] Ex. CA-14-E at 34.

[1358] Ex. SDG&E-33-R at RA-1.

[1359] Ex. SDG&E-33-Rat RA-2.

Cal Advocates does not oppose SDG&E's request.[1360]

34.2.2 SDG&E Financial and Business Planning - O&M

SDG&E requests $6.373 million for TY 2024 Financial and Business Planning O&M expenses.[1361] SDG&E states that its Financial and Business Planning department costs are primarily labor driven and fluctuate.[1362]

Cal Advocates recommends $5.881 million for SDG&E's Financial and Business Planning O&M expenses, which is $492,000 less than SDG&E's forecast. Cal Advocates' recommendation utilized 2021 recorded adjusted expenses for Financial and Business Planning expenses.[1363]

Cal Advocates makes this downward adjustment because SDG&E has not adequately supported or justified its TY forecast and the requested increase in expense relative to historical expenses.[1364]

SDG&E did not provide documentation demonstrating that its 2021 recorded adjusted expenses were insufficient to address its TY 2024 activities for its Financial and Business Planning activities. SDG&E's recorded adjusted expenses increased between 2017-2019, averaging $4.355 million in the three-year period. SDG&E's recorded expenses increased from $4.914 million in 2019 to $6.027 million in 2020, and further decreased to from $6.027 million in 2020 to $5.882 million in 2021. SDG&E did not provide documentation that identified the line-item detail associated with the $1.123 million increase from 2019 to 2020 and the $0.155 million decrease from 2020 to 2021.[1365]

SDG&E states that "the charging methodology" for this department changed from allocating a portion of the Administrative and General (A&G) costs directly to capital

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1360 Ex. CA-14-E at 42.

1361 Ex. SDGE-33-Rat RA-16.

1362 *Ibid.*

1363 Ex. CA-14-E at 73-76.

1364 *Ibid.*

1365 *Ibid.*

projects to all costs being charged to A&G with capital allocations done indirectly.[1366]

Cal Advocates requested that SDG&E identify whether any activities related to the change in charging methodology caused the increases in recorded expenses for years 2017-2020 and decreases in 2021. The change in charging methodology did not have an overall impact on SDG&E's total recorded expenses. The year-over-year fluctuations were due to changes in FTEs related to vacancies. SDG&E performed no new activities in 2019-2021 and confirmed that there are no new activities planned or forecasted for TY 2024.[1367]

SDG&E failed to provide any documentation to explain why SDG&E's current staffing level cannot support the anticipated increase in program activities in the TY 2024, despite Cal Advocates request. SDG&E also failed to provide documentation that demonstrates the line-item detail that supports the $6.0 million for 2022, $6.1 million for 2023, and $6.4 11 million for TY 2024 for expenses associated with the Financial & Business Planning category in the Administrative and General Department.[1368]

Cal Advocates' recommendation of $5.881 million for Financial and Business Planning Department is reasonable.

34.2.3 SDG&E Administrative and General Department Community Relations - O&M

SDG&E requests $296,000 for TY 2024 Administrative and General Department Community Relations O&M expenses.[1369]

Cal Advocates does not oppose SDG&E's request.[1370]

34.2.4 SDG&E Administrative and General Department General Counsel - O&M

SDG&E requests of $10.541 million for TY 2024 Administrative and General

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[1366] *Ibid.*

[1367] *Ibid.*

[1368] *Ibid.*

[1369] Ex. SDG&E-33-WP-R at 76.

[1370] Ex. CA-14-E at 72.

Department General Counsel O&M expenses.[1371]

Cal Advocates does not oppose SDG&E's request.[1372]

34.2.5 SDG&E Administrative and General Department Claims Payments and Recovery - O&M

SDG&E requests $3.712 million for TY 2024 Administrative and General Department Claims Payments and Recovery O&M expenses.[1373]

Cal Advocates does not oppose SDG&E's request.[1374]

34.2.6 SDG&E Administrative and General Asset & Project Accounting (A&PA) - Plant Accounting and Financial & Ratebase Services - O&M

SDG&E requests $2.453 million for TY 2024 Administrative and General Asset & Project Accounting (A&PA) - Plant Accounting and Financial & Ratebase Services O&M expenses.[1375]

Cal Advocates does not oppose SDG&E's request.[1376]

34.2.7 SDG&E Administrative and General Department Policy & Proceedings - Tariffs and Compliance and Strategic Planning - O&M

SDG&E' requests $1.908 million for TY 2024Administrative and General Department Policy & Proceedings - Tariffs and Compliance and Strategic Planning O&M expenses.[1377]

Cal Advocates does not oppose SDG&E's request.[1378]

34.2.8 SDG&E Administrative and General Regulatory Reporting and Regulatory Accounts - O&M

SDG&E requests $1.573 million for TY 2024 Administrative and General

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[1371] Ex. SDG&E-33-WP-R at 44.

[1372] Ex. CA-14-E at 72.

[1373] Ex. SDG&E-33-WP-R at 61.

[1374] Ex. CA-14-E at 72.

[1375] Ex. SDG&E-33-WP-R at 11.

[1376] Ex. CA-14-E at 72.

[1377] Ex. SDG&E-33-WP-R at 68.

[1378] Ex. CA-14-E at 72.

Regulatory Reporting and Regulatory Accounts O&M expenses.[1379] Cal Advocates does not oppose this request.[1380]

34.2.9 SDG&E Administrative and General Department Claim- O&M

SDG&E requests $1.259 million for TY 2024 Administrative and General Department Claim O&M expenses.[1381] Cal Advocates does not oppose this request.[1382]

34.2.10 SDG&E Administrative and General Business Billable Project Accounting & Sundry Services (BPA & SS) - O&M

SDG&E requests $859,000 for TY 2024 Administrative and General Business Billable Project Accounting & Sundry Services (BPA & SS) O&M expenses.[1383] Cal Advocates does not oppose this request.[1384]

34.2.11 SDG&E Administrative and General Business Innovations and Financial Systems Client Support - O&M

SDG&E requests $724,000 for TY 2024 Administrative and General Business Innovations and Financial Systems Client Support O&M expenses.[1385] Cal Advocates does not oppose this request.[1386]

34.2.12 SDG&E Administrative and General VP Controller & CAO - O&M

SDG&E requests $419,000 for TY 2024 Administrative and General VP Controller & CAO O&M expenses.[1387] Cal Advocates does not oppose this

[1379] Ex. SDG&E-33-WP-R at 23.

[1380] Ex. CA-14-E at 72.

[1381] Ex. SG&E-33-WP-R at 55.

[1382] Ex. CA-14-E at 72.

[1383] Ex. SDG&E-33-WP-R at 18.

[1384] Ex. CA-14-E at 72.

[1385] Ex. SDG&E-33-WP-R at 36.

[1386] Ex. CA-14-E at 72.

[1387] Ex. SDG&E-33-WP-R at 5.

request.[1388]

35 SHARED SERVICES BILLING, SHARED ASSETS BILLING, SEGMENTATION & CAPITAL REASSIGNMENTS

35.1 Shared Service Billing

SCG and SDG&E state that they have the same practice for shared services billing. Pursuant to this practice, which complies with D.97-12-088, shared services costs that are incurred by one utility on behalf of the other utility, and/or on behalf of Sempra Energy or any of its unregulated subsidiaries, are allocated and billed to those companies receiving services.[1389] The purpose of the practice is to ensure ratepayers of the utility providing a shared service do not subsidize the costs incurred that support the other utility or any Sempra affiliate.[1390]

Cal Advocates reviewed the combined SCG/SDG&E testimony and workpapers, interviewed the utilities' witness, and conducted discovery.[1391] Cal Advocates does not oppose SCG/SDG&E's shared service billing process and allocation of shared service costs.[1392] Cal Advocates' recommendations for SCG and SDG&E Shared Services Expenses for TY 2024 differ slightly from SCG and SDG&E's forecast, reflecting the summation of Cal Advocates' different expense and capital witnesses,[1393] as shown in the tables below.

[1388] Ex. CA-14-E at 72.

[1389] Ex. CA-15 at 5; D.97-12-088.

[1390] Ex. SCG-30-R/SDG&E-34-R at ANL/PDM-3.

[1391] Ex. CA-15 at 5.

[1392] Ex. CA-15 at 5.

[1393] Ex. CA-15 at 5-7, Table 15-21 and Table 15-22.

Table 35-1
SoCalGas Shared Services Expenses for Test Year 2024
(in thousands ($000))

Description	Cal Advocate Recommended	SoCalGas Forecast	Amount SoCalGas > Cal Advocate
100% Level Summary (prior to overhead loading)			
100% Level Forecast	114,913	117,462	2,549
Allocation-out Costs	20,680	20,927	247
Retained Costs	94,233	96,534	2,301
Allocation-in Costs	53,056	55,308	2,252
Book Expense	147,289	151,842	4,553
Allocation-Out Summary, Fully-Loaded including Overheads			
Allocation-out to SDG&E	35,350	35,846	496
Allocation-out to Corporate Center	1,271	1,289	18
Allocation-out to Unregulated Affiliates	-	2	2
Retained Summary, Allocation In			
Retained Costs	94,233	96,534	2,301
Allocation-in (fully loaded) costs	79,726	82,970	3,244
Overhead Credit	(15,020)	(15,252)	(232)
Net Shared Services O&M	158,939	164,252	5,313

Table 35-2
SDG&E Shared Services Expenses for Test Year 2024
(in thousands ($000))

Description	Cal Advocate Recommended	SDG&E Forecast	Amount SDG&E > Cal Advocate
100% Level Summary (prior to overhead loading)			
100% Level Forecast	138,318	142,852	4,534
Allocation-out Costs	58,575	61,072	2,497
Retained Costs	79,743	81,780	2,037
Allocation-in Costs	19,903	20,150	247
Book Expense	99,646	101,930	2,284
Allocation-Out Summary, Fully-Loaded including Overheads			
Allocation-out to SoCalGas	76,778	79,953	3,175
Allocation-out to Corporate Center	6,044	6,294	250
Allocation-out to Unregulated Affiliates	2,317	2,413	96
Retained Summary, Allocation In			
Retained Costs	79,743	81,780	2,037
Allocation-in (fully loaded) costs	37,910	38,466	556
Overhead Credit	(24,834)	(25,828)	(994)
Net Shared Services O&M	92,819	94,419	1,600

35.2 Shared Assets Billing

SCG and SDG&E state that shared assets are assets that are on the financial records of one utility, but are also used by other Sempra Energy affiliates.[1394] For SDG&E, this applies to assets owned and used by SDG&E, which are also used by SCG, Corporate Center, and/or other Sempra Energy affiliates.[1395] Assets that can be identified, quantified, valued, and exclusively used by one entity are not considered a shared asset; assets that will be used by both SCG and SDG&E, (e.g., software applications), will be considered shared assets.[1396] Shared assets are recorded on the financial records of the utility that receives the most service or use from the asset.[1397] The utility that owns the shared asset bills the other Sempra Energy affiliates using allocation percentages, which

[1394] Ex. SCG-30-R/SDG&E-34-R at ANL/PDM-16.

[1395] Ex. SCG-30-R/SDG&E-34-R at ANL/PDM-16.

[1396] Ex. SCG-30-R/SDG&E-34-R at ANL/PDM-16.

[1397] Ex. SCG-30-R/SDG&E-34-R at ANL/PDM-16.

are based on utilization factors that reflect the usage levels of the asset by the other Sempra Energy affiliates and vary depending on the asset.[1398]

SCG and SDG&E state that shared assets consist primarily of facilities, computer hardware and software, and communication assets such as telecommunication infrastructure, and charge other Affiliates for the use of these assets by developing a capital revenue requirement.[1399] This revenue requirement is retained by SCG or SDG&E, and/or billed to other Affiliates according to the particular allocation methodology chosen for each asset to distribute the costs.[1400]

When developing the revenue requirement, the shared assets are put into asset categories.[1401] For each asset category, an annual weighted-average rate base is calculated.[1402] A return on rate base, state, and federal income taxes, estimated depreciation expense, and property taxes are derived from that information, resulting in a total revenue requirement.[1403] Once the billable charge (i.e., revenue requirement) for the asset categories are determined, they are apportioned to the appropriate Affiliates using the allocation percentages.[1404] The allocation percentages are based on utilization factors developed specifically for each forecasted project by the sponsoring witness. The allocation percentages have been weighed by the net book value or estimated project costs to develop composite allocation percentages for the asset classes in the RO.[1405] These percentages are used to determine the amounts to be charged to the appropriate Affiliates.[1406]

[1398] Ex. CA-15 at 8; Ex. SCG-30-R/SDG&E-34-R at ANL/PDM-16.

[1399] Ex. CA-15 at 8.

[1400] Ex. SCG-30-R/SDG&E-34-R at ANL/PDM-17.

[1401] Ex. SCG-30-R/SDG&E-34-R at ANL/PDM-17.

[1402] Ex. CA-15 at 9.

[1403] Ex. SCG-30-R/SDG&E-34-R at ANL/PDM-18.

[1404] Ex. CA-15 at 9.

[1405] Ex. CA-15 at 9.

[1406] Ex. SCG-30-R/SDG&E-34-R at ANL/PDM-18.

Cal Advocates reviewed the combined SCG/SGD&E testimony and workpapers, interviewed the utilities' witness, and conducted discovery.[1407] Cal Advocates does not oppose SCG/SDG&E's shared asset billing process or the allocation of shared asset costs.[1408] Cal Advocates' recommendations for SCG and SDG&E Shared Asset Expenses for TY 2024 differ slightly from SCG and SDG&E's forecast, reflecting the summation of Cal Advocates' different expense and capital witnesses' recommendations,[1409] as shown in the tables below.

Table 35-3
SoCalGas Shared Asset Rate Base for Test Year 2024
(in thousands ($000))

	Cal Advocate Shared Asset Rate Base Recommendation				SoCalGas Shared Asset Rate Base Forecast			
	Weighted Average Rate Base	Total Billable Charges	Retained	Billed Out	Weighted Average Rate Base	Total Billable Charges	Retained	Billed Out
Structures & Improvements	4,439	3,304	3,076	228	51,402	10,403	9,684	719
Computer Hardware	57,469	42,231	23,767	18,463	58,987	42,895	24,141	18,754
Computer Software	341,383	124,354	82,580	41,774	418,091	147,013	97,708	49,304
Communications	19,992	7,624	6,314	1,311	20,052	7,688	6,367	1,322
Miscellaneous	223	25	16	9	223	26	16	10
Total	423,506	177,538	115,753	61,785	548,755	208,025	137,916	70,109

[1407] Ex. CA-15 at 9.

[1408] Ex. CA-15 at 9.

[1409] Ex. CA-15 at 9-11, Table 15-23 and Table 15-24.

Table 35-4
SDG&E Shared Asset Rate Base for Test Year 2024
(in thousands ($000))

	Cal Advocate Shared Asset Rate Base Recommendation				SDG&E Shared Asset Rate Base Forecast			
	Weighted Average Rate Base	Total Billable Charges	Retained	Billed Out	Weighted Average Rate Base	Total Billable Charges	Retained	Billed Out
Land	1,145	137	64	72	1,145	142	67	75
Structures & Improvements	132,472	26,992	21,159	5,833	133,482	27,764	21,694	5,980
Computer Hardware	25,843	15,663	9,608	6,055	25,874	15,808	9,696	6,112
Computer Software 5- Years	46,584	22,915	16,272	6,643	46,475	23,113	16,413	6,700
Communications	406	230	170	59	406	232	172	60
Electric Communications	(429)	98	37	61	(429)	96	36	60
Total	206,021	66,035	47,310	18,723	205,953	67,065	48,078	18,987

35.3 Segmentation and Capital Reassignments

35.3.1 Business Segmentation Allocation (SDG&E Only)

SDG&E states that the Federal Energy Regulatory Commission (FERC) account series of Clearing Accounts, Customer Accounts, Customer Service and Information, and A&G accounts, that are specifically related to the Electric Department, or the Gas Department, are directly assigned to the appropriate department.[1410] General expenses that are not directly chargeable to those departments are common costs that must be allocated between the three operating functions (Electric, Electric Generation, and Gas) for ratesetting purposes.[1411]

Cal Advocates reviewed SDG&E's testimony and workpapers and does not oppose the allocation of common costs between Electric, Electric Generation, and Gas Departments or SDG&E common expense segmentation rates.[1412]

[1410] Ex. CA-15 at 12.

[1411] Ex. SCG-30-R/SDG&E-34-R at ANL/PDM-23.

[1412] Ex. CA-15 at 12.

35.3.2 Reassignment to Capital

SCG and SDG&E state that they charge most of their operating costs directly to either capital or Operations and Maintenance (O&M).[1413] However, some of the Administrative and General (A&G) expenses, labor overheads (e.g. pension and benefits, injuries, and damages), and clearing account costs support construction efforts and are therefore reassigned to capital.[1414]

The SCG O&M reassignment to capital for expenses being transferred to construction projects is approximately $251,118,000.[1415] After SDG&E determines the portion of costs associated with Electric, Electric Generation, and Gas Services, it begins the capital process, which was developed based on 2021 Base Year data.[1416] SDG&E states that for TY 2024, the SDG&E O&M reassignment to capital for the Electric Department is a credit of approximately $181.856 million, the Electric Generation Department is a credit of $6.452 million, and the Gas Department is a credit of approximately $53.964 million.[1417] O&M reassignment for each business segment represents the amount of expenses transferred to construction projects.[1418]

Cal Advocates reviewed SCG's and SDG&E's testimony and workpapers and does not oppose the reassignment of certain costs to capital.[1419] Cal Advocates does not oppose categories of costs that are subject to capitalization via a reassignment A&G, labor, and overhead, or clearing accounts.[1420] Cal Advocates recommends $210,060,000 for SCG and $192,026,000 for SDG&E for Reassignment to Capital for TY 2024.[1421] Cal Advocates' recommendations for SCG and SDG&E Reassignment to Capital for TY

[1413] Ex. SCG-30-R/SDG&E-34-R at ANL/PDM-27.

[1414] Ex. CA-15 at 12.

[1415] Ex. SCG-30-R/SDG&E-34-R at ANL/PDM-28.

[1416] Ex. SCG-30-R/SDG&E-34-R at ANL/PDM-27.

[1417] Ex. CA-15 at 13.

[1418] Ex. SCG-30-R/SDG&E-34-R at ANL/PDM-27.

[1419] Ex. CA-15 at 13.

[1420] Ex. CA-15 at 13-14, Tables 15-25 and 15-26; Ex. SCG-30-R/SDG&E-34-R at ANL/PDM-29.

[1421] Ex. CA-15 at 14, Tables 15-27 and 15-28.

2024 differ from SCG and SDG&E's forecast, reflecting the summation of Cal Advocates' different expense and capital recommendations made by other Cal Advocates' witnesses.[1422]

35.3.3 Allocation to Electric Function (SDG&E Only)

SDG&E states that Electric Transmission costs are under the jurisdiction of FERC, and thus the costs allocated to the Electric Transmission are excluded from this GRC.[1423] SDG&E uses an allocation method based on labor charges for all O&M accounts other than Account 924.0 titled "Property Insurance Account" and Account 925.5 titled "Wildfire Insurance."[1424] For capital reassignment and Clearing Accounts, SDG&E used 2021 actual data.[1425] SDG&E states that the labor ratio method was adopted by FERC and the CPUC for ratesetting purposes in prior GRCs, and the adoption of this method by SDG&E provides consistency between state and federal regulatory jurisdictions for the allocation of Electric Transmission expenses separate from Electric Department expenses, excluding Electric Generation.[1426]

SDG&E states that for TY 2024, the total O&M amount that is allocated to Electric Transmission Department and excluded from this GRC is approximately $116,798,000.[1427] For TY 2024, the total capital amount that is allocated to the Electric Transmission and excluded from this GRC is approximately $39,239,000.[1428]

Cal Advocates reviewed the testimony and workpapers of SDG&E's Electric Transmission costs to be excluded and does not oppose the O&M and capital costs that have been allocated to Electric Transmission for exclusion from this GRC.[1429]

[1422] Ex. CA-15 at 14-15, Tables 15-27 and 15-28.

[1423] Ex. SCG-30-R/SDG&E-34-R at ANL/PDM-32.

[1424] Ex. CA-15 at 15.

[1425] Ex. SCG-30-R/SDG&E-34-R at ANL/PDM-33.

[1426] Ex. SCG-30-R/SDG&E-34-R at ANL/PDM-33.

[1427] Ex. CA-15 at 16.

[1428] Ex. SCG-30-R/SDG&E-34-R at ANL/PDM-33.

[1429] Ex. CA-15 at 16.

36 RATE BASE

36.1 SoCalGas

36.1.1 Fixed Capital

Fixed Capital is one of the components of Rate Base and is comprised of Plant-in-Service and Work-in-Progress (Non-Interest-Bearing). Plant in Service is based on the projected plant expenditures provided by the utility. Work-in-Progress (Non-interest Bearing) represents project costs of Plant in construction that are not subject to the computation of Allowance for Funds During Construction (AFUDC). SCG requests $24.810 billion for the Plant-in-service component and $1.517 million for the work-in-progress component of the rate base.[1430] Cal Advocates has reviewed these requests and recommends $24.383 billion total for Fixed Capital.[1431] Any differences in forecast where Cal Advocates does not oppose Sempra's methodologies are attributable to Cal Advocates' adjustments in other exhibits.[1432]

36.1.2 Working Capital

Another of the components within Rate Base is Working Capital, which is comprised of Materials and Supplies (M&S) and Working Cash. The purpose of Working Capital is to compensate investors for funds provided by them which are permanently committed to the business for the purpose of paying operating expenses in advance of receipt of offsetting revenues from its customers and in order to maintain minimum bank balances.[1433] In other words, Working Capital is an amount of money contributed by shareholders that are eligible to earn a return funded by ratepayers.[1434] Cal Advocates does not oppose SCG's Working Capital calculation methodology, so any adjustments to the Working Capital total are attributed to recommendations in other sections.[1435]

[1430] Ex. SCG-31-2R at PDM-1, Table SCG-PDM-01.

[1431] Ex. CA-16 at 5.

[1432] Ex. CA-16 at 1.

[1433] Ex. CA-16 at 5.

[1434] Ex. CA-16 at 5.

[1435] Ex. CA-16 at 5.

SCG forecasts $50.319 million in M&S.[1436] M&S represents the cost of purchased materials primarily used as current inventory for construction, operation, maintenance, and contract work.[1437] Future costs of M&S are assumed to change at the projected rate of capital inflation.[1438] Cal Advocates does not oppose this methodology and therefore recommends $50.319 million for M&S.[1439]

SCG forecasts $167.112 million in Working Cash.[1440] For a discussion on SCG's Working Cash proposal, please see section 39.1 of this brief.

36.1.3 Other Deductions

SCG forecasts $254.845 million in Other Deductions,[1441] which include Customer Advances for Construction (CAC), Deferred Revenue, and Repair Reductions. CAC represents refundable cash advances for construction paid by third parties and/or customers; these cash advances are subject to refund when new customers and appliances are added to these lines.[1442] Deferred revenue represents the tax gross-up for Contribution in Aid of Construction (CIAC). The Repair Deductions rate base adjustment represents a reduction to rate base as ordered in D.16-06-054.[1443] Cal Advocates does not oppose these proposals and therefore recommends $255.419 million for Other Deductions.[1444]

36.1.4 Deductions for Reserves

SCG forecasts $11.448 billion in Deductions for Reserves,[1445] which include Accumulated Depreciation Reserve and which represents a weighted average accumulated book depreciation reserve and Accumulated Deferred Taxes for Plant in

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[1436] Ex. SCG-31-2R at PDM-1, Table SCG-PDM-01.

[1437] Ex. CA-16 at 6.

[1438] Ex. CA-16 at 6.

[1439] Ex. CA-16 at 6.

[1440] Ex. SCG-31-2R at PDM-1, Table SCG-PDM-01.

[1441] Ex. SCG-31-2R at PDM-1, Table SCG-PDM-01.

[1442] Ex. CA-16 at 6.

[1443] D.16-06-054 at Ordering Paragraph (OP) 1c.

[1444] Ex. CA-16 at 6.

[1445] Ex. SCG-31-2R at PDM-1, Table SCG-PDM-01.

Service.[1446] Accumulated Deferred Taxes also arise from the tax normalization requirements pursuant to the 2017 Tax Cuts and Jobs Act (TCJA), and from CIAC.[1447] Cal Advocates does not oppose these proposals and therefore recommends $11.394 billion for Deductions for Reserves.[1448]

36.2 SDG&E

36.2.1 Fixed Capital - Electric

Electric Plant in Service represents gross fixed assets used in utility operations with expected economic and physical life greater than one year from the date placed in service.[1449] Electric Plant in Service is comprised of Electric Distribution Plant, Reclassified Transmission Plant to Electric Distribution, Allocated Common Plant to Electric Distribution, Allocated Common Plant to Electric Distribution, Allocated Electric General Plant to Electric Distribution, and Non-Nuclear Generation.[1450] SDG&E forecasts $12.845 billion for Fixed Capital: Plant in Service[1451] whereas Cal Advocates recommends $12.581 billion.[1452] As mentioned previously, any differences in the forecast are attributable to Cal Advocates' adjustments in other exhibits.

36.2.2 Working Capital – Electric

See section 36.1.2 above for an explanation of Working Capital. Cal Advocates does not oppose SDG&Es Working Capital calculation methodology, so any adjustments to the Working Capital Total are attributed to recommendations in other sections.[1453]

SDG&E forecasts $110.367 million in M&S.[1454] M&S includes items that are directly assignable to Electric Generation, Nuclear, and Electric Distribution, as well as

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[1446] Ex. CA-16 at 6.

[1447] Ex. CA-16 at 6.

[1448] Ex. CA-16 at 7.

[1449] Ex. CA-16 at 12.

[1450] Ex. CA-16 at 12.

[1451] Ex. SDG&E-35-R at SPD-7, Table SPD-2 (Electric).

[1452] Ex. CA-16 at 12.

[1453] Ex. CA-16 at 12-13.

[1454] Ex. SDG&E-35-R at SPD-7, Table SPD-2 (Electric).

an allocated portion of General and Common Plant.[1455] The future cost of M&S is assumed to decrease at the projected rate of capital inflation.[1456] Cal Advocates does not oppose this proposal and therefore recommends $110.367 million for M&S.[1457]

SDG&E forecasts $257.189 million in Working Cash.[1458] For a discussion on Working Cash, please see section 39 of this brief.

36.2.3 Fixed Capital: Plant in Service – Gas

Gas Plant in Service represents gross fixed assets used in utility operations with an expected economic and physical life greater than one year from the date placed in service.[1459] Gas Plant in Service is comprised of Gas Distribution Plant and Allocated Common Plant to Distribution. SDG&E forecasts $4.044 billion for Plant in Service.[1460] Cal Advocates recommends $4.011 billion for Fixed Capital: Plant in Service.[1461] As mentioned previously, any differences in forecast are attributable to Cal Advocates' adjustments in other exhibits.

36.2.4 Working Capital – Gas

One of the components within Rate Base is Working Capital, which is comprised of Fuel in Storage, M&S, and Working Cash.[1462] See 36.1.2 above for an explanation of Working Capital. SDG&E proposes $56.631 million for Working Capital.[1463] Cal Advocates recommends $45.423 million for Total Working Capital.[1464] Cal Advocates does not oppose SDG&E's Working Capital calculation methodology, so any

[1455] Ex. CA-16 at 13.

[1456] Ex. SDG&E-35-R at SPD-10.

[1457] Ex. CA-16 at 13.

[1458] Ex. SDG&E-35-R at SPD-7, Table SPD-2 (Electric).

[1459] Ex. CA-16 at 13.

[1460] Ex. SDG&E-35-R at SPD-13, Table SPD-7 (Gas).

[1461] Ex. CA-16 at 13.

[1462] Ex. SDG&E-35-R at SPD-13, Table SPD-7 (Gas).

[1463] Ex. SDG&E-35-R at SPD-13, Table SPD-7 (Gas).

[1464] Ex. CA-16 at 14.

adjustments to the Working Capital total are attributed to recommendations in other sections.

SDG&E forecasts $339,000 for Fuel in Storage, which is computed based online pack volumes in therms, valued at the current weighted average cost of gas.[1465] SDG&E forecasts $110.367 million in M&S.[1466] M&S includes items that are directly assignable to Gas, as well as an allocated portion of Common Plant.[1467] The future costs of M&S are assumed to decrease at the projected rate of capital inflation.[1468] Cal Advocates does not oppose these proposals.[1469]

SDG&E forecasts $44.937 million in Working Cash.[1470] For a discussion on SDG&E's Working Cash proposal, please see section 39.2 of this brief.

37 DEPRECIATION

37.1 Policy Considerations

The current depreciation parameters for SoCalGas and SDG&E should be retained for the test year. Sempra's proposed changes to depreciation parameters will further increase the recorded unrecovered cost of removal balances in depreciation expense for SCG and SDG&E customers.

Utilities are, of course, entitled to recover unrecovered cost of removal in ratemaking as an operating expense and cost of doing business. Over the years, however, the associated rate burden has grown significantly higher, and the cost of removal now represents more than 50% of the recorded unrecovered plant balances. The changes to existing depreciation parameters requested by Sempra will speed up cost recovery and

[1465] Ex. SDG&E-35-R at SPD-15.

[1466] Ex. SDG&E-35-R at SPD-7, Table SPD-2 (Electric).

[1467] Ex. CA-16 at 14.

[1468] Ex. SDG&E-35-R at SPD-16.

[1469] Ex. CA-16 at 14.

[1470] Ex. SDG&E-35-R at SPD-15, Table SPD-9 (Gas).

add to the unrecovered account balance, all of which places an unnecessary and undue additional burden on ratepayers.[1471]

SCG and SDG&E propose to change the depreciation parameters from the rates that were ordered by the Commission in D.19-09-051. The companies claim that because the Commission denied their request to change depreciation parameters in the last GRC, they are behind in recovery of adequate funds to cover expenditures for future costs of removal.[1472] Under the current depreciation parameters, both SCG and SDG&E are collecting more than adequate funds in rates to fund the future cost of removals.[1473]

SCG and SDG&E assert that the net salvage rate changes being proposed in this GRC comply with the Commission's directives on net salvage rates in D.14-08-032 (PG&E) and reiterated in D.15-11-021 and D-19-05-020 (SCE). In these decisions, the Commission adopted a policy of gradualism which limited any increases for TY net salvage rates to a cap of 25% above the current net salvage rates.[1474]

Depreciation studies are essential tools for establishing a base line depreciation parameter, but they should be used in conjunction with other factors such as a comparison between the annual costs of removal being currently collected in rates and how much of those funds are being expended on cost of removal. When the authorized cost of removal (i.e., the funds being collected from ratepayers) consistently and significantly exceeds the amount that is spent, a reevaluation of the justification for the existing rates is indicated. Compounded by other factors, such as the rising cost of energy and rates, rate affordability, inflation, and other economic uncertainties, the companies' requests for any incremental increase to the cost of removal are unreasonable.[1475]

[1471] Ex. CA-17 at 24.

[1472] Ex. SCG-32-2R at DAW-14 to DAW-16.

[1473] Ex. SCG-32-2R at 27-28.

[1474] Ex. SCG-32-2R at 26.

[1475] Ex. SCG-32-2R at 26.

SCG collected more revenues in rates than it spent to pre-fund cost of removal between 2018 and 2021. Specifically, SCG collected in rates approximately 1.06, 0.97, 1.52 and 1.37 times what it spent to fund cost of removal for the years 2018 through 2021. On a four-year average, this means that for every dollar expenditure incurred for cost of removal, SCG collected $1.21 in rates.[1476]

SDG&E collected more revenues in rates than it spent to pre-fund cost of removal between 2018 and 2021. Specifically, SDG&E collected in rates approximately 2.01, 1.82, 1.65 and 1.91 times what it spent on cost of removal for the years 2018 through 2021. On a four-year average, this means that for every dollar expenditure incurred for cost of removal; SDG&E collected $1.84 in rates.[1477]

Standard Practice U-4 provides guidelines for calculating depreciation parameters for service life and net salvage rates but does not provide specific amounts to be considered adequate to fund ongoing and future cost of removal. The determination of net salvage rates should not be based solely on the mathematical calculation described in the Standard Practice U-4. Similarly, Sempra's proposal to apply the Commission policy on gradualism should not be adopted without consideration of other extenuating economic and ratemaking factors.

The realities discussed above support Cal Advocates' recommendation that the proposed changes to negative net salvage by SCG and SDG&E should be denied. Cal Advocates' recommendation to retain current negative net salvage and related depreciation parameters for the test year should be adopted.

37.2 SoCalGas

SCG's forecast for Gas Plant depreciation and amortization expense for TY 2024 is $970.4 million,[1478] compared to an accrual of $730.8 million[1479] under current rates. In

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[1476] Ex. CA-17 at 27, Table 17-13.

[1477] Ex. CA-17 at 28, Table 17-14.

[1478] Ex. SCG-32-2R, Second Revised Prepared Direct Testimony of Dane A. Watson (Depreciation), at DAW-1.

[1479] Ex. SCG-32-2R, Attachment C - Depreciation Rate Study (Depreciation Study), at 2.

support of its request, SCG submitted with its prepared testimony a depreciation study based on plant-in-service balance as of December 31, 2021, that includes new depreciation parameters for service life and net salvage.[1480] SCG asserts that it applied the Commission's policy of gradualism to the net salvage rates being proposed.[1481] The gradualism policy caps forecasted net salvage rates to a maximum increase not to exceed 25% above the currently authorized net salvage rates, regardless of the net salvage rates developed from the depreciation study.[1482]

Most of the cost of removal increases proposed by SCG are related to specific accounts within the following functional asset groupings: Underground Storage Plant, Transmission Plant and Distribution Plant.

37.2.1 Underground Storage Plant

SCG's Underground Storage Plant balance as of December 31, 2021, was $1,680 million, after excluding $5 million for land which is a non-depreciable asset. The accumulated reserve is $213.5 million.[1483] The authorized annual accrual expense for Underground Storage Plant is $61.1 million.[1484] SCG requests $88.2 million for TY 2024.[1485] The largest accounts in this functional group are Accounts 352.00 (Wells) and 353.00 (Lines), each discussed below.

- **Account 352 - Wells**

SCG proposes to retain the current life/curve of 49 R2.5 for this account. Cal Advocates takes no issue with this proposal.[1486]

The current authorized net salvage (cost of removal) for this account is negative 70 percent or -70%. SCG proposes to increase this rate -95%. Cal Advocates disagrees

[1480] Ex. SCG-32-2R, Depreciation Study.

[1481] Ex. SCG-32-2R, Depreciation Study at 16 ("…[the] study follows these directives in the selections for life and net salvage parameters for SoCalGas's depreciable and amortized assets.").

[1482] D.14-08-032 at 598, 600.

[1483] Ex. SCG-32-2R at DAW-17.

[1484] Ex. SCG-32-2R, Depreciation Study at 2.

[1485] Ex. SCG-32-2R at DAW-1.

[1486] Ex. CA-17 at 8.

with the proposed increase and recommends that net salvage for the test year be retained at the current rate of -70%.[1487] Overspending in one category of accounts does not mean the utility is recovering inadequate funds in rates to cover its overall cost of removal obligations. Rather, it highlights the company's flexibility to reallocate funds from one account to the other, depending on where additional financial resources are needed.[1488]

- **Account 353 - Lines**

SCG proposes to change the current approved life/curve of 54 years/R3 to 50 years/R4. The current authorized net salvage for this account is -40%. Although the composite estimate for cost of removal is -80%, SCG proposes to increase this value to -65% based on the Commission's 25% gradualism precedent.[1489]

Cal Advocates takes issue with SCG's proposals. SCG's proposed changes would increase test year depreciation expenses and thus impose an additional cost burden on ratepayers. Given that rates are currently high and increasing, any changes to depreciation parameters that result in increasing test year depreciation expense should be denied. Cal Advocates recommends that the service life and negative salvage rate for this account be retained at current levels.[1490]

37.2.2 Transmission Plant

SCG's Transmission Plant balance as of December 31, 2021, was $4,251 million, excluding $2 million for land which is a non-depreciable asset. The accumulated reserve is $991.6 million.[1491] The authorized annual accrual expense for Transmission Plant is $114.3 million.[1492] SCG requests $157.5 million for TY 2024.[1493] The largest account in this functional asset group is Account 367.00 (Mains), discussed below.

[1487] Ex. SCG-32-2R at DAW-20 to DAW-21.

[1488] Ex. CA-17 at 8-9.

[1489] Ex. SCG-32-2R at DAW-21 to DAW-22.

[1490] Ex. CA-17 at 9.

[1491] Ex. SCG-32-2R at DAW-27.

[1492] Ex. SCG-32-2R, Depreciation Study at 2.

[1493] Ex. SCG-32-2R at DAW-1.

- **Account 367 - Mains**

The current life/curve for this account is 64/R3. SCG proposes to change the life/curve to 70 years and R2 dispersion. The authorized net salvage for this account is -60%, which SCG proposes to change to -85%. According to SCG, the five- and 10-year moving averages are -360% and -373%, respectively. SCG's depreciation study recommends "[b]ased on judgment and Company history" a net salvage rate of -85% in compliance with the Commission's gradualism policy.[1494]

Cal Advocates takes no issue with SCG's proposals to increase the service life of this account from 64 years to 70 years. This is consistent with Cal Advocates' position that given currently high rates, changes to depreciation parameters that result in lowering test year rates should be encouraged. However, Cal Advocates disagrees with SCG's proposal to increase the net salvage rate because it would result in increasing test year rates.[1495]

37.2.3 Distribution Plant

SCG's Distribution Plant balance as of December 31, 2021, is $12,115 million, excluding $30 million for land which is a non-depreciable asset. The accumulated reserve is $5.9 million.[1496] The authorized annual accrual expense for Distribution Plant is $351.4 million.[1497] SCG requests $458.2 million for TY 2024.[1498] The largest accounts in this functional group are Accounts 376 (Mains) and 380 (Services), each discussed below:

- **Account 376 - Mains**

The current life/curve for this account is 68 years and R2.5 dispersion. SCG proposes to retain the 68 years life span for this account. The authorized net salvage for this account is -80%. SCG proposes to change the net salvage rate to -105%. The three-,

[1494] Ex. SCG-32-2R at DAW-30.

[1495] Ex. CA-17 at 10-11.

[1496] Ex. SCG-32-2R at DAW-36.

[1497] Ex. SCG-32-2R, Depreciation Study at 2.

[1498] Ex. SCG-32-2R at DAW-1.

five- and 10-year moving averages are -243%, -251% and -243%, respectively. SCG's depreciation study recommends -105% to comply with Commission policy on gradualism.[1499]

Cal Advocates does not oppose retaining the service life of this account at 68 years but disagrees with changing the net salvage rate to -105%. Cal Advocates recommends that the current net salvage rate -80% be retained for the test year. During the four-year period from 2018 through 2021, SCG underspent its authorized cost of removal amounts for this account by approximately $206 million. But because SCG could reallocate funds to areas where the need for asset removal had the highest priorities, the company's overall revenue requirement needs to fund costs of removal were ultimately fulfilled.[1500]

- **Account 380 - Services**

The current life/curve for this account is 67/R2. SCG proposes to retain the service life for the account at 67 years. The authorized net salvage rate for this account is -115%. SCG proposes to change this rate to -140%. The three-, five- and 10-year moving averages are -181%, -168% and -187%, respectively. SCG's depreciation study recommends -140% based on the amount allowed by Commission policy on gradualism.[1501]

Cal Advocates takes no issue with SCG's proposal to retain the service life of this account at 67 years but disagrees with changing the net salvage rate to -140%. Cal Advocates recommends that the current rate of -115% be retained for the test year. From 2018 through 2021, SCG underspent the authorized cost of removal amounts for this amount by approximately $116 million.[1502]

[1499] Ex. SCG-32-2R at DAW-37 to DAW-38.

[1500] Ex. CA-17 at 12.

[1501] Ex. SCG-32-2R at DAW-39 to DAW-40.

[1502] Ex. CA-17 at 12-13.

37.3 SDG&E

Cal Advocates does not object to SDG&E's one-time proposal to maintain depreciation rates for Electric and Common categories at current levels.[1503] Cal Advocates does not take issue with SDG&E's depreciation proposals for Gas Storage and Gas Transmission.[1504]

37.3.1 Gas Distribution

SDG&E's Gas Distribution Plant balance as of December 31, 2020, was $2.4 billion, excluding $1.5 million for land which is a non-depreciable asset. The accumulated reserve is $899.7 million.[1505]

The authorized annual accrual expense for gas distribution is $58.76 million. SDG&E proposes to increase the annual accrual to $68.63 million for TY 2024.[1506] The largest accounts in this functional group are Account G376.00 (Mains) and Account G380.00 (Services), both discussed below.

- **Account G376 – Mains**

SDG&E proposes to retain the authorized service life at 69 years and to change the net salvage rate from -55% to -80%. According to SDG&E, the three-, five- and 10-year moving averages are -345%, -342% and -242%, respectively.[1507]

Cal Advocates agrees with SDG&E's proposal to retain the service life for this account at 69 years but disagrees with the proposed change to the net salvage rate. Cal Advocates recommends that the current net salvage rate of -55% be retained for the test year. From 2018 through 2021, SDG&E spent less than authorized on cost of removal by approximately $14.7 million. SDG&E receives adequate funding for cost of removal under current rates.[1508]

[1503] Ex. CA-17 at 15.

[1504] Ex. CA-17 at 16-18.

[1505] Ex. SDG&E-36-R, Revised Prepared Direct Testimony of Dane A. Watson (Depreciation), at DAW-63.

[1506] Ex. SDG&E-36-R, Attachment C - Depreciation Rate Study (Depreciation Study), at 2.

[1507] Ex. SDG&E-36-R at DAW-65.

[1508] Ex. CA-17 at 19-20, 22-23.

- **Account G380 - Services**

SDG&E proposes to retain the authorized service life at 65 years and to change the net salvage rate from -70% to -95%. The three-, five- and 10-year moving averages are -324%, -293% and -260%, respectively. Claiming to be consistent with Commission policy on gradualism, SDG&E proposes to move the account to -95%.[1509]

Cal Advocates agrees with SDG&E's proposal to retain the service life for this account at 65 years. Cal Advocates disagrees with the proposed change to the net salvage rate and recommends that it be retained at -70% for the test year. From 2018 through 2021, SDG&E incurred exactly the same amount that was authorized by the Commission for this account. During the same four-year period, collected approximately 1.8 times more in rates than the costs it incurred.[1510]

37.3.2 Gas General Plant

SDG&E's Gas General Plant balance as of December 31, 2020, was $23.9 million. The accumulated reserve was $5.8 million.[1511] The authorized annual accrual expense for Gas General Plant is $1.217 million. SDG&E proposes to increase the annual accrual to $3.468 million.[1512] The largest account in this functional group is Account G394.10 (Portable Tools), discussed below.

- **Account G394.10 - Portable Tools**

SDG&E proposes to shorten the authorized service life from 24 years to 10 years and to retain the net salvage rate at 0 percent.[1513] Changing to the shorter recovery period for the assets means the annual accrual for the account would be more than double the current annual accrual. The authorized cost of removal for this account is $1.032 million. SDG&E proposes to increase this amount to $3.266 million for TY 2024.[1514]

[1509] Ex. SDG&E-36-R at DAW-67 to DAW-68.

[1510] Ex. CA-17 at 22-23.

[1511] Ex. SDG&E-36-R at DAW-74.

[1512] Ex. SDG&E-36-R, Depreciation Study at 2.

[1513] Ex. SDG&E-36-R at DAW-74 to DAW-75.

[1514] Ex. SDG&E-36-R, Depreciation Study, Appendix B - Depreciation Expense Comparison, at 4.

Cal Advocates agrees with the proposal to retain the net salvage rate at 0% but disagrees with the proposal to change the service life from 24 years to 10 years. The proposed $2.234 million[1515] increase for portable tools alone represents approximately 45% of the $4.992 million revenue requirement increase that SDG&E is seeking for depreciation expense for this GRC. Under SDG&E's proposal, the existing accrual rate of 4.21% would more than triple at the proposed accrual rate of 13.31%. SDG&E failed to provide adequate justification for this increase.[1516]

38 TAX

38.1 Payroll

SCG and SDG&E state that payroll taxes were estimated by applying a tax rate on TY 2024 Operations and Maintenance (O&M) and capital labor covered in this Application up to a maximum wage base.[1517] The employer's payroll tax liabilities are as follows: (1) taxes associated with the Federal Insurance Contribution Act (FICA); (2) taxes associated with the Federal Unemployment Tax Act (FUTA); and (3) taxes associated with the California State Unemployment Insurance (SUI).[1518]

SCG and SDG&E state that payroll taxes are a function of taxable wages and applicable tax rates.[1519] The computation of the estimated payroll taxes begins with the 2021 taxable wages stratified into salary increments.[1520] The annual wage base in effect for the year for each type of payroll tax was applied to total wages so that wages up to, but not exceeding the wage base cap were subject to the tax.[1521] Thus, wages up to the salary increment where the annual wage is closest to the wage base cap are subject to the

[1515] Ex. SDG&E-36-R, Depreciation Expense Comparison at 4-5.

[1516] Ex. CA-17 at 21-22.

[1517] Ex. SDG&E-37-R at RGR-1; Ex. SCG-33-2R at RGR-1.

[1518] Ex. CA-15 at 18.

[1519] Ex. SDG&E-37-R at RGR-3; Ex. SCG-33-2R at RGR-3.

[1520] Ex. CA-15 at 18.

[1521] Ex. CA-15 at 18.

tax.[1522] Wages above the wage base cap for any particular type of payroll tax were derived from multiplying the number of employees in each stratum above the cap by the wage base cap.[1523] The resulting taxable wages for each tax type were totaled and the applicable statutory tax rate was then applied to the total taxable wages.[1524] The Medicare portion of the FICA tax is computed without respect to a wage base since all wages are subject to the tax.[1525] A companywide composite tax rate was computed based on total forecasted payroll taxes using the above methodology divided by total forecasted wages.[1526] The composite payroll tax rate for each year was applied to labor dollars applicable to this Application to determine the employer's payroll tax expense.[1527]

Cal Advocates reviewed SCG's and SDG&E's testimony, workpapers, and discovery responses and does not take issue with their payroll tax calculation methodology.[1528] Cal Advocates concurs with the FICA tax rate of 6.2% on the first $142,800 in 2021 and $147,000 in 2022; the Medicare tax rate of 1.45% without limit; and the FUTA tax rate of 0.6% on the first $7,000 paid to each employee, and the SUI tax rate of 1.5% on the first $7,000 paid to each employee.[1529]

38.2 Ad Valorem Taxes

SCG and SDG&E state that ad valorem taxes are a function of the assessed value of property and a tax rate applied to that value.[1530] Property owned and used by public utilities as of January 1st (the lien date) each year is re-assessed to its full market value by the California State Board of Equalization (SBE).[1531] The primary indicator of value

[1522] Ex. CA-15 at 18.
[1523] Ex. CA-15 at 18.
[1524] Ex. CA-15 at 18.
[1525] Ex. CA-15 at 18.
[1526] Ex. CA-15 at 18.
[1527] Ex. SDG&E-37-R at RGR-3; Ex. SCG-33-2R at RGR-3.
[1528] Ex. CA-15 at 19.
[1529] Ex. CA-15 at 19.
[1530] Ex. SDG&E-37-R at RGR-4; Ex. SCG-33-2R at RGR-4.
[1531] Ex. CA-15 at 19.

for regulated public utility property is the Historical Cost Less Depreciation (HCLD) indicator, and a secondary indicator is the Capitalized Earnings Ability (CEA).[1532]

SCG and SDG&E state that HCLD is the primary indicator of value for closely rate-regulated property because it approximates rate base.[1533] HCLD is equal to the estimated cost of property, which is subject to assessment by the SBE, less the accumulated depreciation taken on the property.[1534] Historical costs consist of the original cost of plant balances on the January 1 lien date, plus construction work-in-progress and materials and supplies on hand to operate the plant.[1535] Adjustments are made to add the value of possessory interest held by the utility on government-owned property and to deduct non-taxable licensed motor vehicles, software, leasehold improvements, business inventories, and other property not subject to ad valorem taxes.[1536] The HCLD indicator is adjusted by deducting the accumulated deferred federal income taxes on taxable property.[1537]

SCG and SDG&E state that the CEA, or the income approach to value, is designed to recognize the concept that the value of business property is closely related to its ability to generate income.[1538] The CEA is a secondary indicator of value for public utility property because the income of public utility property is limited by regulation, and comparison to the income stream from similar properties is limited.[1539]

SCG and SDGE state that they filed their property statements with SBE for the 2021 and 2022 lien dates[1540] and that the property statements form the basis of the appraisals to set the value of SCG's and SDG&E's property for the 2021-2022 and 2022-

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[1532] Ex. SDG&E-37-R at RGR-4; Ex. SCG-33-2R at RGR-4.

[1533] Ex. CA-15 at 19.

[1534] Ex. CA-15 at 19.

[1535] Ex. CA-15 at 19.

[1536] Ex. CA-15 at 19.

[1537] Ex. SDG&E-37-R at RGR-4; Ex. SCG-33-2R at RGR-4.

[1538] Ex. SDG&E-37-R at RGR-4; Ex. SCG-33-2R at RGR-4.

[1539] Ex. SDG&E-37-R at RGR-5; Ex. SCG-33-2R at RGR-4.

[1540] Ex. SDG&E-37-R at RGR-5; Ex. SCG-33-2R at RGR-5.

2023 fiscal years.[1541] In correlating the value indicators calculated by the SBE from information contained in the property statement, SBE applied a weighting of 75% to the HCLD indicator and 25% to the CEA indicator to derive the total appraised value of SDG&E's and SCG's unitary property.[1542]

SCG and SDG&E state that SBE has followed the same assessment methodology for several years and consequently, SCG and SDG&E followed this methodology to estimate the assessed value for unitary property and the resulting ad valorem tax expense estimate for TY 2024.[1543] The tax rate used to estimate California ad valorem taxes is the basic statewide tax rate of 1% established under Proposition 13, plus an additional rate component of 0.4080% for SCG and 0.7869% for SDG&E, which is a composite rate derived from dividing taxes paid to local jurisdictions by the total assessed value of property in all voter-approved local assessment districts as allowed under Proposition 13.[1544] The escalation in the rates from 2021-2024 represents the average historical rate of increase in local tax rates over the most recent five-year period.[1545]

Cal Advocates reviewed SCG's and SDG&E's testimony and workpapers and does not oppose their ad valorem tax estimating methodology.[1546]

38.3 Income Taxes

While the mathematical model used to calculate tax expense[1547] is seemingly unequivocal, the underlying accounting conventions, applicable tax rates, and the determination of what constitutes allowable deductions is a function of current federal and state tax law, including new laws expected to affect the test year; regulatory tax policy determined by Commission decisions; and Cal Advocates' recommended tax

[1541] Ex. CA-15 at 20.

[1542] Ex. SDG&E-37-R at RGR-5; Ex. SCG-33-2R at RGR-5.

[1543] Ex. SDG&E-37-R at RGR-5; Ex. SCG-33-2R at RGR-5.

[1544] Ex. CA-15 at 20.

[1545] Ex. SDG&E-37-R at RGR-6; Ex. SCG-33-2R at RGR-5.

[1546] Ex. CA-15 at 21.

[1547] Unless otherwise noted, all discussions apply equally to both federal and state income tax expense.

policy.[1548] Much of existing Commission tax policy was established in Order Instituting Investigation 24 (OII 24), D.84-05-036.[1549] Numerous subsequent decisions adopted a variety of changes in ratemaking tax policy in order to comply with changes in federal and state tax laws.[1550] Therefore, although a mathematical model may be used, there are a number of estimated factors driving income tax expense that require review in order to assess the reasonableness of the utilities' request.[1551]

Cal Advocates also attempts to ensure that the test year's income tax expense estimate reflects the current deduction of expenses in which there is a book/tax timing difference, to the extent possible.[1552] In D. 84-05-036, the Commission stated, "[f]or the present, we will continue our current policy regarding flow-through treatment of timing differences consistent with applicable tax law."[1553] Cal Advocates assumes the Commission will continue to adopt policies which result in the test year tax estimate reflecting, to the extent possible,[1554] the flow-through of forecasted expenditures.

Another important factor is the ratemaking concept of normalization. Its aim is to adjust a utility's operating expenses in the test year by eliminating abnormal, non-annual events that are known and certain to change in a regularly recurring manner.[1555] For example, accelerated depreciation is a tax expense, which is normalized over the life of an asset when computing ratemaking tax expense.[1556] It is known and certain that, toward the end of the asset's life, straight-line (book) depreciation will exceed accelerated tax

[1548] Ex. CA-15 at 21.

[1549] D.84-05-036.

[1550] Ex. CA-15 at 21.

[1551] Ex. CA-15 at 21.

[1552] Ex. CA-15 at 21.

[1553] See D.84-05-036, discussion at Section I, at 32-33a. The Commission did not adopt additional normalization requirements beyond those required for depreciation.

[1554] Cal Advocates' recommended treatment for certain tax deductions and benefits is limited by Income Tax Normalization requirements of the Internal Revenue Code, as well as tax policy established in D.84-05-036. For example, currently, disallowed expenses cannot be used as tax deductions.

[1555] Ex. CA-15 at 22.

[1556] Ex. CA-15 at 22.

depreciation.[1557] However, at the conclusion of the asset's life, the total depreciation charges under both book and tax methods will be equivalent.[1558]

Income tax normalization permits a utility to include as its current ratemaking expense an amount of income tax expense that is higher than what the utility will actually pay.[1559] This is based on the theory that the taxes saved by the accelerated depreciation (taken on the real-world tax returns) are merely deferred.[1560] Utilities generally use accelerated methods of depreciation on their real-world tax returns, while using the straight-line method for book purposes.[1561] Internal Revenue Service (IRS) rules require that utilities use book depreciation rates on all plants purchased or constructed after 1980 when computing regulated tax expense.[1562] To mitigate the effect of normalization, the tax effect of the differences between accelerated and straight-line depreciation is booked to a deferred tax reserve, and the deferred taxes are used to reduce rate base.[1563]

Under current tax law, utilities are required to adopt normalization for depreciation on assets placed in service after 1980.[1564] However, there is no federal tax requirement that normalization be used for other tax timing differences.[1565] In fact, it is the policy of the Commission to flow through non-plant tax timing differences.[1566] Therefore, all federal and state tax timing differences should be flowed through to the ratepayer to the extent allowed by Commission policy as well as federal and state tax law.[1567]

[1557] Ex. CA-15 at 22.

[1558] Ex. CA-15 at 22.

[1559] Ex. CA-15 at 22.

[1560] Ex. CA-15 at 22.

[1561] Ex. CA-15 at 22.

[1562] Ex. CA-15 at 22.

[1563] Ex. CA-15 at 22.

[1564] Ex. CA-15 at 22; 26 U.S.C. § 168; 1981 Cal. PUC LEXIS 1240, D.93849 at 10-12.

[1565] Ex. CA-15 at 22.

[1566] Ex. CA-15 at 22-23.

[1567] Ex. CA-15 at 23.

SCG and SGD&E used the corporate tax rate of 21% for Federal Income Tax purposes (FIT)[1568] and the corporate tax rate of 8.84% for California Corporate Franchise Taxes (CCFT).[1569] SCG and SDG&E state that state income tax expense was computed by reducing operating income by operating expense, including property taxes, payroll taxes, and by making certain permanent and flow through tax adjustments for differences in the book and state tax return treatment of items of income and expense (Schedule M adjustments).[1570] FIT expense was computed by reducing operating income by operating expenses, including property taxes, payroll taxes, prior year state taxes, and by making certain permanent and flow through tax adjustments for differences in the book and federal tax treatment of certain items of income and expense (Schedule M adjustments).[1571]

Cal Advocates reviewed SCG's and SDG&E's income tax adjustments, deductions, and credits as filed and revised and does not take issue with any of those adjustments, deductions and credits.[1572]

38.4 Tax Memorandum Account

SCG and SDG&E state that in their 2016 GRC decision, the Commission directed them to establish a Tax Memorandum Account (TMA) for the 2016 GRC cycle (January 1, 2016 – December 31, 2018).[1573] The TMA is a two-way tracking account that separately tracks the revenue requirement impact of the differences between tax expenses authorized in the GRC and tax expenses incurred resulting from: (1) mandatory tax law changes, tax accounting changes, tax procedural changes, and tax policy changes; (2) elective tax law changes, tax accounting changes, tax procedural changes, and tax policy changes; (3) other net revenue changes caused by tax law changes, tax accounting

[1568] Ex. SDG&E-37-R at RGR-11; Ex. SCG-33-2R at RGR-8.

[1569] Ex. SDG&E-37-R at RGR-11; Ex. SCG-33-2R at RGR-8.

[1570] Ex. SDG&E-37-R at RGR-11; Ex. SCG-33-2R at RGR-8-RGR-9.

[1571] Ex. SDG&E-37-R at RGR-12; Ex. SCG-33-2R at RGR-9.

[1572] Ex. CA-15 at 23.

[1573] Ex. SDG&E-37-R at RGR-31; Ex. SCG-33-2R at RGR-24.

changes, tax procedural changes, and tax policy changes; (4) the completion of audits by federal and state taxing authorities; and (5) the implementation of any IRS private letter ruling regarding compliance with IRS normalization regulations.[1574]

SCG and SDG&E propose to continue the TMA for the TY 2024 GRC cycle, including the post-test year period, under the rules and scope set forth in D.19-09-051 and Advice Letters 3462-E/2820-G and 5546, and that the CPUC continues to review the TMA results in each subsequent GRC cycle.[1575]

Cal Advocates does not oppose SCG's and SDG&E's proposal to continue the TMA for the TY 2024 GRC cycle.

39 WORKING CASH

39.1 SCG

SCG proposes $167.547 million in total Working Cash.[1576] Cal Advocates recommends $118.058 million in Working Cash, as Cal Advocates disagrees with SCG's methodology for its Billing and Bank Lag components of the Working Cash calculations,[1577] as discussed below.

39.1.1 Operational Cash Requirements

SCG requests a total of $165.5 million for its operational cash requirement.[1578] Cal Advocates does not oppose this proposal and Cal Advocates recommends $165.5 million for the operation cash requirement.[1579]

Cash balances are a reasonable bank balance for SCG to operate economically and efficiently. SCG properly excluded Cash Balances from its working cash study pursuant

[1574] Ex. SDG&E-37-R at RGR-32; Ex. SCG-33-2R at RGR-25.

[1575] Ex. SDG&E-37-R at RGR-38; Ex. SCG-33-2R at RGR-29; Decision (D.) 19-09-051, *Decision Addressing the Test Year 2019 General Rate Cases of San Diego Gas & Electric Company and Southern California Gas*, October 1, 2019 at 639-40.

[1576] Ex. SCG-34-2R-E at ANH-8, Table AH-4.

[1577] Ex. CA-16 at 7, Table 16-3.

[1578] Ex. SCG-34-2R-E at ANH-8, Table AH-4.

[1579] Ex. CA-16 at 7.

to D.19-09-051.[1580] Customer Deposits are monies advanced by customers as security for the payment of utility bills. SCG properly excluded Customer Deposits from the working cash determination pursuant to D.19-09-051.[1581]

39.1.2 Revenue Lag

Revenue Lag is the average number of days between the midpoint of all utility customers' monthly service periods and receipt of payment by SCG, customers pay for all categories of service with a single bill, the lead-lag study uses a single value for revenue lag days.[1582] SCG proposes to use a revenue lag of 46.93 days.[1583] Cal Advocates recommends that the Commission adopt a revenue lag of 44.54 days.[1584]

Revenue lag is comprised of four elements: meter reading lag, which is calculated from the midpoint of each month's consumption to when the meter is read; billing lag, which is the time from the date the meter is read until the time the bill is prepared and mailed to the customer; collection lag, which is the average daily accounts receivable turnover; and bank lag, which is the time between the bill being paid and the time the funds are available for use.[1585] Cal Advocates does not take issue with SCG's meter reading lag time or collection lag time, but disagrees with SCG's billing lag time and bank lag time for the reasons explained below.

39.1.3 Billing Lag

SCG proposes to use a Billing Lag of 2.1 days.[1586] Cal Advocates recommends that the Commission adopt a Billing Lag of 0.36 days.[1587] Cal Advocates inquired about the percentage of electronic payments versus non-electronic payments over a three year

[1580] D.19-09-051 at 652-56.

[1581] D.19-09-051 at 661.

[1582] Ex. CA-16 at 8.

[1583] Ex. SCG-34-2R-E at ANH-7, Table AH-3.

[1584] Ex. CA-16 at 8.

[1585] Ex. SCG-34-2R-E at ANH-11-ANH-12.

[1586] Ex. SCG-34-2R-E at ANH-11.

[1587] Ex. CA-16 at 10.

period, and SCG's responses show an increasing trend in electronic payments.[1588] According to SCG's data, electronic payments increased from 65% in 2019 to 72% in 2021, and Cal Advocates projects that this trend will continue in a linear trajectory.[1589] Accordingly, approximately 83% of all payments to SCG in the year 2024 will be made electronically.[1590]

Cal Advocates recommends that SCG's Billing Lag time be reduced by 83% to reflect the increasing utilization of technology to receive and send mail, because if 83% of customers will be making payments electronically in TY 2024, then it is likely that those customers will also receive their bills electronically 83% of the time.[1591] Therefore, Cal Advocates recommends that the Commission adopt a Billing Lag of 0.36 days.

39.1.4 Banking Lag

SCG proposes to use a Bank Lag of 0.8 days.[1592] Cal Advocates recommends that the Commission adopt a Bank Lag of 0.14 days.[1593] Cal Advocates recommends that SCG's Bank Lag time be reduced by 83% to reflect the increasing use of technology to send payments electronically. In other words, if 83% of those funds received during TY 2024 will be in-flowed electronically, there should be a corresponding reduction in Bank Lag time.[1594] Therefore, Cal Advocates recommends that the Commission adopt a Bank Lag of 0.14 days.

39.1.5 Expense Lag

SCG reflects 34.9 lag days for their Average Expense Payment Lag Days.[1595] Cal Advocates has reviewed this proposal and does not oppose it.

[1588] SCG response to data request PubAdv-SCG-BBE-045.

[1589] Ex. CA-16 at 9-10, Figure 16-1.

[1590] Ex. CA-16 at 9.

[1591] Ex. CA-16 at 10.

[1592] Ex. SCG-34-2R-E at ANH-12.

[1593] Ex. CA-16 at 11.

[1594] Ex. CA-16 at 11.

[1595] Ex. SCG-34-WP-2R at 3, Schedule B-1, line 5.

39.2 SDG&E

SDG&E proposes $302.1 million for total Working Cash.[1596] Cal Advocates recommends $250.8 million in Working Cash,[1597] as Cal Advocates disagrees with SCG's methodology for its Billing and Bank Lag components of the Working Cash calculation.

39.2.1 Operational Cash Requirements

SDG&E requests a total of $186.518 million for its operational cash requirement.[1598] Cal Advocates has reviewed this proposal and does not oppose it.[1599]

Cash Balances represents a reasonable bank balance for SDG&E to operate economically and efficiently. SDG&E properly excluded cash balance from its working cash study pursuant to D.019-09-051.[1600] Customer deposits are monies advanced by customers as security for the payment of utility bills. SDG&E properly excluded Customer Deposits from the working cash determination pursuant to D.19-09-051.[1601]

39.2.2 Revenue Lag

SDG&E proposes a revenue lag of 48.6 days.[1602] Cal Advocates recommends that the Commission adopt a revenue lag of 45.51 days.[1603] Revenue lag is comprised of four elements: meter reading lag, billing lag, collection lag, and bank lag. See section 39.1.2 above for explanations of these four elements. Cal Advocates does not take issue with SCG's meter reading lag time or collection lag time.[1604]

- **Billing Lag**

[1596] Ex. SDG&E-38-R-E at JMG-1, Table JG-1.

[1597] Ex. CA-16 at 15, Table 16-4.

[1598] Ex. SDG&E-38-R-E at JMG-1, Table JG-1.

[1599] Ex. CA-16 at 15.

[1600] D.19-09-051 at 652-56.

[1601] D.19-09-051 at 661.

[1602] Ex. SDG&E-38-R-E at JMG-15, Table JG-9.

[1603] Ex. CA-16 at 16.

[1604] Ex. CA-16 at 17.

SDG&E proposes to use a billing lag of 3.4 days.[1605] Cal Advocates recommends that the Commission adopt a billing lag of 0.91 days.[1606] Cal Advocates inquired about the percentage of electronic payments versus non-electronic payments over a four-year period.[1607] SDG&E's responses showed an increasing trend in electronic payments.[1608] According to SDG&E's data, payments received electronically increased from 59% in 2019 to 66% in 2021.[1609] Cal Advocates projects that this trend will continue in a linear trajectory, with approximately 73.3% of all payments to SDG&E in TY 2024 being made electronically.[1610]

If 73.3% of customers will be making payments electronically in TY 2024, then it is likely those customers will receive their bills electronically 73.3% of the time.[1611] Cal Advocates therefore recommends that SDG&E's Billing Lag time be reduced by 73.3% to reflect increasing utilization of technology to receive and send mail, resulting in a recommendation of 0.91 days for Billing Lag.[1612]

- **Bank Lag**

SDG&E proposes to use a bank lag of 0.81 days.[1613] Cal Advocates recommends that the Commission adopt a billing lag of 0.22 days.[1614] Cal Advocates recommends that SDG&E's bank lag time be reduced by 73.3% to reflect the increasing utilization of technology to send payments electronically, resulting in a recommendation of 0.22 days for Bank Lag.[1615]

[1605] Ex. SDG&E-38-R-E at JMG-15, Table JG-9.

[1606] Ex. CA-16 at 18.

[1607] Ex. CA-16 at 17.

[1608] Ex. SDG&E response to data request PubAdv-SDG&E-BBE-066.

[1609] Ex. CA-16 at 17.

[1610] Ex. CA-16 at 17-18, Figure 16-2.

[1611] Ex. CA-16 at 18.

[1612] Ex. CA-16 at 18.

[1613] Ex. SDGE-38-R-E at JMG-15, Table JG-9.

[1614] Ex. CA-16 at 18.

[1615] Ex. CA-16 at 19.

39.2.3 Expense Lag Categories

SDG&E's proposal is based upon a total company average expense lag of 27.4 days to represent its 2021 average expense lag.[1616] This includes 29.45 lag days for electric distribution, 28.15 lag days for electric generation, and 28.18 lag days for gas distribution.[1617]

Cal Advocates' recommendations are based upon a total company average expense lag of 34.5 days.[1618] Cal Advocates recommendation is based upon analysis of the following Working Cash items: Federal Income Tax (FIT) and California State Franchise Taxes. Cal Advocates' analysis and recommendations regarding these specific working cash items follows below.

- **Federal Income Taxes (FIT)**

SDG&E proposes 2.98 lead days (i.e., negative lag days).[1619] This is based upon 2021 actuals, which include declining payments for quarters one and two, and an extension in quarter one. Cal Advocates opposes SDG&E's proposal for determining lag days for FIT payments because actual lag days for FIT payments are subject to the potential occurrence of refunds, extensions, true-ups, or net operating losses (i.e., no FIT payments), which increase the volatility of recorded lag days for FIT.[1620] Cal Advocates recommends that the Commission adopt 82.2 lag days for FIT.[1621] This is the weighted lag day figure, based on the quarterly payment due dates for estimated tax installments.[1622]

[1616] Ex. SDG&E-38-WP-R at 11, Schedule B-4, line 22.

[1617] Ex. CA-16 at 19.

[1618] Ex. CA-16 at 19.

[1619] Ex. SDG&E-38-WP-R at 40, Schedule N-1, line 8.

[1620] Ex. CA-16 at 19.

[1621] Ex. CA-16 at 19-20, Table 16-5.

[1622] Ex. SDG&E-38-WP-R at 40, Schedule N-1.

- **California State Franchise Taxes**

SDG&E proposes 9.48 lead days.[1623] This is based on 2021 actuals, which include a 2019 extension.[1624] Cal Advocates opposes SDG&E's proposal for determining lag days for California State Franchise Taxes payments because actual lag days for California State Franchise Taxes payments are subject to the potential occurrence of refunds, extensions, true-ups, or other irregularities, which increase the volatility of recorded lag days for California State Franchise Taxes.[1625]

Cal Advocates recommends that the Commission adopt 82.2 lag days for California State Franchise Taxes.[1626] This is the weighted average lag day figure, based upon the payment due dates for estimated tax installments.[1627]

40 CUSTOMER FORECAST

While Cal Advocates did not rely specifically on customer forecasting to develop its cost recommendations in other exhibits, customer forecasting is embedded into the historic data upon which many of Cal Advocates' recommendations are based, such as in the data used for Gas Distribution, Customer Services, and Miscellaneous Revenues recommendations.[1628] Customer forecasting is also used in the later stages of the GRC cycle, such as Phase 2 Cost Allocation and Rate Design. Therefore, it is important that Sempra's customer forecast modeling be accurate, transparent, performed on up-to-date models and can be replicated by intervenors and Commission staff.[1629]

[1623] Ex. SDG&E-38-WP-R at 41, Schedule N-2, line 8.

[1624] Ex. CA-16 at 20.

[1625] Ex. CA-16 at 20.

[1626] Ex. CA-16 at 20.

[1627] Ex. CA-16 at 20-21, Table 16-6.

[1628] Ex. CA-18-2E at 1. See Ex. SCG-04-R-E; Ex. SCG-37-R; Ex. SCG-15-R-2E; Ex. SDG&E-04-R-E; Ex. SDG&E-42-R; and SDG&E-17-R.

[1629] Ex. CA-18-2E at 1.

40.1 Gas (SoCalGas and SDG&E)

40.1.1 Overview

The following summarizes Cal Advocates' recommendations regarding Sempra's gas customer forecasts:

- Cal Advocates makes an adjustment to SCG's Residential Single-Family Customers Forecast for TY2024. Cal Advocates recommends 3,809,777 for 2022, 3,827,080 for 2023, and 3,845,127 for TY 2024 for Gas Residential Single-Family Customer Forecast.[1630]
- Cal Advocates makes an adjustment to SCG's Residential Multi-Family Customers Forecast for TY2024. Cal Advocates recommends 1,850,266 for 2022, 1,860,380 for 2023, and 1,870,623 for TY2024 for Gas Residential Multi-Family Customer Forecast.[1631]
- Cal Advocates does not take issue with SCG's Gas Customer Forecast for Residential Master Meter, Commercial, and Industrial customer schedules for TY2024.
- Cal Advocates makes an adjustment to SDG&E's Gas Residential Customers Forecast for TY2024. Cal Advocates recommends 878,130 for 2022, 886,153 for 2023, and 894,193 for TY2024 for Gas Residential Customer Forecast.[1632]
- Cal Advocates does not take issue with SDG&E's analysis of Core C&I, NGV, Noncore C&I, and Electric Generation gas customer schedules Forecast for TY2024.[1633]
- Cal Advocates recommends that for the next GRC, SCG and SDG&E use up-to-date econometric software, recognized within the industry for forecasting purposes, rather than the obsolete package that is no longer in production and no longer supported by the manufacturer used by the utilities in this proceeding.[1634]
- Cal Advocates recommends that in future GRCs, the utilities provide all raw data for all variables in Microsoft Excel format including active cells, source, and links.[1635]

[1630] Ex. CA-18-2E at 2.

[1631] Ex. CA-18-2E at 2.

[1632] Ex. CA-18-2E at 2.

[1633] Ex. CA-18-2E at 2.

[1634] Ex. CA-18-2E at 2.

[1635] Ex. CA-18-2E at 3.

Table 40-1 compares Cal Advocates' and SCG's forecasts for 2022 through 2024 for average annual active gas meters by customer class.

Table 40-1
SCG TY2024
Average Annual Total Active Gas Meters[1636]

Class Schedule	Cal Advocates Recommended			SCG Proposed		
	2022	2023	2024	2022	2023	2024
Residential Single-Family	3,809,777	3,827,080	3,845,127	3,814,617	3,839,406	3,863,332
Residential Multi-Family	1,850,266	1,860,380	1,870,623	1,857,865	1,875,644	1,893,115
TOTAL	5,660,043	5,687,460	5,715,750	5,672,482	5,715,050	5,756,447

Source: Ex. SCG-35 at SW-5.

Table 40-2 compares Cal Advocate's and SDG&E's forecasts for 2022 through 2024 for average annual active gas meters by customer class.

Table 40-2
SDG&E TY2024
Average Annual Total Active Gas Customers[1637]

Class Schedule	Cal Advocates			SDG&E		
	2022	2023	2024	2022	2023	2024
Total Residential	878,130	886,153	894,193	880,418	888,738	896,990

Source: Exhibit SDG&E-39 at SW-4.

40.1.2 Gas Forecast Software and Methodologies

SCG and SDG&E residential gas customer models used Housing-Starts forecast for their service territories from IHS/Markit Global Insight ("Global Insight") as the main drivers.[1638] SCG and SDG&E each used AREMOS/32, a DOS-based econometric software package released by Global Insight to perform its gas customer forecast for this

[1636] Ex. CA-18-2E at 3.

[1637] Ex. CA-18-2E at 3.

[1638] SCG Response to PAO-SCG-009-MPS, Q 2.

proceeding.[1639] SCG and SDG&E applied an add-factor to the forecast to calculate the final forecasted results.[1640]

Cal Advocates conducted its analysis by reviewing SCG's and SDG&E's Testimony, and workpapers, and by issuing data requests and analyzing data request responses. On January 24, 2023, during a meeting with Cal Advocates, Sempra stated that its gas customers forecast witness, Mr. Scott Wilder, had retired and taken his computer – with the forecasting software in it – with him.[1641] Sempra also stated that it was unable to re-run the equations to do a live walkthrough of the model or to re-run the equations used by Mr. Wilder in his testimony.[1642] Sempra did not mention whether it had another copy of the software, or if it was planning to locate a copy. Cal Advocates requested that Sempra use a different forecasting software such as SAS or EViews to re-run the regression equations, but Sempra refused.[1643] In addition, Sempra "experimented" with SAS but provided incomplete results in a data response.[1644]

Sempra's unwillingness to provide the regression data in some other format shows a lack of adequate support by Sempra regarding its model and data to forecast Gas Customers.[1645] After Cal Advocates' meeting with Sempra on January 23, 2023, Sempra assigned an analyst to learn how to use AREMOS/32.[1646] Nearly a month later, on February 21, 2023, Sempra was able to do a live walkthrough of the model and re-run the equations submitted by Mr. Wilder.[1647] This was only a month before Cal Advocates' testimony was due to be filed, which left little time for follow-up data requests.[1648] The

[1639] SCG Response to PAO-SCG-009-MPS, Q 3.

[1640] SCG Response to PAO-SCG-041-MPS, Q 1.

[1641] Ex. CA-18-2E at 5.

[1642] Ex. CA-18-2E at 5.

[1643] SDG&E Response to PAO-SDG&E-179-MPS Q1, and SCG Response to PAO-SCG-103-MPS, Q 3.

[1644] SCG Response to PAO-SDG&E-184-MPS, Q 1a.

[1645] See Ex. CA-18-2E at 6.

[1646] Ex. CA-18-2E at 6.

[1647] Ex. CA-18-2E at 6.

[1648] Ex. CA-18-2E at 6-7.

Commission should prohibit applicants to use econometric software that is either no longer in production or no longer supported by the manufacturer. Sempra should use up-to-date, current industry econometric technologies to forecast gas customers and not obsolete econometric software to perform its models.[1649] In addition, SCG's use of an add-factor in its model is not a standard practice, which the Commission should also disallow.[1650]

40.1.3 Analysis of SCG and SDG&E Housing Starts Main Driver for Sempra's Gas Customer Forecast

Cal Advocates performed an analysis on the model outputs for the Housing Starts, which is the main driver for Sempra's gas customer forecast for Residential Single-Family and Multi-Family.[1651] Cal Advocates reviewed Sempra's workpapers from the 2016 and 2019 GRCs and compared the forecasted outputs to the actual recorded Housing Starts data provided in this proceeding.[1652]

Cal Advocates reviewed SCG's 2016 GRC workpapers which forecasted outputs on Housing Starts for Residential Single-Family and Multi-Family homes from 2014 through 2016 and compared those forecast outputs to SCG's 2019 GRC actual recorded data as shown in Table 40-3.[1653] The finding is that SCG's model inflated Housing Starts outputs.[1654]

Figure 40-1 compares, in red, SCG's 2016 forecasted outputs on Housing Starts in the 2016 GRC and, in blue, the actual recorded data in SCG's 2019 GRC.[1655] These graphs show that SCG's model for Housing Starts consistently over-estimated its forecast output.[1656]

[1649] Ex. CA-18-2E at 7.

[1650] Ex. CA-18-2E at 7.

[1651] Ex. CA-18-2E at 7.

[1652] Ex. CA-18-2E at 7.

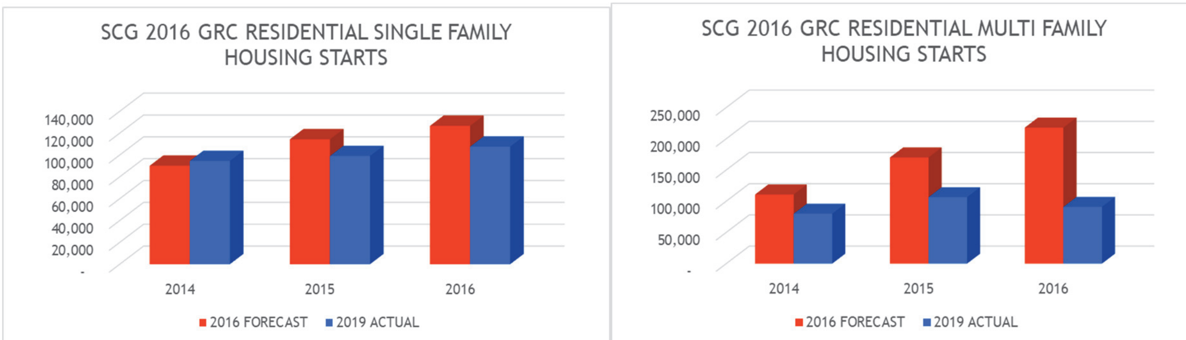
[1653] Ex. CA-18-2E at 7.

[1654] Ex. CA-18-2E at 7.

[1655] Ex. CA-18-2E at 7.

[1656] Ex. CA-18-2E at 7.

Figure 40-1[1657]
SCG Housing Starts
Forecast in 2016 GRC compared to 2019 GRC actuals



Source: 2016 GRC Exhibit, SCG-39-WP, pp. 23-33 & 2019 GRC Exhibit, SCG-39-WP, pp. 23-33.

Table 40-3 shows SCG's forecasted output for Housing Starts for Residential Single-Family and Multi-Family compared to actual recorded data and the percentage over-forecasted in the 2016 GRC.[1658]

[1657] Ex. CA-18-2E at 8.

[1658] Ex. CA-18-2E at 8.

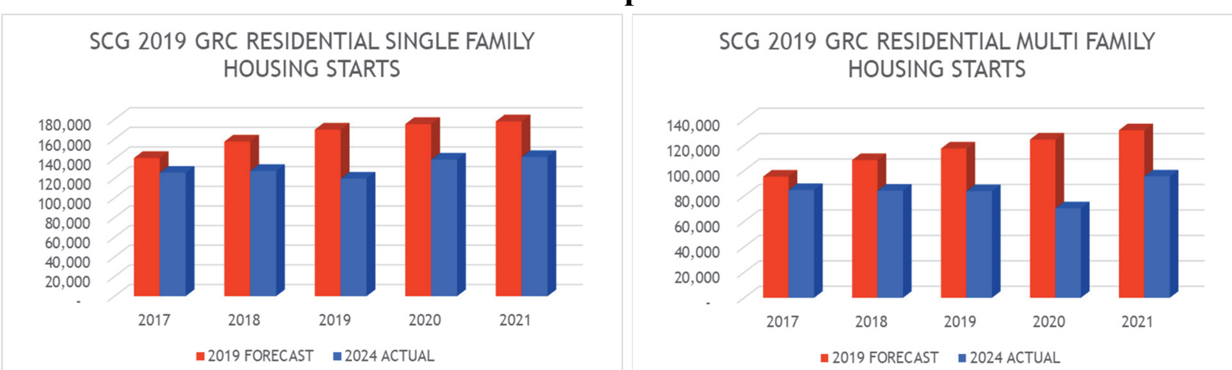
Table 40-3[1659]
SCG Housing Starts
Forecast in 2016 GRC compared to 2019 GRC actuals

Gas Residential Single Family Housing Starts				Gas Residential Multi Family Housing Starts			
YEAR	2016 FORECAST	2019 ACTUAL	% VARIANCE	YEAR	2016 FORECAST	2019 ACTUAL	% VARIANCE
2014	90,186	94,497	-5%	**2014**	110,784	79,906	39%
2015	114,380	99,009	16%	**2015**	170,057	106,421	60%
2016	126,694	107,587	18%	**2016**	217,955	90,837	140%

Source: 2016 GRC Ex. SCG-39-WP at 23-33; 2019 GRC Ex. SCG-39-WP at 23-33.

Cal Advocates performed the same analysis with SCG's 2019 GRC forecasted outputs on Housing Starts for Residential Single-Family and Multi-Family for 2017 through 2021, compared to its 2024 GRC actual recorded data from SCG's workpapers. Figure 40-2 is a graphic representation of the data.[1660]

Figure 40-2[1661]
SCG Housing Starts
Forecast in 2019 GRC compared to 2024 GRC actuals



Source: 2019 GRC Ex. SCG-39-WP at 23-33; 2024 GRC Ex. SCG-35-WP at 5-16.

1659 Ex. CA-18-2E at 8.

1660 Ex. CA-18-2E at 8.

1661 Ex. CA-18-2E at 9.

Table 40-4 below shows the percentage column for Residential Single-Family and Multi-Family schedules when compared with recorded actual data from TY2024 workpapers which shows that SCG's model historically overestimated housing starts outputs for the 2016 and 2019 GRC.[1662]

Table 40-4[1663]
SCG Housing Starts
Forecast in 2019 GRC compared to 2024 GRC actuals

Gas Residential Single Family Housing Starts				Gas Residential Multi Family Housing Starts			
YEAR	2019 FORECAST	2024 ACTUAL	% VARIANCE	YEAR	2019 FORECAST	2024 ACTUAL	% VARIANCE
2017	140,668	125,614	12%	**2017**	95,289	84,695	13%
2018	157,421	127,452	24%	**2018**	108,295	84,227	29%
2019	169,621	119,643	42%	**2019**	117,327	83,820	40%
2020	175,269	139,028	26%	**2020**	124,431	70,299	77%
2021	177,963	141,663	26%	**2021**	131,705	95,400	38%

Source: 2019 GRC Exhibit, SDG&E-37-WP, p. 21 & 2024 GRC Exhibit, SCG-35-WP, p. 5-15.

Cal Advocates performed the same analysis with SDG&E's 2016 GRC workpapers which forecasted Housing Starts output from 2014 through 2016; this data was then compared to SDG&E's actual recorded data from its 2019 GRC.[1664] The same analysis was performed with SDG&E's 2019 GRC workpapers which forecasted Housing Starts outputs from 2017 through 2021; this data was then compared to SDG&E's actual recorded data from its 2024 GRC. Figure 40-3 is a graphic representation of the data.[1665]

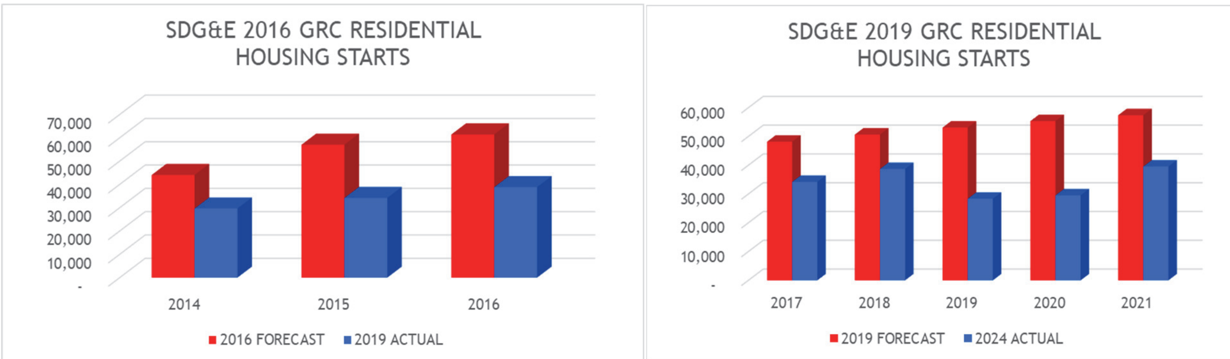
1662 Ex. CA-18-2E at 9.

1663 Ex. CA-18-2E at 9.

1664 Ex. CA-18-2E at 9.

1665 Ex. CA-18-2E at 9.

Figure 40-3[1666]
SDG&E Housing Starts 2016, 2019 & 2024 GRC



Source: 2016 GRC Exhibit, SDG&E-32-WP, p. 12. & 2019 GRC Exhibit, SDG&E-37-WP, p. 21. & 2024 GRC Exhibit, SDG&E-39-WP, p. 5-5.

Table 40-5 shows that SDG&E's model historically overestimated Housing Starts outputs in its 2016 and 2019 GRCs.[1667]

Table 40-5[1668]
SDG&E Housing Starts
Forecast 2016 compared to 2019 actual, and forecast 2019 compared to 2024 actual

Gas Residential Housing Starts			
YEAR	2016 FORECAST	2019 ACTUAL	% VARIANCE
2014	44,067	29,657	49%
2015	57,037	34,191	67%
2016	61,448	38,829	58%

Gas Residential Housing Starts			
YEAR	2019 FORECAST	2024 ACTUAL	% VARIANCE
2017	48,183	34,209	41%
2018	50,671	38,702	31%
2019	53,100	28,355	87%
2020	55,345	29,541	87%
2021	57,388	39,543	45%

Source: 2016 GRC Ex. SDG&E-32-WP at 12; 2019 GRC Ex. SDG&E-37-WP at 21; 2024 GRC Ex SDG&E-39-WP at 5-5.

1666 Ex. CA-18-2E at 10.

1667 Ex. CA-18-2E at 10.

1668 Ex. CA-18-2E at 10.

40.1.4 SCG and SDG&E Connected Gas Meters versus Forecasted Meters.

Sempra's customer forecasting model relies on Housing Starts, and the comparisons shown above establish that Sempra has a history of using inflated housing data.[1669] Because Sempra's model relies on Housing Starts, the inflated housing starts data leads to inflated forecasted metering data.[1670] Again, Cal Advocates compared the forecasted data in the 2016 GRC to the actual data in the 2019 GRC, and the forecasted data from the 2019 GRC to the actual data in the 2024 GRC for both utilities.[1671]

Table 40-6 shows the forecasted Meters versus actual meters, and the variances, for SCG.

Table 40-6[1672]
SCG 2016 GRC Forecasted Meters vs. 2019 Actual, and 2019 Forecasted Meters vs. 2024 Actual

2016 GRC: SoCalGas Forecasted Meters versus Actuals		
Gas Meters Connected	Residential Single-family	Residential Multi-family
Forecast		
2014	3,702,968	1,845,109
2015	3,727,115	1,860,075
2016	3,753,152	1,877,846
Actual		
2014	3,697,453	1,842,924
2015	3,714,070	1,855,988
2016	3,731,022	1,869,233
Variance		
2014	5,515	2,185
2015	13,045	4,087
2016	22,130	8,613

2019 GRC: SoCalGas Forecasted Meters versus Actuals		
Gas Meters Connected	Residential Single-family	Residential Multi-family
Forecast		
2017	3,752,578	1,883,831
2018	3,777,135	1,903,426
2019	3,803,871	1,924,196
2020	3,832,110	1,946,523
2021	3,861,121	1,970,062
Actual		
2017	3,751,864	1,879,668
2018	3,775,415	1,889,285
2019	3,797,955	1,900,271
2020	3,820,836	1,912,460
2021	3,844,078	1,924,441
Variance		
2017	714	4,163
2018	1,720	14,141
2019	5,916	23,925
2020	11,274	34,063
2021	17,043	45,621

Source: 2016 GRC Ex. SCG-30-WP at 9-10; 2019 GRC Ex. SCG-39-WP at 22-23.

[1669] Ex. CA-18-2E at 10.

[1670] Ex. CA-18-2E at 10.

[1671] Ex. CA-18-2E at 10.

[1672] Ex. CA-18-2E at 11.

Table 40-7 shows the forecasted Meters versus actual meters, and the variances, for SDG&E.

Table 40-7[1673]
SDG&E 2016 GRC Forecasted Meters vs. 2019 Actual, and 2019 Forecasted Meters vs. 2024 Actual

2016 GRC: SDG&E Forecasted Gas Meters versus Actuals	
Gas Meters	Residential METRESSD
Forecast	
2014	838,671
2015	848,964
2016	861,283
Actual	
2014	835,745
2015	839,988
2016	845,278
Variance	
2014	2,926
2015	8,976
2016	16,005

2019 GRC: SDG&E Forecasted Gas Meters versus Actuals	
Gas Meters	Residential METRESSD
Forecast	
2017	849,856
2018	855,820
2019	861,541
2020	867,507
2021	874,002
Actual	
2017	850,136
2018	855,716
2019	861,502
2020	867,407
2021	873,304
Variance	
2017	-280
2018	104
2019	39
2020	100
2021	698

Source: 2016 GRC Exhibit, SDG&E-32-WP, p. 12. & 2019 GRC Exhibit, SDG&E-37-WP, p. 21.

40.1.5 Cal Advocates' Analysis for SCG and SDG&E Gas Customer Forecast.

Cal Advocates recommends a different methodology to forecast SCG's and SDG&E's Residential Gas Customers based on its analysis's findings on the inflated housing data for 2016 and 2019 GRC for both utilities.[1674] SCG and SDG&E used an add-factor to arbitrarily add or subtract when SCG's model has been over-forecasted or under-forecasted, which defeats the purpose of modeling a forecast.[1675]

[1673] Ex. CA-18-2E at 12.

[1674] Ex. CA-18-2E at 12.

[1675] Ex. CA-18-2E at 12.

For SCG's Residential Single Family and Multi-Family, Cal Advocates used SCG's raw data for active Residential Multi-Family meters (ACTM_SCG) and active Residential Single-Family meters (ACTS_SCG).[1676] Cal Advocates used a 10-year quarterly moving average on new customer connections and discounted the forecast by 50% as of July 2023 to account for the Commission's Decision (D.) 22-09-026 to disallow gas line extensions.[1677] These costs will impact builders, developers, and ultimately ratepayers, who choose gas appliances and connections because the refundable portion of gas lines extension will now be zero under the new Commission Decision.[1678] In addition, the former Mayor of Los Angeles, Eric Garcetti, signed a series of environmental laws that require, among other things, all new buildings in Los Angeles to be all-electric, starting in April 2023.[1679] Cal Advocates' final recommendation for SCG's Residential Single-Family and Multi-Family customer forecast is shown in Table 40-1 earlier in this section.

For SDG&E, Cal Advocates performed a regression analysis using EViews to forecast gas residential customers (METRESSD)[1680] regression equation. Cal Advocates used the same variables in the equation and the raw data provided by SDG&E. The differences between SDG&E and Cal Advocates are the following:

- Cal Advocates used no add-factor to the outputs.[1681]
- Cal Advocates used a 10-year quarterly moving average to normalize the total Housing Starts variable (ABRTUNS_SD).[1682]

[1676] Ex. SCG-35 at 1; Ex. CA-18-2E at 12.

[1677] Ex. CA-18-2E at 13.

[1678] Ex. CA-18-2E at 13.

[1679] SCG Response to PAO-SCG-075-MPS, Q 1, and SDG&E Response to PAO-SDG-141-MPS, Q 1.

[1680] Ex. SDG&E-39 at 1.

[1681] Ex. CA-18-2E at 13.

[1682] Ex. SDG&E-39 at 2; Ex. CA-18-2E at 13.

- Cal Advocates reduced the new customer forecast by 50% as of July 2023 to account for the Commission's Decision (D.22-09-026) to disallow gas line extensions.[1683]

Cal Advocates' final recommendation for SDG&E's Residential customer forecast is shown in Table 40-2 above.

40.2 Electric (SDG&E Only)

40.2.1 Overview

The following summarizes Cal Advocates' recommendations regarding SDG&E's electric customer forecast:

- Cal Advocates makes an adjustment to SDG&E's Electric Residential Customers Forecast for TY2024. Cal Advocates recommends 1,340,487 for 2022, 1,351,127 for 2023 and 1,361,964 for TY2024 for Electric Residential Customer Forecast.[1684]
- Cal Advocates does not take issue with SDG&E's Forecast for Small Commercial, Med/Lg Com/Ind, Agriculture, and Lighting Electric customer schedules for TY2024.[1685]
- Cal Advocates recommends that SDG&E, in the next GRC, provide a model in Microsoft Excel format that includes all active cells and macros, rather than hardcoded untraceable values.[1686]

Table 40-8 compares Cal Advocates' and SDG&E's forecasts for 2022 through 2024 for average annual active gas meters by customer class.

[1683] Ex. CA-18-2E at 13.

[1684] Ex. CA-18-2E at 4.

[1685] Ex. CA-18-2E at 4.

[1686] Ex. CA-18-2E at 4.

Table 40-8
SDG&E TY2024
Average Annual Residential Electric Customer[1687]

ELECTRIC RESIDENTIAL CUSTOMERS			
Year	Cal Advocates Recommended	SDG&E Proposed	Amount SDG&E> Cal Advocates
2022	1,340,487	1,341,338	851
2023	1,351,127	1,354,871	3,744
2024	1,361,964	1,369,484	7,520

Source: Ex. SDG&E-40 at KES-1.

40.2.2 Overview of SDG&E's Electric Customer Forecasting

SDG&E used Excel to calculate its forecast for electric customers. The residential customer forecast was developed using an econometric model based on the service area's projected level of housing completions, with seasonal factors.[1688] SDG&E uses Housing Completion as a main driver which is a 50/50 Blend of the forecast from IHS Global Insight's Regional Economic Service and Moody's Regional Economic Service.[1689] SDG&E's proposed residential forecast is illustrated in Table 40-8 above for TY 2024.

Table 40-9 and Figure 40-4 below indicate that historically in the 2019 GRC, the Housing Completion 50/50 Blend was inflated as illustrated when compared with the actual recorded data by SDG&E in this GRC for TY 2024.[1690] The red bars in the graph and the column with the percentage of over-forecast per year clearly demonstrate that SDG&E's main driver in its model is inflated.[1691]

1687 Ex. CA-18-2E at 4.

1688 Ex. SDG&E-40 at KES-2.

1689 Ex. SDG&E-40 at KES-2.

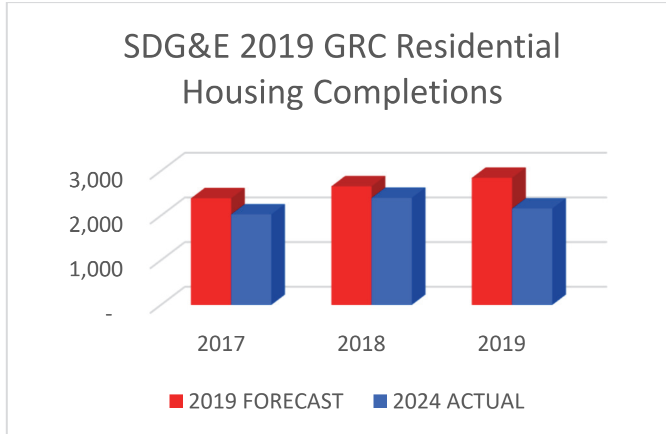
1690 Ex. CA-18-2E at 14.

1691 Ex. CA-18-2E at 14.

Table 40-9 **Figure 40-4**

SDG&E's Electric Housing Completions 2019 GRC forecast compared to 2024 Actual

Electric Housing Completions 50/50 Blend			
YEAR	2019 FORECAST	2024 ACTUAL	% VARIANCE
2017	2,387	2,027	17.8%
2018	2,656	2,397	10.8%
2019	2,846	2,158	31.9%



Source: 2019 GRC Exhibit, SDG&E-38-WP, p. 29. & 2024 GRC Exhibit, SDG&E-40-WP, p. 5.

40.2.3 Cal Advocates' Analysis of SDG&E's Electric Customer Forecast

Cal Advocates reviewed SDG&E's calculation of its main driver, Housing Completions SD, which is a 50/50 Blend (Q Basis) using quarterly forecasted data from Moody's and from IHS Global Insight.[1692] Cal Advocates utilized the same Excel model as SDG&E and applied a 10-year quarterly moving average to the 50/50 Blend (Q Basis) to normalize SDG&E's Housing Completions data to the model.[1693] Cal Advocates' forecast Residential customers for TY 2024 is shown in Table 40-8 above.[1694]

Figure 40-5 below illustrates SDG&E's 50/50 Blend Housing Completions historical data and (Q Basis) forecast when SDG&E divided the addition of the 50/50 Blend by four for TY2024 compared to Cal Advocates' 10-year quarterly moving average recommendation for TY2024.[1695]

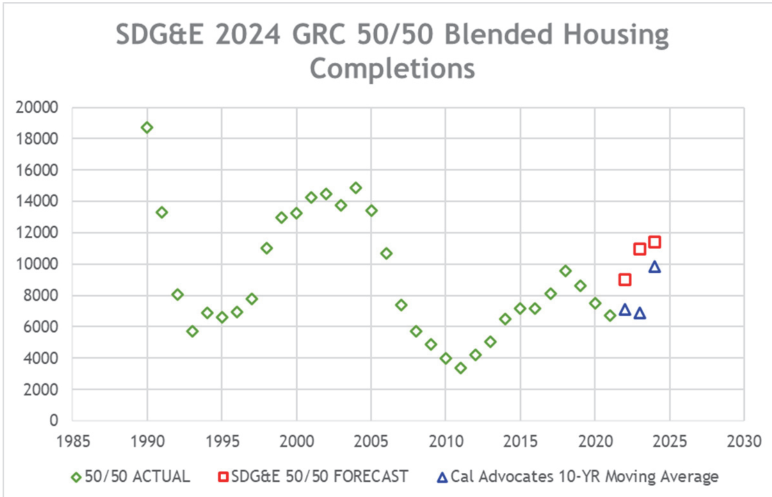
[1692] Ex. CA-18-2E at 14.

[1693] Ex. CA-18-2E at 14.

[1694] Ex. CA-18-2E at 2; Cal Advocates downloaded TURN-SEU-40_ATTCH_Q1a-b workable Excel file with SDG&E's electric model which contained all the links and formulas, and Cal Advocates applied their recommendation within that Excel file to calculate their forecast. SDG&E originally provided Cal Advocates with an Excel file that only included hard coded values and no links or active cells.

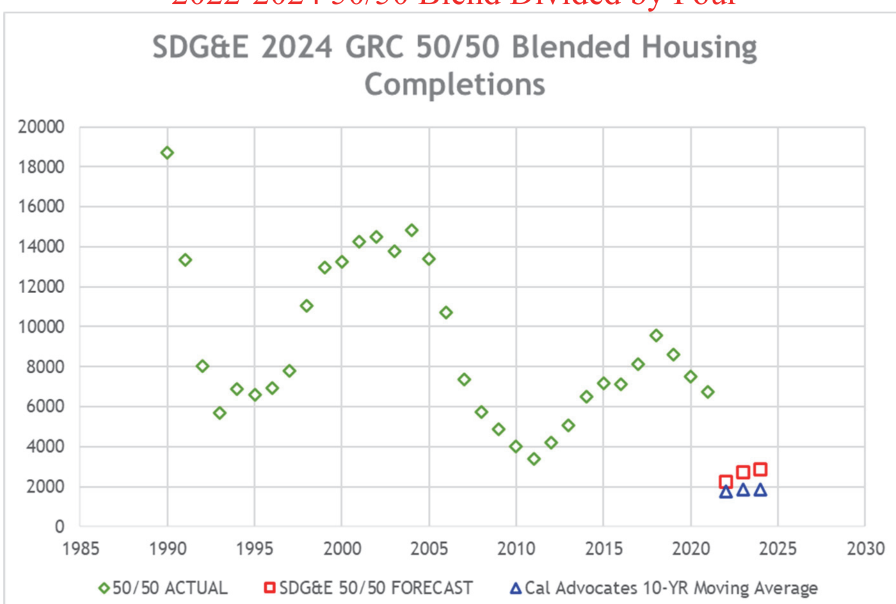
[1695] Ex. CA-18-2E at 2.

Figure 40-5[1696]
SDG&E Housing Completions 2019 GRC & 2024 GRC



Source: 2024 GRC Exhibit, SDG&E-40-WP, p. 5.

2022-2024 50/50 Blend Divided by Four



Source: Data Response A.22-05-015/016. PAO-SEU-186_ATTCH_Q6e-f

[1696] Ex. CA-18-2E at 16.

41 COST ESCALATION

42 MISCELLANEOUS REVENUES

42.1 SCG's Miscellaneous Revenues

Miscellaneous Revenues are comprised of fees and revenues collected by the utility from non-rate sources for the provision of specific products or services.[1697] SCG's Miscellaneous Revenues include such revenues as Service Establishment Charges, commercial and residential parts services, and other gas-related services.[1698] The Miscellaneous Revenues are incorporated into rates as a reduction to the gas base margin revenue requirements charged to customers for utility service, thereby lowering rates.[1699]

SCG's proposed TY 2024 Miscellaneous Revenues Total is $117,427,000.[1700] Cal Advocates reviewed SCG's recorded 2017-2021 and TY 2024 forecast and does not recommend any adjustments to SCG's TY 2024 forecast of Miscellaneous Revenues.[1701]

42.2 SDG&E's Miscellaneous Revenues

As stated above, Miscellaneous Revenues are comprised of fees and revenues collected by the utility from non-rate sources for the provision of specific products or services.[1702] Miscellaneous revenues include such revenues as Service Establishment Charges, collection charges, and rents.[1703] SDG&E included only those revenues allocated to their electric distribution and gas departments, and excluded miscellaneous revenues associated with electric transmission properties and facilities and other non-distribution sources recovered through FERC-jurisdictional ratemaking mechanisms.[1704] Miscellaneous Revenues are incorporated into rates as a reduction to the electric

[1697] Ex. CA-19 at 21.

[1698] Ex. CA-19 at 21.

[1699] Ex. SCG-37-R at JLR-2.

[1700] Ex. SCG-37-WP-R at 3.

[1701] Ex. CA-19 at 21.

[1702] Ex. CA-19 at 22.

[1703] Ex. CA-19 at 22.

[1704] Ex. CA-19 at 22.

distribution and gas base margin revenue requirements charged to customers for utility service, thereby lowering rates.[1705]

SDG&E's proposed TY 2024 Miscellaneous Revenues Total is $36,782,000.[1706] Cal Advocates reviewed SDG&E's recorded 2017-2021 and TY 2024 forecast of Miscellaneous Revenues and does not recommend any adjustments to SDG&E's TY 2024 forecast.[1707]

43 REGULATORY ACCOUNTS

Regulatory Accounts are responsible for SDG&E's and SCG's authorized regulatory balancing, tracking, and memorandum accounts, which include implementing regulatory accounting procedures for compliance with Commission directives, quantifying and recording the monthly entries and adjustments to the Commission-authorized regulatory account mechanisms, and managing the general administration of SDG&E's and SCG's authorized regulatory accounts.[1708]

SCG and SDG&E make several proposals regarding their regulatory accounts: (1) to close and/or eliminate the accounts and address their balance position; (2) to continue and/or modify existing regulatory accounts; (3) to create new balancing accounts; and (4) to provide information on other regulatory accounts.[1709]

43.1 SCG's TY 2024 GRC Proposals for Regulatory Accounts

43.1.1 SCG's Proposal for Disposition of Regulatory Account Balances

SCG proposes the disposition of the remaining balances at year-end 2023 of ten existing regulatory accounts through the implementation of the TY 2024 GRC.[1710] SCG states that the accounts discussed will remain open through the TY 2024 GRC and may

[1705] Ex. SDG&E-42-R at CF-2.

[1706] Ex. SDG&E-42-WP-R at 3.

[1707] Ex. CA-19 at 22.

[1708] Ex. SCG-38-R-E at RMY-1.

[1709] Ex. SDGE-43-R, at JK-iv -JK-vi and Ex. SCG-38-R-E, at RMY-iv-RMY-v.

[1710] Ex. CA-19 at 24.

continue recording future costs.[1711] SCG proposes to recover the recorded balance as of December 31, 2023, which will include any ongoing capital-related costs associated with these projects reviewed in this TY 2024 GRC.[1712]

Cal Advocates takes issue with the following regulatory accounts that SCG proposes for the disposition of regulatory account balances.

- **Safety Enhancement Capital Cost Balancing Account (SECCBA)**

SCG proposes the disposition of the regulatory balance for the SECCBA, an interest-bearing balancing account recorded on SCG's financial statements.[1713] The purpose of the account is to track the capital-related costs associated with SCG's Pipeline Safety Enhancement Plan (PSEP) for Phase 1A and Phase 1b projects.[1714]

Cal Advocates addresses SCG's proposed disposition of the regulatory balance for the SECCBA in section 14.1.2.

- **Safety Enhancement Expense Balancing Account (SEEBA)**

SCG proposes the disposition of the regulatory balance for the SEEBA, and interest-bearing account recorded on SCG's financial statements.[1715] The purpose of this account is to track the Operation and Maintenance (O&M) costs associated with SCG's PSEP for Phase 1A and Phase 1B projects.[1716]

Cal Advocates addresses SCG's proposed disposition of the regulatory balance for the SEEBA in section 14.1.1.

[1711] Ex. SCG-38-R-E at RMY-2.

[1712] Ex. SCG-38-R-E at RMY-2.

[1713] Ex. CA-19 at 25.

[1714] Ex. SCG-38-R-E at RMY-5.

[1715] Ex. CA-19 at 25.

[1716] Ex. SCG-38-R-E at RMY-6.

43.1.2 SCG's Proposal for Closure of Regulatory Accounts

SCG proposes to close ten regulatory accounts which were established to record costs for a specific project and/or time period.[1717] SCG states that upon amortization of the account balances in these accounts, SCG will no longer have a need for them.[1718]

Cal Advocates takes issue with the closure of the Aliso Canyon Memorandum Account as proposed by SCG.[1719]

- **Aliso Canyon Memorandum Account**

SCG proposes to close the Aliso Canyon Memorandum Account (ACMA), an interest-bearing memorandum account recorded on SCG's financial statements.[1720] The purpose of the ACMA is to record incremental costs associated with the Aliso Canyon Turbine Replacement (ACTR) Project that was approved in D.13-11-032.[1721]

Cal Advocates addresses SCG's proposed closure of the ACMA in section 16.2.

43.1.3 SCG's Proposal to Modify Existing Regulatory Account

SCG proposes to modify the Pipeline Safety Enhancement Program Memorandum Account (PSEPMA). Cal Advocates does not take issue with SCG's proposed modification of PSEPMA.[1722]

43.1.4 SCG's Proposal for Creation of New Regulatory Accounts

SCG proposes to create five new regulatory accounts. Cal Advocates takes issue with the creation of these five new regulatory accounts.[1723]

1717 Ex. CA-19 at 26.

1718 Ex. SCG-38-R-E at RMY-9.

1719 Ex. CA-19 at 26.

1720 Ex. CA-19 at 26.

1721 Ex. SCG-38-R-E at RMY-10; D. 13-11-032?

1722 Ex. CA-19 at 26.

1723 Ex. CA-19 at 26.

- **Facilities Integrity Management Program Balancing Account (FIMPBA)**

SCG proposes to create the FIMPBA as a two-way, interest-bearing balancing account recorded on SCG's financial statements.[1724] The purpose of the FIMPBA is to record the difference between the authorized revenue requirement to be adopted in the TY 2024 GRC and the actual expenses associated with the Facilities Integrity Management program.[1725]

Cal Advocates addresses SCG's proposal to create the FIMPBA in section 15.1.1.4.

- **Gas Safety Enhancement Programs Balancing Account (GSEPBA)**

SCG proposes to create the GSEPBA as a two-way, interest-bearing balancing account recorded on SCG's financial statements.[1726] The purpose of this account is to record the difference between the authorized revenue requirement to be adopted in this TY 2024 GRC and the actual expenses associated with the new gas rules and regulations that are not covered in any other regulatory accounts and are incurred as of January 1, 2024.[1727]

Cal Advocates addresses SCG's proposal to create the GSEPBA in section 15.1.1.5.

- **Locate and Mark Balancing Account (LMBA)**

SCG proposes to create the LMBA to record the difference between the authorized revenue requirement to be adopted in the TY 2024 GRC and the actual expenses specific to locate and mark expenses as stated in the Gas Distribution testimony of Mario Aguirre (Ex. SCG-04-R-E).[1728]

Cal Advocates addresses SCG's proposal to create the LMBA in section 10.1.2.

[1724] Ex. CA-19 at 26.

[1725] Ex. SCG-38-R-E at RMY-18-RMY-19.

[1726] Ex. CA-19 at 27.

[1727] Ex. SCG-38-R-E at RMY-19.

[1728] Ex. SCG-38-R-E at RMY-19.

- **Hydrogen Refueling Station Balancing Account (HRSBA)**

SCG proposes to create the HRSBA as a two-way interest-bearing balancing account recorded on SCG's financial statements.[1729] SCG states that the purpose of the HRSBA is to record the O&M expenses and revenue associated with the operation of utility-owned, public access hydrogen refueling stations.[1730]

Cal Advocates addresses SCG's proposal to create the HRSBA in section 25.1.3.

- **Litigated Project Costs Memorandum Account (LPCMA)**

SCG proposes to create the LPCMA as an interest-bearing memorandum account recorded on SCG's financial statements.[1731] SCG states that the purpose of the LPCMA is to record the capital-related costs associated with projects that are intended to qualify as a collectible project to be recovered from third-party customers instead of ratepayers, but are later deemed by a court to be non-collectible from third-party customers.[1732]

Cal Advocates addresses SCG's proposal to create the LPCMA in section 20.1.2.

43.2 SDG&E's TY 2024 Proposals for Regulatory Accounts

43.2.1 SDG&E's Proposed Closure of Accounts

SDG&E proposes to close twenty-two regulatory accounts, and Cal Advocates takes issue with the closure of the following three regulatory accounts.[1733]

- **Customer Information Systems Balancing Account (CISBA)**

SDG&E proposes to close the electric and gas CISBAs, interesting-bearing balancing accounts recorded on SDG&E's financial statements.[1734] Pursuant to the Customer Information System (CIS) replacement program settlement agreement approved in D.18-08-008, the CISBA records SDG&E's authorized revenue requirement

1729 Ex. CA-19 at 27.

1730 Ex. SCG-38-R-E at RMY-20.

1731 Ex. CA-19 at 28.

1732 Ex. SCG-38-R at RMY-20.

1733 Ex. CA-19 at 28.

1734 Ex. CA-19 at 28.

and costs associated with the Customer Information Systems (CIS) replacement project.[1735]

Cal Advocates addresses SDG&E's proposed closure of the CISBA in section 27.2.1.

- **Overhead Pools Balancing Account (OPBA)**

SDG&E proposes to close the OPBA, a one-way interest-bearing balancing account not recorded on SDG&E's financial statements.[1736] The four overhead capital pools covered by this balancing account are the Local Engineering Electric Distribution pool; Local Engineering-Substation pool; the Department Overhead pool and the Contract Administration pool.[1737]

Cal Advocates addresses SDG&E's proposed closure of the OPBA in section 20.1.5.

- **Vehicle Grid Integration Memorandum Account (VGIMA)**

SDG&E proposes to close the VGIMA, an interest-bearing memorandum account recorded on SDG&E's financial statements.[1738] The purpose of the VGIMA is to record long term Operations and Maintenance (O&M) expenses and offsetting participation payments received from site hosts for the 2016 VGI Pilot Program.[1739]

Cal Advocates does not take issue with SDG&E's proposal to close the VGIMA.[1740]

[1735] Ex. SDG&E-43-R at JK-3; D.18-08-008 at 2, 8.

[1736] Ex. CA-19 at 29.

[1737] Ex. SDG&E-43-R at JK-6.

[1738] Ex. CA-19 at 29.

[1739] Ex. SDG&E-43-R at JK-8.

[1740] Ex. CA-19 at 29.

43.2.2 SDG&E's Proposal to Continue Ratemaking Treatment of Regulatory Accounts

SDG&E proposes a continuation of ratemaking treatment for sixteen regulatory accounts, and Cal Advocates takes issue with SDG&E's proposal for ratemaking treatment for the Liability Insurance Premiums Balancing Account (LIPBA).[1741]

- **Liability Insurance Premiums Balancing Account (LIPBA)**

The electric and gas LIPBAs are two-way interest-bearing balancing accounts recorded on SDG&E's financial statements.[1742] The purpose of this account is to balance the difference between the authorized revenue requirement related to liability insurance premiums (LIP) charged to SDG&E from Corporate Center and the actual expenses incurred and charged to SDG&E.[1743]

Cal Advocates addresses SDG&E's proposed continuation of ratemaking treatment for the LIPBA in section 30.

43.2.3 SDG&E's Proposal for Modifications to Existing Regulatory Accounts

SDG&E proposes to modify two existing regulatory accounts: (1) Transmission Integrity Management Program Balancing Account (TIMPBA) and Post-2011 Distribution Integrity Management Program Balancing Account (DIMPBA) and (2) Tree Trimming Balancing Account (TTBA).[1744]

Cal Advocates does not take issue with SDG&E's proposal to modify the TIMPBA, DIMPBA, and TTBA.[1745]

[1741] Ex. CA-19 at 29-30.

[1742] Ex. CA-19 at 30.

[1743] Ex. SDG&E-43-R at JK-12.

[1744] Ex. CA-19 at 30.

[1745] Ex. CA-19 at 30.

43.2.4 SDG&E's Proposal to Create New Regulatory Accounts

SDG&E proposes to create nine new regulatory accounts in the TY 2024 GRC, and Cal Advocates takes issue with SDG&E's proposal to create the following five new regulatory accounts.

- **Hydrogen Build-Ready Balancing Account (HBRBA)**

SDG&E proposes to create a new regulatory account called HBRBA, which would be a two-way, interest-bearing balancing account recorded on SDG&E's financial statements.[1746] The purpose of the account is to record the difference between the authorized revenue requirement that will be adopted in this TY 2024 GRC and the actual expenses incurred from the Hydrogen Build Ready Infrastructure program.[1747]

Cal Advocates addresses SDG&E's proposal to create the HBRBA in section 18.2.10.

- **Locate and Mark Balancing Account (LMBA)**

SDG&E proposes to create a new regulatory account called LMBA, consisting of an electric LMBA and a gas LMBA, which would be two-way, interest-bearing balancing accounts recorded on SDG&E's financial statements.[1748] The purpose of the LMBAs is to record the difference between the authorized revenue requirement that will be adopted in this TY 2024 GRC and the actual expense incurred, as discussed in the Gas Distribution testimony of L. Patrick Kinsella (Ex. SDG&E-04-R-E).[1749]

Cal Advocates addresses SDG&E's proposal to create the LMBA in section 10.1.2.

[1746] Ex. CA-19 at 30.

[1747] Ex. SDG&E-43-R at JK-22.

[1748] Ex. CA-19 at 31.

[1749] Ex. SDG&E-43-R at JK-23.

- **Litigated Project Costs Memorandum Account (LPCMA)**

SDG&E proposes to create a new regulatory account called LPCMA, consisting of electric and gas LPCMAs, interest-bearing memorandum accounts that would be recorded on SDG&E's financial statements.[1750] The LPCMA's purpose is to record the capital-related costs associated with projects intended to qualify as a collectible project to be recovered from third-party customers instead of ratepayers, but are later deemed by a court to be non-collectible from those third-party customers.[1751]

Cal Advocates addresses SDG&E's proposal to create the LPCMA in section 20.1.2.

- **Research, Development, and Demonstration Balancing Account (RDDBA)**

SDG&E proposes to create a new regulatory account called RDDBA, a one-way, interest-bearing balancing account recorded on SDG&E's financial statements.[1752] The purpose of the RDDBA would be to record the difference between the authorized revenue requirement to be adopted in this TY 2024 GRC and the actual expenses incurred from the RD&D program called the Innovation Technology Development Program, as discussed in the Clean Energy Innovations testimony from Fernando Valero (Ex. SDG&E-15).[1753]

Cal Advocates addresses SDG&E's proposal to create the RDDBA in section 18.2.1.

- **Wildfire Mitigation Plan Balancing Account (WMPBA)**

SDG&E proposes to create electric and gas WMPBAs as two-way, interest-bearing balancing accounts recorded on SDG&E's financial statements.[1754] The purpose of the WMPBAs would be to record costs incurred from implementing SDG&E's

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[1750] Ex. CA-19 at 31.

[1751] Ex. SDG&E-43-R at JK-23.

[1752] Ex. CA-19 at 32.

[1753] Ex. SDG&E-43-R at JK-24.

[1754] Ex. CA-19 at 32.

Commission-approved Wildfire Mitigation Plan, with the balance reflecting the costs net of revenue requirement authorized in this TY 2024 GRC.[1755]

Cal Advocates addresses SDG&E's proposal to create the WMPBA in section 20.3.5 of this brief.

43.3 Cal Advocates' Financial Examination of Regulatory Accounts

Cal Advocates also performed a financial examination of selected regulatory accounts.[1756] As part of this financial examination, Cal Advocates requested and reviewed the 2019-2021 recorded balances of the regulatory accounts for any unusual items for follow-up and/or testing.[1757] Cal Advocates selected regulatory accounts to request a break-down of the recorded balances into journal entries to trace selected journal entries to supporting documentation.[1758] Cal Advocates also reviewed the journal entries of selected regulatory accounts to ensure the accuracy of the allocation of revenue to the regulatory accounts as authorized by the Commission.[1759]

43.3.1 Financial Examination of SDG&E's Regulatory Accounts

Cal Advocates first selected the following of SDG&E's regulatory accounts to review that the amount authorized by the Commission to be collected is properly recorded from 2019 to 2021: Liability Insurance Premiums Balancing Account; Pension Balancing Account; Post Retirement Benefits Other Than Pensions; Post-2011 Distribution Integrity Management Program Balancing Account; and Tax Memo Account.[1760]

Next, Cal Advocates requested a breakdown of the recorded 2021 journal entries for the following SDG&E regulatory accounts and selected journal entries for further

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[1755] Ex. SDG&E-43-R at JK-25.

[1756] Ex. CA-19 at 33.

[1757] Ex. CA-19 at 33.

[1758] Ex. CA-19 at 33.

[1759] Ex. CA-19 at 33.

[1760] Ex. CA-19 at 33.

review.[1761] Cal Advocates then reviewed supporting documents for selected journal transactions to verify that the supporting documents are for the work incurred for the following regulatory accounts: Customer Information Systems Balancing Account; Transition, Stabilization, and Organizational Change Management Account; and Transmission Integrity Management Balancing Account.[1762]

Cal Advocates recommends no adjustments to the balances of the selected SDG&E regulatory accounts based on its examination.[1763]

43.3.2 Financial Examination of SCG's Regulatory Accounts

Cal Advocates selected the following of SCG's Regulatory Accounts to review the that the amount authorized by the Commission to be collected is properly recorded from 2019-2021: Liability Insurance Premiums Balancing Account; Pension Balancing Account; Post Retirement Benefits Other Than Pensions; and Research Development and Demonstration Expense Account.[1764]

Cal Advocates recommends no adjustments to the balances of the selected SCG regulatory accounts based on the review of the allocation of revenue to the selected regulatory accounts.[1765]

Three balancing accounts were selected for audit regarding SCG's Regulatory A/C testimony (Ex. SCG-38): Safety Enhancement Capital Cost Balancing Account (SECCBA) $98,673,000; Safety Enhancement Expense Balancing Account (SEEBA) $6,915,000; and Morongo Rights-of-Way Memorandum Account (MROWMA) $21,151,000.[1766] Cal Advocates requested a breakdown of recorded capital expenditures and expenses for these three regulatory accounts.[1767] For SECCBA, the balance of

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[1761] Ex. CA-19 at 33.

[1762] Ex. CA-19 at 33-34.

[1763] Ex. CA-19 at 34.

[1764] Ex. CA-19 at 34.

[1765] Ex. CA-19 at 34.

[1766] Ex. CA-19 at 34.

[1767] Ex. CA-19 at 34.

$98,673,000 includes capital revenue requirement based on the capital expenditures, 50% interim recovery authorized in D16-08-003, and interest.[1768] SEEBA's $6,915,000 balance as of December 31, 2021 includes the O&M expenses incurred through December 31, 2020, 50% interim recovery authorized in D.16-08-003, and interest.[1769] Finally, MROWMA's balance of $21,151,000 as of December 31, 2021 includes capital revenue requirement and interest.[1770]

Cal Advocates makes no recommended adjustments to the balances of the selected regulatory accounts based on the audit procedures performed.[1771]

44 SUMMARY OF EARNINGS/RESULTS OF OPERATIONS

44.1 Results of Operations Model

SCG and SDG&E filed their TY 2024 GRC applications on May 16, 2022, and provided Cal Advocates with an accompanying Results of Operations (RO) model.[1772] SCG and SDG&E state that there were no major modifications made to the RO model since the TY 2019 GRC filing.[1773]

Cal Advocates' witnesses provided input data for the RO model.[1774] The values shown in the RO tables at the end of Exhibit CA-15 were extracted from the same RO model with different inputs.[1775] The numbers shown in the SCG and SDG&E columns were extracted from the RO version that was provided on January 17, 2023.[1776] The figures displayed in the Cal Advocates columns were extracted from the same RO models with Cal Advocates' forecasts of expenses and capital-related items.[1777] Cal Advocates'

[1768] Ex. CA-19 at 34; D.16-08-003 at 8-11.

[1769] Ex. CA-19 at 35; D.16-08-003 at 8-11.

[1770] Ex. CA-19 at 35.

[1771] Ex. CA-19 at 35.

[1772] Ex. CA-15 at 17.

[1773] Ex. SDG&E-44-R at RH-6; Ex. SCG-39-2R at RH-5.

[1774] Ex. CA-15 at 17.

[1775] Ex. CA-15 at 17.

[1776] Ex. CA-15 at 17.

[1777] Ex. CA-15 at 17.

revenue requirement forecast incorporates the Cost of Capital decision D.22-12-031, as corrected in D.23-01-002.[1778]

45 POST TEST YEAR RATEMAKING

Sempra proposes a four-year GRC term comprising a test year (2024) and three post-test years (2025, 2026, and 2027). SCG seeks Commission authorization for an attrition mechanism which would yield estimated revenue increases of $293 million (6.66%) for 2025, $255 million (5.44%) for 2026, and $374 million (7.55%) for 2027.[1779] SDG&E seeks Commission authorization for an attrition mechanism which would yield estimated revenue increases totaling $315.0 million (10.52%) for 2025, $306.0 million (9.24%) for 2026, and $279.1 million (7.72%) for 2027.[1780] These increases account for escalation of operating expenses and the growth of rate base.[1781]

Sempra proposes continuation of the Z-factor mechanism adopted in prior GRCs.[1782] SCG proposes eight additional adjustments, and SDG&E proposes seven additional adjustments, for capital projects that are either going into service in the Post-Test Years (PTYs) or are proposed to be recovered in balancing accounts.[1783] These attrition year increases are in addition to SCG's $4.398 billion revenue requirement, to be effective January 1, 2024. If approved, SCG's revenue requirement would be an increase of $767 million over the expected 2023 revenue requirement, or a 20.9% increase.[1784] SDG&E requests a $2.996 billion revenue requirement (of approximately $674 million gas and $2.348 billion electric) to be effective January 1, 2024. If approved, this revenue

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[1778] Ex. CA-15 at 17; D.23-01-002, *Order Correcting Error*, January 10, 2023 at 1.

[1779] Ex. SCG-40-2R-E, Second Revised Prepared Direct Testimony Of Khai Nguyen (Post-Test Year Ratemaking) Errata, at KN-2, Table KN-1.

[1780] Ex. SDG&E-45-R-E, Revised Prepared Direct Testimony of Melanie E. Hancock (Post-Test Year Ratemaking) Errata at MEH-2, Table MH-1.

[1781] Ex. SCG-40-2R-E at KN-2 and Ex. SDG&E-45-R-E at MEH-2.

[1782] Ex. SCG-40-2R-E at KN-11, and Ex. SDG&E-45-R-E at MEH-11.

[1783] Ex. SCG-40-2R-E at KN-8 to KN-10, and Ex. SDG&E-45-R-E at MEH-8 to MEH-11.

[1784] Application (A.) A.22-05-015 at 4.

requirement would be an increase of $475 million over the expected 2023 revenue requirement, or an 18.7% increase.[1785]

Utilities are not automatically entitled to post-test year revenue increases. The GRC proceeding is used to periodically review and set reasonable rates for utilities for a specific test year. For the period between GRC proceedings, the Commission has, in some cases, granted attrition-type increases and, in other cases, has not provided such increases. As the Commission has stated:

> The attrition mechanism is not an entitlement. Nor is it a method of insulating the company from the economic pressures which all business experience…Neither the Constitution nor case law has ever required automatic rate increases between general rate case applications.[1786]

For example, in PG&E's 1999 GRC decision, the Commission denied attrition increases for the year 2000 and, in D.03-03-034, the Commission denied PG&E's attrition increase request for 2002. And in SCE's 2018 GRC, the Commission authorized attrition increases for 2019 and 2020[1787] while adopting a 9.27% revenue *decrease* for 2018.[1788] Commission precedent demonstrates that utilities are not automatically entitled to attrition rate increases between rate cases.

Over the past three rate case cycles, the Commission has authorized attrition increases ranging from approximately 2.65% to 7.5% per year for the large energy utilities.[1789]

Should the Commission find an attrition adjustment reasonable in this GRC case, Cal Advocates urges adoption of a mechanism which provides Sempra with some level of post-test year revenue increases but recommends one which would result in more reasonable attrition year revenue increases than the amounts requested by Sempra. The

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[1785] A.22-05-016 at 4.

[1786] D.93-12-043, 52 CPUC 2d 471, 492.

[1787] D.19-05-020 at 2.

[1788] D.19-05-020, Appendix C at C2.

[1789] Ex. CA-20, Report on the Results of Operations for San Diego Gas & Electric Company Southern California Gas Company Test Year 2024 General Rate Case, Post-Test Year Ratemaking, at 7-8.

Sempra Utilities' proposed attrition increases in this rate case are higher than the increases authorized by the Commission in any GRC in the last three rate case cycles. Cal Advocates has demonstrated that many of the utilities' requests are overstated and under-supported.[1790] For these reasons, the Commission does not have an adequate record on which to find these requests reasonable.

Sempra Energy Corporation (the parent company of the Sempra Utilities) earned $9.957 billion in profit in 2022[1791] and San Diego is, as of February 2023, the most expensive city in the U.S. for electricity rates at $0.475 per kilowatt hour.[1792] California ratepayers are facing an affordability crisis and should not continue enhancing Sempra's record profits through excessive attrition increases. As mentioned before, attrition rate increases are not an entitlement; rate increases should always be calculated to err on the side of caution and reasonability, and even more so for the unexamined attrition years. For all these reasons, Cal Advocates recommends the Commission adopt adjustments no greater than base revenue attrition year increases of 3% each year for 2025, 2026, and 2027 plus certain capital-related exceptions.[1793]

45.1 GRC Term and Z-Factor Mechanism

Sempra proposes a four-year rate case cycle, with a 2024 Test Year and three post-test years, 2025, 2026 and 2027. Sempra proposes to continue the currently authorized Z-factor mechanism for this 2024-2027 GRC term. Cal Advocates does not oppose Sempra's GRC term and Z-factor proposals on the condition that additional ratepayer

[1790] *E.g.*, fleet services, discussed in section 24; hydrogen, discussed in section 18; customer service building modernization, discussed in sections 10 and 25; and gas integrity management programs, discussed in section 15.

[1791] "Sempra Energy Gross Profit 2010-2023." *Macrotrends*, https://www.macrotrends.net/stocks/charts/SRE/sempra-energy/gross-profit#:~:text=Sempra%20Energy%20gross%20profit%20for%20the%20twelve%20months%20ending%20December,a%207.31%25%20increase%20from%202020. Accessed August 4, 2023.

[1792] U.S. Bureau of Labor Statistics. (n.d.) *Average energy prices for the United States, regions, census divisions, and selected metropolitan areas*. Retrieved August 4, 2023, from https://www.bls.gov/regions/midwest/data/averageenergyprices_selectedareas_table.htm

[1793] Ex. CA-20 at 17.

protections are also adopted given the uncertain forecasting provided to support these proposals, as discussed below[1794]

45.2 Post-Test Year Revenue Increases

SCG seeks post-test year revenue increases of $$293million (6.66%) for 2025, $$255million (5.44%) for 2026, and an additional $$374 million (7.55%) for 2027.[1795] SDG&E seeks post-test year revenue increases of $315.0 million (10.52%) for 2025, $306.0 million (9.24%) for 2026, and an additional $279.1 million (7.72%) for 2027.[1796]

Cal Advocates recommends that the Commission adopt post-test year GRC base revenue increases of 3% each year for 2025, 2026, and 2027 as escalation-related increases plus additional increases for certain capital-related exceptions.

Based on its forecast of SCG's 2024 revenue requirement,[1797] Cal Advocates' recommended PTYR methodology yields an estimated revenue increase of $188 million for 2025, and $215 million for 2026 and $225 million for 2027 for SCG. In turn, these increases yield estimated revenue requirement levels of $4.207 billion for 2025, and $4.422 billion for 2026 and $4.647 billion for 2027 for SCG.[1798]

Based on its forecast of SDG&E's 2024 revenue requirement,[1799] Cal Advocates' recommended PTYR methodology yields an estimated revenue increase of $222 million for 2025, and $239 million for 2026 and $247 million for 2027 for SDG&E. In turn, these increases yield estimated revenue requirement levels of $3.040 billion for 2025, and $3.279 billion for 2026 and $3.526 billion for 2027 for SDG&E.[1800] Cal Advocates' proposed mechanism provides Sempra with reasonable post-test year revenue increases that reflect the inflation that is driving costs upward.

[1794] Ex. CA-20 at 16, 17.

[1795] Ex. SCG-40-2R-E at KN-2.

[1796] Ex. SDG&E-45-R-E at MEH-2.

[1797] *See* section 35 of this brief and Ex. CA-15 (Shared Services Billing, Shared Assets Billing, Segmentation and Capital Reassignments, Tax, and Summary of Earnings).

[1798] Ex. CA-20 at 18.

[1799] *See* section 35 of this brief and Ex. CA-15.

[1800] Ex. CA-20 at 18.

45.3 Capital Post-Test Year Exceptions

Sempra proposes that certain capital-related costs for projects not fully reflected in the TY 2024 revenue requirement be included as part of the PTY attrition, so that the utilities are authorized adequate revenue to execute such projects. Sempra claims that these exceptions are necessary because the majority of the capital expenditures related to these projects are expected to close to plant in service in the PTYs and, therefore, the associated capital-related costs will not be fully reflected in the TY 2024 revenue requirement.[1801]

Table 45-1
Cal Advocates Recommended Capital Exceptions Revenue Requirements
For SCG for 2025, 2026, and 2027

($ in millions)	2025	2026	2027
DIMP	$46.6	$85.2	$124.7
TIMP	$21.5	$44.7	$66.7
SIMP	$2.9	$6.8	$10.7
FIMP	$0.3	$0.6	$0.9
GSEP	$16.3	$39.1	$66.0
CIS Replacement	$0.0	$0.0	$0.0
Honor Rancho Compressor	$0.0	$0.0	$0.0
Total	$87.6	$176.4	$269.0
Year to Year Increase		$88.8	$92.6

[1801] Ex. SCG-40-2R-E at KN-8 to KN-9.

Table 45-2
Cal Advocates Recommended Capital Exceptions Revenue Requirements
For SDG&E for 2025, 2026, and 2027

($ in millions)	2025	2026	2027
DIMP	$13.4	$26.0	$40.1
TIMP	$1.6	$2.7	$3.9
FIMP	$0.0	$0.0	$0.1
GSEP	$4.7	$9.1	$12.8
Smart Meter 2.0	$2.2	$10.4	$16.5
Moreno Compressor	$0.0	$0.0	$0.0
Wildfire Mitigation	$115.5	$237.3	$360.7
Total	$137.4	$285.5	$434.1
Year to Year Increase		$148.1	$148.6

Both utilities request an "exception" for their Gas Integrity Management Programs (DIMP, TIMP, SIMP, FIMP, and GSEP for SCG, and DIMP, TIMP, FIMP, and GSEP for SDG&E). SCG also requests an "exception" for its CIS Replacement Program and Honor Rancho Compressor Modernization.[1802] (SCG's Ventura Compressor Modernization was ordered removed from this proceeding in a Scoping Memo issued on October 3, 2022.) SDG&E also requests "exceptions" for its Smart Meter 2.0 program, Moreno Compressor Modernization, and Wildfire Mitigation.[1803]

Cal Advocates does not oppose SCG's request for post-test year capital related exceptions associated with DIMP, TIMP, SIMP, FIMP, and GSEP for 2025, 2026, and 2027. As discussed below, Cal Advocates opposes inclusion of capital-related exceptions associated with the CIS Replacement Program and the Honor Rancho Compressor Modernization project.

Cal Advocates does not oppose SDG&E's request for post-test year capital exceptions associated with DIMP, TIMP, FIMP, and GSEP. As discussed below, Cal Advocates opposes inclusion of capital-related exceptions associated with the Moreno

[1802] Ex. SCG-40-2R-E at KN-9.

[1803] Ex. SDG&E-45-R-E at MEH-9.

Compressor Modernization and proposes reductions to the exceptions associated with the Smart Meter 2.0 program and Wildfire Mitigation.

Cal Advocates recommends that the Gas Integrity Management Programs for both utilities, and the Wildfire Mitigation Program for SDG&E, be subject to two-way balancing account treatment, along with the requirement that the utilities file an application for reasonableness review of any recorded costs in excess of 110% of the capital expenditure amounts authorized in this decision. Any undercollection that is less than 110% of the amount authorized in this proceeding, as well as the refund of any overcollection, should be filed via a Tier 2 advice letter. This methodology was adopted by the Commission in D.21-08-036 where it found that, "When a forecast is uncertain, use of a balancing or memorandum account can reduce risk for both customers and investors, ensuring that any undercollection is returned to ratepayers while providing an opportunity for the utility to recover prudently incurred expenses."[1804]

Considering the amounts being requested for the Gas Integrity Management Programs and SDG&E's Wildfire Mitigation Program ($1.440 billion in revenue requirement for the three attrition years) and the overestimations and lack of support shown in this GRC[1805] it is imperative that the Commission assure a reasonable level of accountability for such projects. No party to this proceeding, other than perhaps Sempra, has performed an analysis of the costs of the proposed PTY capital expenditures or the likelihood that they will be completed during the post-test years. The balancing accounts will offer a certain level of protection that would not otherwise be available for ratepayers in regard to these costs.[1806]

Cal Advocates recommends that SCG's CIS Replacement Program be removed from the PTY. The CIS Replacement has had significant delays and is currently not expected to be completed until mid-2026 or in use until 2027, if the project stays on its

[1804] D.21-08-036 at 249.

[1805] *See* section 15 of this brief and Ex. CA-03, in particular, which discuss SCG's Gas Pipeline Integrity Program.

[1806] Ex. CA-20 at 21.

current track.[1807] According to SCG, the proposed CIS Replacement completion schedule is skewed toward the later post-test years:

Table 45-3
SoCalGas, CIS Replacement Schedule

Project Phase	Estimated Completion Date
Plan & Analyze	7/31/2024
Design, Build & Validate	4/30/2025
Test	12/31/2025
Deployment	6/30/2026
Post Go Live Stabilization	3/31/2027

It is inappropriate to include these costs for ratepayer funding given the uncertainty associated with the expected completion date of the project. When the facility is "used and useful," which is the standard guideline for ratepayer funding, then SCG should file an application to recover the costs in rates.[1808]

Cal Advocates recommends that SCG's Honor Rancho Compressor Modernization be removed from the PTY. There is little support within SCG's testimony or workpapers for a project of this magnitude, just two line items in the PTY testimony[1809] and limited support in the Gas Storage and Operations testimony.[1810] The completion date is estimated by SCG in the final attrition year and given even limited delays would likely push the completion date out to the next GRC. With an estimated revenue requirement of $92.3 million in 2027, this project meets the Commission's threshold of $75 million[1811] to require a separate application with the appropriate levels of documentation, support, and review. SCG should be directed to remove this request from its PTY and to file the Honor Rancho Compressor Modernization as a separate application. Cal Advocates has

[1807] Ex. SCG-13-WP-2E at 12, CIS Replacement Program Forecast By Phase.

[1808] Ex. CA-20 at 21-22.

[1809] Ex. SCG-40-2R-E.

[1810] Ex. SCG-10-R, SCG-10-CWP-R and Ex. SCG-10-WP-R-E.

[1811] D.22-12-021 at 21.

the same concerns and recommendation regarding SDG&E's request for the Moreno Compressor Modernization.[1812]

Cal Advocates does not oppose some PTY funding for incremental costs related to SDG&E's Smart Meter 2.0 program. Cal Advocates proposes 50% funding for SDG&E request which is consistent with its proposed test year adjustment of 50% funding for this program.[1813]

Cal Advocates recommends a reduction of 10% each year to SDG&E's Wildfire Mitigation costs. This is consistent with the recommendations made in CA-07 and is further supported by the analysis in CA-21. Cal Advocates' proposal reflects its stated mission to advocate for the lowest possible bills for customers of California's regulated utilities consistent with safety, reliability, and the state's climate goals. SDG&E should focus on lower-cost alternatives and the highest-risk line segments. Cal Advocates' recommendation for balancing account treatment for these costs offers protection for SDG&E because prudent, reasonable expenditures can still be recovered in rates.[1814]

46 REVENUES AND RATES

46.1 Present and Proposed Gas Transportation Revenues and Rates

46.2 Present and Proposed Electric Revenues and Rates

47 AFFORDABILITY METRICS

48 OTHER ISSUES

48.1 Results of Examination

48.1.1 Scope of Examination

Cal Advocates conducted its examination of the Applicants' financial records in accordance with the authority and mandates set forth in the California Public Utilities Code Sections 314, 314.5, and 309.5.[1815] Typically, the basis for GRC requested revenue

[1812] Ex. CA-20 at 22.

[1813] Ex. CA-20 at 22-23.

[1814] Ex. CA-20 at 23.

[1815] Ex. CA-19 at 6; Cal. Pub. Util. Code §§ 314, 314.5, and 309.5.

requirements are forecasts based on recorded financial historical data.[1816] The general objectives of Cal Advocates' examination are to ensure that the interests of ratepayers are protected and to review the Applicants' financial records, upon which the GRC was built, to determine if they are reasonable and proper for ratemaking purposes under established Commission rules and regulations.[1817]

Cal Advocates' examination addressed SEMPRA's recorded historical financial data used in connection with forecasting its proposed revenue requirement in this application.[1818] Cal Advocates' primary emphasis focused on determining whether costs should be included for GRC forecasting purposes.[1819] The examination conducted was a limited financial examination of SCG's and SDG&E's records focusing on the recorded Operation and Maintenance (O&M) expenses, Administrative and General (A&G) expenses, capital expenditures, and regulatory accounts.[1820]

Additionally, Cal Advocates conducted a review of the utilities' internal audit reports to assess whether the controls provide a reasonable level of assurance that the compilation of historical data from SCG's and SDG&E's records were adequate.[1821] Also reviewed in the examination was SCG's and SDG&E's application, testimony, and workpapers; prior rate case reports for relevant issues; relevant Commission Decisions; selected accounting transactions, source documentation, account books and records, Board of Directors Meeting Minutes, and Internal Audit Reports.[1822]

The following sections of this chapter are devoted primarily to areas where Cal Advocates is recommending adjustments.

[1816] Ex. CA-19 at 6.

[1817] Ex. CA-19 at 6.

[1818] Ex. CA-19 at 6.

[1819] Ex. CA-19 at 6.

[1820] Ex. CA-19 at 6.

[1821] Ex. CA-19 at 6.

[1822] Ex. CA-19 at 6.

48.1.2 SCG Administrative and General Expenses

SCG presents its recorded A&G expenses by cost centers.[1823] Cal Advocates reviewed the recorded A&G expenses and selected recorded A&G expenses for a breakdown of individual transaction entries, and from the list of entries, selected transactions to review their associated supporting documents to determine the accuracy of SCG's recorded transaction entries.[1824] The documents were reviewed for vendor's name, descriptions of work and/or services performed, date of work/service performed, and amount of costs, as well as for if the transaction is a recurring or one-time expense and if it should be recorded below-the-line or above-the-line.[1825]

Cal Advocates requested a list of 2017-2021 internal audit reports from SCG and SDG&E, and SCG and SDG&E provided a list of 2017-2021 internal audit reports that the utilities did not consider to be protected by the attorney-client privilege, attorney work product doctrine, or any other applicable privilege or evidentiary doctrine.[1826] Cal Advocates was able to select and review internal audit reports that SCG and SDG&E deemed not privileged.[1827]

SCG and SDG&E asserted some of their internal audit reports are protected by attorney-client privilege, and SCG and SDG&E provided Cal Advocates access to view a lists of these privileged internal audit reports during a virtual meeting.[1828] SDG&E asserted fifteen and SCG asserted twenty-one internal audits performed during 2017-2021 are protected by attorney-client privilege.[1829] SCG and SDG&E objected to Cal

[1823] Ex. CA-19 at 7.

[1824] Ex. CA-19 at 7.

[1825] Ex. CA-19 at 7; Below-the-Line is the income and expense items on a utility company's income statement that do not relate directly to its utility operations and that appear below the operating income line. Above-the-Line is the revenue and expense items on a utility company's income statement that relate directly to its utility operations and that appear above the operating income line.

[1826] Ex. CA-19 at 8.

[1827] Ex. CA-19 at 8.

[1828] Virtual Meeting on July 22, 2022.

[1829] Ex. CA-19 at 8.

Advocates' requests for a copy or access to review these privileged internal audit reports.[1830]

Cal Advocates does not challenge SCG's and SDG&E's assertion of attorney-client privilege.[1831] Cal Advocates could not determine whether the costs to perform these audits were justifiably assigned to ratepayers.[1832] Cal Advocates made the recommended adjustments in Audit Services by adjusting the historical recorded costs for purposes of forecasting as discussed below for SCG and SDG&E.[1833] This recommendation is consistent with Commission precedent.[1834]

SCG asserted twenty-one internal audit reports from 2017-2021 were protected by attorney-client privilege.[1835] SCG provided the costs to perform the internal audit reports that it asserted are privileged.[1836] Cal Advocates recommends the removal from SCG's Audit Services for its costs to conduct the internal audits that it asserts are privileged.[1837] Specifically, Cal Advocates recommends the removal of $381,000 in 2017, $593,000 in 2018, $344,000 in 2019, $117,000 in 2020, and $114,000 in 2021.[1838] Cal Advocates' recommended adjustments are for GRC forecasting purposes.[1839]

[1830] PubAdv-SCG-Audit-SWC-012 (PAO-SCG-Audit-SWC-012-2496-2495), question 1 and PubAdv-SDG&E-Audit-SWC-011 (PAO-SDG&E-Audit-SWC-011-2498), question 1.

[1831] Ex. CA-19 at 9.

[1832] Ex. CA-19 at 9.

[1833] Exhibit SCG-23-WP-R/SDG&E-27-WP-R at 106, Department A-6 Audit Services, WP A-62.

[1834] D.09-03-025 at 316-17 (holding that where internal audits are withheld from review under the assertion of attorney-client privilege, despite the reasonableness of the unprivileged audits, it cannot be assumed that the remaining privileged audits are reasonable in cost, and therefore they have not been demonstrated reasonable for ratemaking purposes and so the costs will be disallowed).

[1835] Ex. CA-19 at 10.

[1836] PubAdv-SCG-Audit-SWC-012 (PAO-SCG-Audit-SWC-012-2496-2495), question 2.

[1837] Ex. CA-19 at 10.

[1838] Ex. CA-19 at 10-11, Table 19-5.

[1839] Ex. CA-19 at 10.

48.1.3 SDG&E Administrative and General Expenses

Cal Advocates performed the same procedures as described above for its examination of SDG&E's A&G expenses.[1840] SDG&E asserted fifteen internal audit reports performed during 2017-2021 are protected by attorney-client privilege.[1841] SDG&E provided the costs to perform the internal audit reports that it asserted are privileged.[1842] Cal Advocates recommends the removal from SDG&E's Audit Services for its costs to conduct the internal audits that it asserts are privileged.[1843] Specifically, Cal Advocates recommends the removal of $233,000 in 2017, $101,000 in 2018, $217,000 in 2019, $546,000 in 2020 and $334,000 for 2021.[1844] Cal Advocates' recommended adjustments are for GRC forecasting purposes.[1845]

Cal Advocates also recommends adjustments to recorded A&G expenses to SDG&E's Safety Management Systems for transactions that are one-time expenses in 2019 and 2020. The following three transactions are one-time expenses not recurring in TY2024 that SDG&E did not remove from its recorded A&G expenses: a $268,378 vendor invoice for consulting milestone payment in 2019,[1846] a $224,454 invoice accrual for services provided in 2019,[1847] and a $355,000 invoice accrual for services provided in 2020.[1848] SDG&E stated that all of these costs are not considered a recurring item in the

[1840] Ex. CA-19 at 12.

[1841] Ex. CA-19 at 12.

[1842] PubAdv-SDG&E-Audit-SWC-011 (PAO-SDGE-Audit-SWC-011-2498), question 2.

[1843] Ex. CA-19 at 13.

[1844] Ex. CA-19 at 13, Table 19-08.

[1845] Ex. CA-19 at 13.

[1846] SDG&E's response to data request, PubAdv-SDGE-Audit SWC-020 (PAO-SDGE-Audit-SWC-020-5077-5076), Question 2, item #31.4.

[1847] SDG&E's response to data request, PubAdv-SDGE-Audit SWC-020 (PAO-SDGE-Audit-SWC-020-5077-5076), Question 2, item #31.5.

[1848] SDG&E's response to data request, PubAdv-SDGE-Audit SWC-020 (PAO-SDGE-Audit-SWC-020-077-5076), Question 2, item #31.1.

TY 2024 forecast and that the cost has not been removed or excluded from the GRC recorded costs.[1849]

Cal Advocates therefore recommends that the totals for SDG&E's Safety Management Systems be adjusted from $4,476,000 to $3,983,000 for 2019 and $4,232,000 to $3,897,000 for 2020.[1850]

SDG&E identified an error in 2020 recorded expenses for executive offices while responding to Cal Advocates' data request.[1851] SDG&E removed the one-time expenses or non-recurring expenses for consulting services of $2.591 million from the 2020 recorded expense for Executive Offices in its revised workpapers.[1852]

Cal Advocates confirmed that the one-time A&G expense of $2.591 million has been removed from the 2020 recorded expenses for Executive Offices in SDG&E's revised workpapers.[1853]

48.1.4 SCG's and SDG&E's O&M Expenses

Cal Advocates performed a limited examination of SCG and SDG&E's financial records for Operation and Maintenance (O&M) expenses from January 1, 2020 to June 30, 2022.[1854]

Cal Advocates reviewed SCG's and SDG&E's historical data for operations and maintenance expenses from calendar years 2020 to 2022.[1855] The examination focused on SEMPRA's compliance with Commission-established rules and regulations and focused on and included an examination of Sempra's general ledger integrity.[1856] Cal

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1849 SDG&E's response to data request, PubAdv-SDGE-Audit SWC-020 (PAO-SDGE-Audit-SWC-020-5077-5076), Question 2, item #31.4; SDG&E's response to data request, PubAdv-SDGE-Audit SWC-020 (PAO-SDGE-Audit-SWC-020-5077-5076), Question 2, item #31.5.

1850 Ex. CA-19 at 15, Table 19-09.

1851 Ex. CA-19 at 15.

1852 Ex. SDG&E-32-WP-R at 90.

1853 Ex. CA-19 at 16.

1854 Ex. CA-19 at 17.

1855 Ex. CA-19 at 17.

1856 Ex. CA-19 at 17.

Advocates selected some samples for testing and examined the related supporting documents for dates of service and type of services performed.[1857] Cal Advocates also reviewed and matched the service contracts for 2020 through 2022 from major work orders.[1858] The examination focused on compliance with Commission-established rules and regulations and focused on and included an examination of SEMPRA's general ledger integrity.[1859] The related supporting documents and disclosures were examined for SEMPRA and reviewed for dates of service and type of service performed.[1860] These tests were conducted to determine the reasonableness and accuracy of SEMPRA's financial data.[1861]

Cal Advocates recommends no adjustments to SEMPRA's recorded transactions related to O&M expenses transactions from January 1, 2020 to May 31, 2022.[1862]

48.1.5 SCG's Utility Plant

Cal Advocates reviewed SCG's 2017-2021 recorded capital expenditures and selected recorded capital expenditures for a breakdown of individual transaction entries.[1863] From the list of transaction entries for the recorded capital expenditures, Cal Advocates selected 185 transactions to review the associated supporting documents to determine the accuracy of SCG's recorded entries.[1864] These documents were reviewed for vendor's name, descriptions of work and/or services performed, date of work/service performed, and amount of costs.[1865]

[1857] Ex. CA-19 at 17.

[1858] Ex. CA-19 at 17.

[1859] Ex. CA-19 at 17.

[1860] Ex. CA-19 at 17.

[1861] Ex. CA-19 at 17.

[1862] Ex. CA-19 at 18.

[1863] Ex. CA-19 at 19.

[1864] Ex. CA-19 at 19.

[1865] Ex. CA-19 at 19.

Cal Advocates has no recommended adjustments to SCG's capital expenditures for 2017-2021 based on the procedures performed.[1866]

48.1.6 SDG&E's Utility Plant

Cal Advocates reviewed the 2017-2021 recorded capital expenditures and selected recorded capital expenditures for a breakdown of individual transaction entries.[1867] Cal Advocates selected 85 transactions to review the associated supporting documents to determine the accuracy of SDG&E's recorded transaction entries.[1868] These documents were reviewed for vendor's name, descriptions of work and/or services performed, date of work/service performed, and amount of costs.[1869]

Cal Advocates has no recommended adjustments to SDG&E's utility plant based on the procedures performed.[1870]

48.2 Political Activities Booked to Ratepayer Accounts

48.2.1 SoCalGas Has Used Ratepayer Funds To Engage In Organized Opposition to California's Climate Policies, In Violation Of State And Federal Laws, Commission Precedents, And Ratepayers' First Amendment Rights

Cal Advocates and other parties in this proceeding have adduced significant evidence demonstrating that SoCalGas has been using ratepayer money to engage in "organized combat" organized advocacy against California's zero-emission climate policies. That evidence shows that the utility has routinely employed political consultants, law firms, and its own employees – at ratepayer expense – to encourage the continued consumption of natural gas, and to defend itself when caught. SoCalGas campaigns booked to ratepayer accounts include[1871] creating the Californians for

[1866] Ex. CA-19 at 19.

[1867] Ex. CA-19 at 20.

[1868] Ex. CA-19 at 20.

[1869] Ex. CA-19 at 20.

[1870] Ex. CA-19 at 20.

[1871] This is not a comprehensive list of SoCalGas political campaigns funded by ratepayers. Other campaigns are discussed in Mr. Castello's Testimony, Ex. CA-23-C-E-R (confidential) and CA-23-E-R (redacted public version), both are hereafter referred to as Ex. CA-23 (Castello), and some are still being investigated.

Balanced Energy (C4BES) front group to advocate for the continued use of natural gas,[1872] successfully lobbying the Los Angeles Metropolitan Transit Authority to purchase gas-fueled instead of electric-powered buses,[1873] funding the California Restaurant Association's successful litigation against the City of Berkeley's ordinance banning gas connections in new buildings,[1874] and suing the California Energy Commission to consider more natural gas options in its Integrated Resource Plan.[1875]

In addition to proactively engaging in these campaigns at ratepayer expense, the utility has also charged ratepayers for the costs of defending itself when it is caught breaking the law. For example, when the California Attorney General's office learned that SoCalGas was advertising that natural gas was "renewable" in violation of green marketing rules, the utility booked its legal defense costs to ratepayers.[1876]

The utility has also booked legal costs to ratepayers when only shareholders have benefited from the litigation. For example, when the utility went to court against the Commission for the right to withhold shareholder information from Cal Advocates, the costs of that litigation were booked to ratepayers,[1877] even though the beneficiaries of that litigation were its shareholders. In fact, as described in Section 48.2.5 below, the outcome of that litigation facilitates the utility's ability to violate its customers' First Amendment rights against compelled speech – which certainly does not benefit its ratepayers.

[1872] *See* Ex. CA-23 (Castello) at 13-21. The details of these campaigns will not be repeated here.

[1873] Ex. CA-23 (Castello) at 6-9. The details of these campaigns will not be repeated here.

[1874] *See* discussion in Section 48.2.3.1 below.

[1875] *See* discussion in Section 48.2.3.2 below.

[1876] *See* discussion in Section 48.2.3.3 below.

[1877] Cal Advocates estimates that for the years 2020 through 2022 the utility booked over $4 million in legal costs to ratepayers for the right to withhold shareholder account information from the Commission. In 2020, $1,401,543 in Gibson Dunn litigation costs were booked to ratepayers: $182,481 (107); $46,671 (184); and $1,172,390 (923). In 2021, $2,321,553 in Gibson Dunn litigation costs were booked to ratepayers: $262,800 (107); $68,254 (184); and $1,990,499 (923). In 2022, $1,319,922 in Gibson Dunn litigation costs were booked to ratepayers: $170,616 (107); $38,278 (184); and $1,111,028 (923). ($122,220 was booked to account 426.)

Given the evidence of SoCalGas' ongoing practice of booking such costs to ratepayers, the scope and costs of the campaigns, the utility's misleading responses to inquiries, and its failure to demonstrate that such costs are not embedded in its GRC request, Cal Advocates' requested disallowance of roughly $80 million from the GRC request is more than justified.[1878]

48.2.2 Legal and Factual Overview

48.2.2.1 Activities That Do Not Benefit Ratepayers Must Be Booked Below The Line And the Utility Bears The Burden Of Proving Its Compliance

Two universal truths of utility rate regulation are: (1) the utility bears the burden of proof to support its rate requests[1879] and (2) regulators may only authorize rate recovery for just and reasonable costs necessary for safe and reliable service.[1880] The corollary to these rules is that costs which do not benefit ratepayers – and are therefore not necessary for safe and reliable service – may not be charged to ratepayers. Consequently, a utility must demonstrate that the costs it seeks to recover from ratepayers benefit ratepayers, and are just, reasonable, and necessary.

[1878] Ex. CA-23 (Castello) at 1-2 and 34-38.

[1879] *See, e.g.,* Cal. Pub. Utils. Code Sec. 451 which provides in relevant part: "All charges demanded or received by any public utility, or by any two or more public utilities, for any product or commodity furnished or to be furnished or any service rendered or to be rendered shall be just and reasonable. Every unjust or unreasonable charge demanded or received for such product or commodity or service is unlawful." *See also id* at Sec. 454 ("a public utility shall not change any rate... except upon a showing before the commission and a finding by the commission that the new rate is justified."); D.00-02-046, mimeo, p. 36, 2000 Cal. PUC LEXIS 239 citing Re Pacific Bell (1987) 27 CPUC 2d 1, 21 (D.87-12-067); and D.06-05-016, mimeo, p. 7 ("As the Applicant, SCE must meet the burden of proving that it is entitled to the relief it is seeking in this proceeding. SCE has the burden of affirmatively establishing the reasonableness of all aspects of its application. Intervenors do not have the burden of proving the unreasonableness of SCE's showing.").

[1880] *See* Cal. Pub. Utils. Code Sec. 451. *See also* D.12-11-051, SCE GRC, 2012 Cal. PUC LEXIS 555 at *12-13 ("We confirm that the Commission's mandate is specific and requires a balancing of interests to authorize rate recovery only for those just and reasonable costs necessary for safe and reliable service. This requires a hard look at each proposed expense, including whether it is necessary during the coming rate cycle and is appropriately calculated. … Ratepayers are entitled to the Commission's sharp eye and consideration of other options before committing their hard-earned cash.").

In implementing these fundamental rules, the Commission has found that the following expenditures do not benefit ratepayers and must be booked below the line: contributions to organizations that provide no specific benefits to ratepayers,[1881] all amounts for dues,[1882] donations,[1883] sponsorships,[1884] contributions,[1885] institutional advertising,[1886] advertising that encourages increased consumption of services,[1887] advocacy costs,[1888] lobbying activities at all levels,[1889] public relations efforts to increase

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[1881] *See, e.g.,* D.82-12-055 (1982), 1982 Cal. PUC LEXIS 1209 at 118-119 ("Our policy has been to disallow ratepayer contributions to organizations which provide no specific benefits to ratepayers. The burden is on Edison to show that the contributions for which it seeks ratepayer support provide such benefits.").

[1882] *Pacific Tel. & Tel. Co. v. Public Utilities Commission*, 62 Cal. 2d 634 (1965) at 668-669 ("We believe that the view expressed by the further declaration in the decision now before us that Pacific 'hereby is placed on notice that it shall be the policy of this Commission henceforth to exclude from operating expenses for rate-fixing purposes *all* amounts claimed for dues, donations and contributions' (italics added) states the correct rule; it also accords with the approach adopted in certain other jurisdictions . . . It may be emphasized that the commission's declared future policy does not purport to prohibit the utility from making contributions but only precludes charging them against its ratepayers"); *see also* D.16-06-053 (2016), 2016 Cal. PUC LEXIS 379 at 53-54 ("Consistent with D.86-01-026 we adopt ORA's suggested reduction of $241,465 to corporate expenses for donations, dues, and sponsorships for ratemaking purposes. These expenses are not reasonable as ratepayers have no voice in selecting the recipients and these activities do not increase safety and reliability for Kerman's customers").

[1883] *Id.*

[1884] *Id.*

[1885] *Id.*

[1886] D.88232 (1977) at 99, 1977 Cal. PUC LEXIS 233 ("We have previously made it clear that institutional advertising (which tends primarily to build the image of the company) will not be charged to the ratepayer.").

[1887] *See* California Public Utilities Code § 796(a) ("The commission shall disallow, for purposes of setting the rates to be charged by any electrical, gas, or heat corporation for the services or commodities furnished by it, all expenses for advertising which encourage increased consumption of such services or commodities"); *see also*, D. 87-05-074 (1987), 1987 Cal. PUC LEXIS 785 at 24-27).

[1888] *See, e.g., Pacific Tel. & Tel. Co. v. Public Utilities Commission*, 62 Cal. 2d 634 (1965) at 670 (". . . we agree with the general policy of the commission that the cost of legislative advocacy should not be passed on to the ratepayers and find the disallowance proper"); D.84902 (1975), 1975 Cal. PUC LEXIS 949 at 104-105 ("We see nothing improper in PG&E's looking out for its interests in Washington and Sacramento, but we do believe that the cost of such lobbying activities should be borne by PG&E's stockholders. We will adopt the staff recommendation and not include allowances for legislative advocacy in our adopted A&G expense") and FNs 1879, 1880, 1881 and 1882 above.

[1889] D.93-12-043 (1993), 1993 Cal. PUC LEXIS 728 at 105-106 ("ratepayers should not pay the costs associated with SoCalGas' lobbying efforts, whether those efforts are at the federal, state or local level, and whether or not the effort is directed at legislation or administrative action …").

load,[1890] and political advocacy that ratepayers may not agree with.[1891] Indeed, on this last point, both the Commission and the California Supreme Court have been clear:

> Dues, donations and contributions, if included as an expense for rate-making purposes, become an involuntary levy on ratepayers, who, because of the monopolistic nature of utility service, are unable to obtain service from another source and thereby avoid such a levy.[1892]

The Federal Energy Regulatory Commission's (FERC) Uniform System of Accounts (USofA) – which the Commission has adopted[1893] – expressly requires costs for many of the activities identified above to be booked to the 426 series of FERC accounts which are shareholder-funded below-the-line accounts.[1894] For example, all donations must be booked to Account 426.1,[1895] and all "expenditures for certain civic, political and related activities" must be booked to Account 426.4.[1896] The rules are clear, and the utility has no discretion.

[1890] D.93-12-043 (1993), 1993 Cal. PUC LEXIS 728 at 105-106 ("Generally speaking, ratepayers should not have to bear the costs of public relations efforts in this area which, according to SoCalGas, are designed primarily to increase load by promoting natural gas use to business and government leaders.").

[1891] D.14-08-032 (2014) at 566 ("We are persuaded by TURN that PG&E's limited exclusion of 13% of CCEEB dues for lobbying costs is too narrow, and doesn't account for the other public advocacy activities of CCEEB. We agree that ratepayers should not pay for political advocacy conducted by the CCEEB with which they may not agree.").

[1892] California Supreme Court *quoting with approval* from CPUC Decision No. 67369, *Pacific Telephone and Telegraph Co. v. CPUC*, 62 Cal. 2d 634 (1965) at 668.

[1893] *See* D.87-07-066 (regarding the CPUC's adoption of the USofA for gas utilities) and Cal. Pub. Utils. Code Sec. 793:

> The system of accounts and the forms of accounts, records, and memoranda prescribed by the commission for corporations subject to the regulatory authority of the United States, shall not be inconsistent with the systems and forms from time to time established for such corporations by or under the authority of the United States. Nothing in this section or Section 794 shall affect the power of the commission to prescribe forms of accounts, records, and memoranda covering information in addition to that required by or under the authority of the United States.

[1894] Ex. CEJA-01, Attach. 2 at PDF p. 3 where SoCalGas explains that FERC Account 426 is "shareholder funded."

[1895] *See* 18 CFR Sec. 367.4261: "This account *must* include all payments or donations for charitable, social or community welfare purposes." (*Emphasis added*).

[1896] *See* 18 CFR Sec. 367.4264: "This account *must* include *expenditures for the purpose of influencing public opinion with respect to the election or appointment of public officials, referenda, legislation, or ordinances (either with respect to the possible adoption of new referenda, legislation or ordinances or repeal or modification of existing referenda, legislation or ordinances) or approval, modification, or*

In addition, state law, informed by federal law, prohibits ratepayer recovery for activities that encourage increased load. California Public Utilities Code § 796(a), adopted more than fifty years ago, requires the Commission to disallow "all expenses for advertising which encourage increased consumption of such services or commodities."[1897] This law is affirmed by the Public Utility Regulatory Policies Act of 1978 (PURPA).[1898] Among other things, PURPA included an expansive model rule for states to adopt to ensure that ratepayers would not be charged for a utility's political advertising.[1899]

On November 8, 1980, the Commission submitted a PURPA compliance filing with the Department of Energy confirming that California's prohibition on ratepayer funding of political advertising included the definitions of political and promotional advertising set forth in PURPA.[1900] In other words, the Commission stated its belief that California's law is consistent with the model rule.[1901] Similar to Public Utilities Code § 796(a), PURPA provides that "[n]o gas utility may recover from any person other than the shareholders (or other owners) of such utility any direct or indirect expenditure by such utility for promotional or political advertising as defined in section 304(b)."[1902]

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revocation of franchises; or for the purpose of influencing the decisions of public officials." (Emphasis added).

[1897] *See also*, D.87-05-074 (1987), 1987 Cal. PUC LEXIS 785 at 24-27.

[1898] PURPA was enacted on November 9, 1978 as Public Law 95-617 (92 Stat. 3117) and appears generally in 16 U.S.C 2601. Various provisions appear elsewhere in the United States Code.

[1899] 15 U.S.C. § 3203 (b)(2) and § 3204(b).

[1900] *See, e.g.,* D.93887, 1981 Cal. PUC LEXIS 1279, *293 ("Our analysis begins with the question of whether this Commission adopted a PURPA standard barring the utility from recouping from ratepayers costs associated with political advertising. In its November 8, 1980 PURPA compliance filing with the Department of Energy, the Commission addressed the question, "Does the Advertising Standard that you had adopted require… [d]efinitions of political and promotional advertising which conform with those given in section 115(h)(1) and (2) or 304(b)(1) and (2) of PURPA?" The Commission's answer was "Yes." We feel it is clear that this Commission has adopted the prohibition on the recoupment by utilities of political advertising expenditures from ratepayers.").

[1901] *Id.*

[1902] 15 U.S.C. § 3203 (b)(2) and § 3204(b).

Significant here is that PURPA defines advertising very broadly to include "the commercial use, by a gas utility, of any media, including newspaper, printed matter, radio, and television, in order to transmit a message to a substantial number of members of the public or to such utility's gas consumers."[1903] It defines promotional advertising broadly as "any advertising for the purpose of encouraging any person to select or use the service or additional service of a gas utility or the selection or installation of any appliance or equipment designed to use such utility's service."[1904] And it defines political advertising broadly as "any advertising for the purpose of influencing public opinion with respect to legislative, administrative, or electoral matters, or with respect to any controversial issue of public importance."[1905]

In framing the law to reach both direct and indirect expenditures and broadly defining what constitutes the prohibited advertising, the law evidences a commitment to ensure that ratepayers will not be charged for *any form of advocacy that does not benefit them*. This federal objective is consistent with the long-standing laws and Commission precedents described above.

48.2.2.2 SoCalGas Has Failed To Meet Its Burden Of Proof

It is SoCalGas, not the parties, that bears the burden of proof in this case.[1906] Here the fact is that the utility has provided no compelling evidence to show that the costs of its political activities, which the evidence shows were booked to ratepayer accounts, are not embedded in its GRC Request. Instead, the utility asks us to take it on faith that all costs have been removed,[1907] even as it refuses to provide salient details - such as which costs were removed and how much was removed.[1908] Despite having had many

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[1903] 15 U.S.C. § 3204(b)(1)(A).

[1904] 15 U.S.C. § 3204(b)(1)(C).

[1905] 15 U.S.C. § 3204(b)(1)(B).

[1906] *See* discussion in Section 48.2.2 above regarding the burden of proof.

[1907] *See* discussion in Section 48.2.6 below regarding SoCalGas' failure to provide meaningful evidence that it has removed the costs of its political activities from its current GRC request.

[1908] *See* Ex. CA-135, discussed in Section 48.2.6.2 below.

opportunities to review its accounting practices and correct its errors, the evidence shows that it has chosen not to. Indeed, as Mr. Castello's testimony describes, the utility balked in response to nearly every question asked in Cal Advocates' very first data request related to these issues,[1909] and nothing has changed since that time.

48.2.3 The Evidence Shows That SoCalGas Continues To Book Political Activities To Ratepayer Accounts

Mr. Castello's testimony and workpapers explain how SoCalGas used ratepayer accounts between 2017 and 2019 to fund four specific political campaigns.[1910] That testimony was not exhaustive. Rather, it was intended to provide an overview of the utility's activities, its efforts to avoid responding to Cal Advocates' inquiries, and a sense of the number of employees engaged in these efforts. Significant here is the fact that evidence primarily adduced by CEJA in this GRC shows that the utility's practice of booking political activity costs to ratepayers goes far beyond the campaigns described in Mr. Castello's testimony. CEJA's evidence shows that:

- SoCalGas booked roughly $3.45 million to ratepayers for costs related to the California Restaurant Association's challenge to the City of Berkeley's ordinance banning gas connections in new buildings;[1911]
- SoCalGas booked $788,000 to ratepayers for its failed legal challenge to require the California Energy Commission to more fully consider the role of gas resources in its Integrated Energy Policy Report;[1912] and
- SoCalGas booked to ratepayers the costs of defending false advertising claims that natural gas was "renewable."[1913]

[1909] *See* Ex. CA-23 (Castello) at 15-18; see also Ex. CA-100 (SoCalGas data response to CalPA-SCG-051719 regarding C4BES funding) where SoCalGas insists for several months at C4BES costs are not funded by ratepayers, but the evidence ultimately shows the costs were booked to ratepayer account 920.

[1910] Ex. CA-23 (Castello) and Ex. CA-23-WP (Castello Workpapers).

[1911] *See* discussion in Section 48.2.3.1 below.

[1912] *See* discussion in Section 48.2.3.2 below.

[1913] *See* discussion in Section48.2.3.3 below.

The cost of each of these efforts to advance a political campaign in support of the use of natural gas should have been booked to FERC Account 426.4, a shareholder funded account. Consequently, this evidence confirms that the utility continues to mis-use ratepayer accounts to support its political objectives.

The evidence also shows that SoCalGas continues to refuse to cooperate with legitimate inquiries into these issues. When CEJA asked SoCalGas which litigation costs were booked to ratepayer funded accounts, the utility was evasive, even though CEJA's question was clear. Regarding SoCalGas' 2020 GO 77-M Report available on the utility's website,[1914] CEJA asked:

> c. Does number listed [sic] under the "Account Charged" column indicate whether an expense is assigned to ratepayers or shareholders? If so, please indicate what account numbers signify a shareholder expense and what account numbers signify a ratepayer expense.[1915]

The account numbers CEJA asked about were 107, 108, 184, 417, 832, and 923 – all accounts that the utility's 2020 GO 77-M Report identified for the recording of legal costs.[1916]

SoCalGas answered only that FERC Account 426 was shareholder funded:

> The "Account Charged" column indicates the Federal Energy Regulatory Commission (FERC) account that the expense was charged to. The FERC account number alone does not indicate whether an expense is shareholder or ratepayer funded. However, with respect to the 2020 General Order 77-M Report entries reflecting FERC account 426, this account is shareholder funded.[1917]

[1914] *See* Ex. CA-137 at 12-13 for the year 2020 (outside legal costs excerpted from SoCalGas GO 77-M Reports for the years 2012-2022).

[1915] Ex. CEJA-01, Attach. 2 at PDF p. 2.

[1916] *See* Ex. CA-130 at PDF pp. 808-810 (SoCalGas 2020 GO 77-M Report). To facilitate ease of access, excerpts from SoCalGas, SDG&E, Pacific Gas & Electric Company (PG&E), and Southern California Edison (Edison) GO 77-M Reports showing Payments to Outside Attorneys and Legal Firms are provided as Ex. CA-137 (SoCalGas), Ex. CA-138 (SDG&E), Ex. CA-139 (Edison) and Ex. CA-140 (PG&E).

[1917] Ex. CEJA-01, Attach. 2 at PDF p. 3.

To ensure all the non-426 Accounts were booked to ratepayer funded accounts, CEJA persisted with a follow up data request. That data request explained:

> In response to Question 2 of data request CEJA-SEU-002, SoCalGas stated that the numbers on the top row of page 32 of SoCalGas' 2020 General Order 77-M Report [107, 108, 184, 417, 832, and 923] signify that [sic] FERC accounts that the expenses were charged to.
>
> a. Do each of these accounts signify that expenses are charged to ratepayers? If some of the listed expenses are charged to ratepayers and some are not, please identify all expenses on pages 32 and 33 of SoCalGas' 2020 General Order 77-M Report assigned to ratepayers.

Again, the utility evaded the question, responding as follows:

> SoCalGas incorporates by reference its response to CEJA-SEU-002, Question 1c. SoCalGas further responds that pursuant to section 793 of the California Public Utilities Code, SoCalGas follows the Federal Energy Regulatory Commission ("FERC") Uniform System of Accounts ("USofA") to record and classify costs.
>
> Expenses on pages 32 and 33 of the SoCalGas 2020 General Order 77-M Report relate to 2020 outside legal services. The legal expenses contained in the General Order 77-M Report and included in the SoCalGas TY 2024 General Rate Case are shown below.

	107	108	184	923	Total
Grand Total	**1,022,533**	**1,768**	**365,951**	**6,303,766**	**7,694,018**

Given the utility's refusal to provide a clear answer to two direct data requests seeking confirmation that those legal services were booked to ratepayer funded accounts, it is entirely fair to assume based on the utility's responses that the legal costs booked to Accounts 107, 108, 184 and 923 were charged to ratepayers.

The evidence also shows that the utility continues to claim "error" when its improper booking of costs to ratepayers is discovered. Nearly four months after CEJA issued its ninth data request, and only in response to a motion to compel, the utility provided an "Introductory Statement" to that data request explaining that "errors had been discovered in the underlying data that will impact the 'TY 2024 forecast for outside legal, as shown in Exhibit SCG-23-R/SDG&E-27-R and supporting workpapers.'"

Sempra “committed to ‘correct this forecast, which is anticipated as a downward adjustment, at their next opportunity for revisions to testimony and workpapers.’”[1918]

48.2.3.1 SoCalGas’ Challenge to Berkeley’s ordinance banning gas connections in new buildings

On November 21, 2019, the California Restaurant Association, represented by the Reichman Jorgensen LLP law firm, filed a complaint challenging the City of Berkeley’s 2019 ordinance banning gas connections in new buildings[1919] on federal and state preemption grounds.[1920] CEJA began to ask questions after noticing that SoCalGas’ General Order No. 77-M Reports show that the utility retained Reichman Jorgensen at approximately the same time the Restaurant Association filed its lawsuit, and paid the law firm over $3.45 million between 2020 and 2021.[1921]

Among other things, CEJA sought to understand whether the Reichman Jorgensen costs were booked to ratepayer funded accounts. The utility’s GO 77-M reports show that it allocated some of those payments to Account 417 - Expenses of nonutility operations, and the rest across FERC Accounts 107, 184, and 923.[1922] And while CEJA expressly asked the utility to confirm whether the costs allocated to those FERC accounts were charged to ratepayers,[1923] as described in Section 48.2.3. immediately above, the utility’s response was less than clear.

[1918] Ex. CEJA-01, Attach. 3 at PDF pp. 42-44.

[1919] Ex. CA-141 City of Berkeley Ord. 7672-NS (July 2019), https://localenergycodes.com/download/1306/local_government_adoption_ordinance/fieldList/Berkeley%202019%20All-Electric%20-%20Ordinance%207672.pdf.

[1920] Ex. CA-141 Case No. 3:19-cv-07668, California Restaurant Association’s Complaint for Declaratory and Injunctive Relief, (N. D. Cal., Nov. 21, 2019), http://climatecasechart.com/wp-content/uploads/sites/16/casedocuments/2019/20191121_docket-319-cv-07668_complaint-1.pdf.

[1921] Ex. CA-130, pp. 808-09 (SoCalGas 2020 GO 77-M Report); *id*, pp. 874-75 (SoCalGas 2021 GO 77-M Report); and SoCalGas 2022 GO 77-M Report at https://www.socalgas.com/sites/default/files/2022_REDACTED_GO-77%20FINAL_Redacted.pdf. Both reports are also available at Ex. CA-137.

[1922] *Id.*

[1923] Ex. CEJA-01, Attach. 2 - SoCalGas Response to DR CEJA-SEU-004, Q.41(a).

On October 25, 2020, the utility did admit, in response to a CEJA data request that Reichman Jorgensen costs booked to Account 923 were "considered a ratepayer cost."[1924] However, the utility refused to answer CEJA's questions issued three days later regarding *why* the costs were booked to ratepayer funded accounts. Specifically, CEJA asked:

> The response to Data Request CEJA-SEU-08, Q.12 states that the $1,143,592 listed under account number 923 for the law firm Reichman Jorgensen LLP is considered a ratepayer cost.
>
> a. Please identify the matter(s) Reichman Jorgensen LLP worked on that SoCalGas charged $1,143,592 to account 923. If the firm worked on more than one matter, please provide a breakdown of how what portion of the $1,143,592 was associated with each matter.[1925]

Notwithstanding the fact that the costs were booked to ratepayer funded accounts, SoCalGas objected to the question, asserting broad claims of attorney-client privilege and work product doctrine, and that the requested information was irrelevant, outside the scope of the testimony, and/or unlikely to lead to the discovery of admissible evidence.[1926] In response to meet-and-confers, SoCalGas supplemented this response in January and February 2023. The January 2023 supplement raised similar objections and then "clarified" that "Reichman Jorgensen LLP is not counsel of record for SoCalGas in any public proceeding responsive to this request."[1927] The February 2023 supplement attempted to distinguish the information in the utility's GO 77-M Reports from the data supporting its GRC forecasts.[1928]

CEJA also specifically asked if the Reichman Jorgensen costs were related to the California Restaurant Association's litigation:

> Do any of these costs include legal services related to potential federal preemption of local ordinances banning gas connections in new

[1924] Ex. CEJA-01, Attach. 3 - SoCalGas Response to DR CEJA-SEU-008, Q.12, PDF p. 19 ("The dollar amount $1,143,592 listed under account number 923 for the law firm Reichman Jorgensen LLP is considered a ratepayer cost.").

[1925] Ex. CEJA-01, Attach. 3 - SoCalGas Response to DR CEJA-SEU-009, Q.5a, PDF p. 49.

[1926] Ex. CEJA-01, Attach. 3 - SoCalGas Response to DR CEJA-SEU-009, Q.5a, PDF p. 49.

[1927] Ex. CEJA-01, Attach. 3 - SoCalGas Response to DR CEJA-SEU-009, Q.5a, PDF pp. 49-50.

[1928] Ex. CEJA-01, Attach. 3 - SoCalGas Response to DR CEJA-SEU-009, Q.5a, PDF p. 50.

> construction and/or legal challenges to local gas bans for new construction such as in *Cal. Restaurant Ass'n v. City of Berkeley* (Docket Nos. 3:19-cv-07668, N.D.Cal and 21-16278, 9th Cir.).[1929]

SoCalGas responded with the same objections of privilege and relevance, and again "supplemented" its responses over time, essentially taking the same position.[1930]

Ultimately, CEJA filed a motion to compel Sempra to provide the Reichman Jorgensen information on February 1, 2023.[1931] In response to that motion to compel, instead of committing to answer the data requests, Sempra proposed to remove all costs for the Reichman Jorgensen firm from the data supporting [SoCalGas'] outside legal forecast for TY 2024…"[1932] Sempra also claimed – for the first time and more than four months after CEJA's October 28, 2022 data request – that there was "an error in the underlying data, which led [SoCalGas and San Diego Gas and Electric Company] to expend significant additional efforts to review the underlying data for quality control/assurance purposes and determine what information could be provided in a privilege log (without waiving privilege)."[1933]

On April 11, 2023, the ALJ granted CEJA's motion to compel and required SoCalGas to respond to Question 5(b) "with matter descriptions that are sufficiently detailed to determine whether these expenses may be reasonably charged to ratepayers."[1934]

On April 17, 2023 – six and a half months after the initial CEJA data request – SoCalGas supplemented its response pursuant to the ALJ ruling, revealing that the costs referenced in Question 5(b) were for legal advice that was nearly identical to the issues

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[1929] Ex. CEJA-01, Attach. 3 - SoCalGas Response to DR CEJA-SEU-009, Q.5b, PDF p. 51 ("Please also note that the information provided in the GO-77M report is not generated in

the same manner as the data supporting Applicants' TY 2024 GRC forecasts.").

[1930] Ex. CEJA-01, Attach. 3 - SoCalGas Response to DR CEJA-SEU-009, Q.5b, PDF p. 51.

[1931] CEJA February 1, 2023, Motion to Compel SoCalGas and SDG&E to Provide Information Requested in Questions 4 and 5 in CEJA's Ninth Set of Data Requests, p. 5.

[1932] Sempra Response to CEJA Motion to Compel, p. 3 (February 22, 2023).

[1933] Sempra Response to CEJA Motion to Compel, p. 3 (February 22, 2023).

[1934] Administrative Law Judge's Ruling Granting CEJA'S Motion to Compel (April 11, 2023).

raised in the Berkeley litigation. Those legal services "included matters related to liability risk management, land use and environmental matters, and existing and proposed federal, state and local laws, and other government actions potentially affecting natural gas service, including the legality of such laws and actions, such as whether they might be preempted by federal law." The utility did not identify any other work performed by the law firm but stated that "these costs do not include 'legal challenges to local gas bans for new construction such as in *Cal. Restaurant Ass'n v. City of Berkeley* (Docket Nos. 3:19-cv-07668, N.D.Cal and 21-16278, 9th Cir.).'"[1935]

Given Sempra's payments of over $3 million to Reichman Jorgensen in the same time frame as the Berkeley litigation, for research into the very same legal issues raised in that litigation, it strains credibility to suggest that the utility did not fund research that supported the California Restaurant Association's litigation. Moreover, while this work has clear benefits for the California Restaurant Association's litigation and is consistent with the utility's opposition to natural gas limiting policies, at no point has the utility shown that this work benefited ratepayers. However, that the costs were booked to ratepayers, and the utility only claimed accounting "error" four and a half months after CEJA's inquiry into this issue in response to CEJA's motion to compel evidences a pattern and practice. Specifically, the evidence shows that the utility has a pattern of booking advocacy costs to ratepayer funded accounts, withholding the evidence for as long and as best it can, and then claiming "error" when forced to reveal its misrepresentations.[1936]

48.2.3.2 SoCalGas Sued the California Energy Commission in an attempt to force it to consider more gas options

Evidence adduced in this proceeding shows that SoCalGas pursued politically-motivated litigation against the California Energy Commission, and insists that the costs of that litigation are properly booked to ratepayer funded accounts.

[1935] Ex. CEJA-48 (SoCalGas Third Supplemental Response to DR CEJA-SEU-009, Q.5b).

[1936] The utility has given no reason why it waited so long to make its "errors" claim.

Senate Bill 1389[1937] requires the California Energy Commission (CEC) to:

> [C]onduct assessments and forecasts of all aspects of energy industry supply, production, transportation, delivery and distribution, demand, and prices. The [CEC] shall use these assessments and forecasts to develop energy policies that conserve resources, protect the environment, ensure energy reliability, enhance the state's economy, and protect public health and safety.[1938]

Pursuant to this statute, the CEC adopts an Integrated Energy Policy Report (IEPR) every two years and an update every other year.[1939]

SoCalGas submitted multiple comments to the CEC throughout 2019 arguing that the CEC's 2019 IEPR failed to comply with the requirements of Assembly Bill 1257 (the Natural Gas Act).[1940] Specifically, on February 28, 2019, SoCalGas submitted comments on the CEC's 2019 IEPR Draft Scoping Order expressing concern that the Scoping Order's approach to analyzing options did not "maximize the benefits obtained from natural gas as an energy source" in accordance with AB 1257, and arguing for the importance of fossil and "renewable" gas.[1941] On April 22, 2019, SoCalGas submitted comments on the CEC's 2019 Joint Agency Workshop on Building Decarbonization, expressing concern over its exclusive focus on electrification and arguing for an "all-of-the-above approach to fight climate change."[1942]

[1937] SB 1389, Bowen and Sher, Chapter 568, Statutes of 2002, *codified at* Pub. Res. Code § 25301(a).

[1938] Pub. Res. Code § 25301(a).

[1939] Ex. CA-144 California Energy Commission, *2019 Integrated Energy Policy Report*, https://www.energy.ca.gov/data-reports/reports/integrated-energy-policy-report/2019-integrated-energy-policy-report

[1940] SB 1257, Bocanegra, Chapter 749, Statutes of 2013, *codified at* Pub. Resources Code Sec. 25303.5

[1941] Sex. CA-144 Southern California Gas Company, *Southern California Gas Company Comments – SoCalGas Comments on 2019 Scoping Order* (Feb. 28, 2019) at 1-2, *available at https://efiling.energy.ca.gov/GetDocument.aspx?tn=227195*

[1942] Sex. CA-145 Southern California Gas Company, *Southern California Gas Company Comments – SoCalGas Comments on Building Carbonization Workshop* (Mar. 22, 2019) at 5, *available at https://efiling.energy.ca.gov/GetDocument.aspx?tn=227834&DocumentContentId=59209*.

On November 8, 2019, the CEC published its draft 2019 IEPR[1943] which included, in Appendix A, a discussion of various "studies, research, projects, and other initiatives by the CEC and other agencies to optimize the use of natural gas while working to achieve carbon neutrality."[1944] On November 15, 2019, SoCalGas submitted a comment letter to the CEC in Response to the October 30, 2019, IEPR Workshop, in which SoCalGas argued that the CEC's approach to complying with AB 1257 failed to "meaningfully identify strategies and options to maximize the benefits obtained from natural gas and renewable natural gas (RNG)."[1945] On November 27, 2019, SoCalGas submitted a comment letter to the CEC regarding the 2019 draft IEPR, further criticizing its failure to meaningfully consider natural gas.[1946] On January 31, 2020, the CEC issued a draft final IEPR.[1947] In response, SoCalGas submitted a comment on February 11, 2020, reiterating its concerns.[1948] On February 20, 2020, the CEC adopted the final 2019 IEPR.[1949]

Having failed to prevail in the CEC proceedings, SoCalGas then proceeded to pursue its position through litigation. On July 31, 2020, represented by the law firm Sullivan & Cromwell, SoCalGas filed a complaint in court against the CEC, arguing it

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[1943] Ex. CA-146 California Energy Commission, *Draft 2019 Integrated Energy Policy Report* (Nov. 8, 2019), *available at* https://efiling.energy.ca.gov/GetDocument.aspx?tn=230539&DocumentContentId=62120.

[1944] CEC, Draft 2019 IEPR at A-2.

[1945] Ex. CA-147 Southern California Gas Company, *Southern California Gas Company Comments –* SoCalGas Comments on AB 1257-The Natural Gas Act (Nov. 15, 2019) at 1, *available at* *https://efiling.energy.ca.gov/GetDocument.aspx?tn=230747&DocumentContentId=62358*

[1946] Ex. CA-148 *See* Southern California Gas Company, *Southern California Gas Company Comments –* SoCalGas Comments Draft IEPR (Nov. 27, 2019), *available at* https://efiling.energy.ca.gov/GetDocument.aspx?tn=230895&DocumentContentId=62538.

[1947] Ex. CA-149 California Energy Commission, *Final 2019 Integrated Energy Policy Report* (Jan. 31, 2020), ***a**vailable at* *https://efiling.energy.ca.gov/GetDocument.aspx?tn=231820&DocumentContentId=63671*.

[1948] Ex. CA-150 Southern California Gas Company, *Southern California Gas Company Comments – SoCalGas Comments on Final 2019 IEPR* (Feb. 11, 2020), *available at* *https://efiling.energy.ca.gov/GetDocument.aspx?tn=232010&DocumentContentId=63874*.

[1949] Ex. CA-151 California Energy Commission, *Final 2019 Integrated Energy Policy Report* (May 6, 2020), *available at* *https://efiling.energy.ca.gov/GetDocument.aspx?tn=232922&DocumentContentId=65363*.

violated state law, including the Natural Gas Act, "by issuing an inadequate and improper IEPR."[1950] SoCalGas subsequently dismissed the lawsuit with prejudice, without obtaining any of its requested relief.

SoCalGas' General Order 77-M Reports for 2020 and 2021 reflect that it paid over $788,000 to Sullivan & Cromwell for those years, which coincide with the time frame of the utility's CEC litigation.[1951] It is also interesting that instead of booking these costs to a legal services account such as 923 or 928, the utility booked Sullivan & Cromwell's legal costs to FERC Account 417 – Expenses of nonutility operations.

The Uniform System of Accounts explains that Account 417 "shall include revenues and expenses applicable to operations which are nonutility in character but nevertheless constitute a distinct operating activity of the enterprise as a whole, such as the operation of an ice department where applicable statutes do not define such operation as a utility, or the operation of a servicing organization for furnishing supervision, management, engineering, and similar services to others."[1952] "The expenses shall include all elements of costs incurred in such operations, and the accounts shall be maintained so as to permit ready summarization as follows: Operation. Maintenance. Rents. Depreciation. Amortization."[1953]

Given that these costs were booked to Account 417 as "non-utility" operations, it is perplexing that the charges would be included in this GRC. On cross-examination, SoCalGas' witness confirmed that the utility included these costs in the GRC litigation forecast and explained:

> ... our perspective is that litigation was brought to enforce and in support of state law and state policy as determined by the California legislature and to enforce a mandate, a legislative mandate, to the [CEC] that the California

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[1950] Ex. CA-152 *SoCalGas v. California State Energy Resources Conservation and Development Commission*, Complaint for Declaratory and Injunctive Relief, at ¶ 99 (July 31, 2020) ("SoCalGas v. CEC Complaint"), http://climatecasechart.com/wp-content/uploads/sites/16/case-documents/2020/20200731_docket-na_complaint.pdf.

[1951] Ex. CA-130 at PDF pp. 809, 874, also available as Ex. CA-137.

[1952] 18 CFR § Pt. 201, 417.1.A.

[1953] 18 CFR § Pt. 201, 417.1.B.

legislature determined was in the public interest, and the public would include our ratepayers.[1954]

This same witness insisted that the litigation was "an action that's, frankly, in connection with this -- our normal operating of our business in the provision of utility service."[1955] This further calls into question the propriety of booking the legal costs to Account 417 – nonutility operations. If the litigation against the CEC was part of the utility's "normal operating" of its business, why were the costs recorded as "nonutility operations"?

While SoCalGas' witness insisted ratepayers benefited from this litigation,[1956] Cal Advocates disagrees. The utility brought the litigation to advance its pro-gas interpretation of the requirements of the Natural Gas Act, which benefits its shareholders, not its ratepayers. Moreover, the record shows that the litigation was withdrawn with prejudice, with no violations of law found, and that the utility obtained none of the relief it requested.[1957] Such expenditures are not properly booked to ratepayers; finding otherwise would create a perverse incentive for a utility to sue a government agency as a form of harassment, which is precisely what occurred here.

48.2.3.3 SoCalGas' rate request includes legal costs to defend false advertising claims that natural gas is "renewable"

On April 24, 2023, Attorneys General from fifteen states and the District of Columbia (together "States") submitted comments[1958] in connection with the Federal Trade Commission's (FTC) review of the FTC's Guides for the Use of Environmental

[1954] RT, Vol. 16 at 2814:16-2815:2 (SoCalGas, David Barrett).

[1955] RT, Vol. 16 at 2820:16-18 (SoCalGas, David Barrett).

[1956] *See generally* RT, Vol. 16 at 2816:12-14 (SoCalGas, David Barrett) ("it is in both utility interest and ratepayer interest generally to seek compromise and settlement of the matters."). *See also* RT, Vol. 14 at 2458:1-3 (SoCalGas, Derick Cooper) ("The cost in question that are --·that were used to enforce statutory law are recoverable costs, and that's the answer.").

[1957] Ex. CEJA-01, Attach. 4, Response to Data Request CEJA-SEU-018, Attach. to Q.12(a) – Settlement Agreement, at PDF pp. 138-141.

[1958] Ex. CEJA-25 (26 – Excerpts of AG Comments on FTC Green Guides).

Marketing Claims ("Green Guides").[1959] The stated purpose of the Green Guides is to "help marketers avoid deceptive environmental claims under Section 5 of the Federal Trade Commission Act (FTCA), 15 U.S.C. 45."[1960] The States explained that "in several instances, courts have looked to the Green Guides in legal actions attempting to hold manufacturers accountable for deceiving consumers into purchasing "green" products they would not have otherwise purchased."[1961]

In their comments, the States noted:

> [G]as distribution companies often market natural gas as more efficient, better for the environment, and clean. These statements are without qualification or substantiation and could be misleading to a reasonable consumer, particularly at a time when there is continual media focus on climate change and decarbonizing heating in buildings."[1962]

In support of this claim the States' comments noted that the California Attorney General "recently relied on §260.15(a) in determining that a natural gas producer violated state consumer protection laws by claiming that natural gas is 'renewable.'"[1963]

In fact, the evidence shows that the gas company claiming that natural gas is "renewable" was SoCalGas. The evidence also shows that the utility included in its GRC approximately $191,789 in legal fees it incurred to defend itself against the California Attorney General's prosecution of its false advertising claims between 2020 and 2022.[1964]

[1959] 87 Fed. Reg. 77,766 (Dec. 20, 2022).

[1960] Ex. CA-153 F.T.C., The Green Guides, Statement of Basis and Purpose 1 (Oct. 1, 2012), https://www.ftc.gov/sites/default/files/attachments/press-releases/ftc-issues-revised-greenguides/greenguidesstatement.pdf

[1961] Ex. CEJA-26 at 2 (Excerpts of AG Comments on FTC Green Guides at 2).

[1962] Ex. CEJA-26 at 37.

[1963] Ex. CEJA-26 at 38.

[1964] In 2020, SoCalGas booked $100,865 in Hueston Hennigan costs to above-the-line accounts: $13,133 to FERC Account 107; $3,359 (184); and $84,373 (923). *See* Ex. CA-130, PDF at 808 (SoCalGas 2020 GO 77-M Report). In 2021, SoCalGas booked $66,145 in Hueston Hennigan costs to above-the-line accounts: $7,488 (107); $1,945 (184); and $56,713 (923). *See* Ex. CA-130, PDF at 874 (SoCalGas 2021 GO 77-M Report); In 2022, SoCalGas booked $24,779 in Hueston Hennigan costs to above-the-line accounts: $3,223 (107); $719 (184); and $20,837 (923). For ease of reference, *see* Ex. CA-137 at 10-15 (SoCalGas legal costs from GO 77-M Reports 2014-2022).

However, consistent with the utility's pattern and practice of improperly booking advocacy costs to ratepayer funded accounts, SoCalGas attempted to evade questions regarding how it was booking the costs of the California Attorney General's suit against it by variously claiming privilege and describing the costs as "part of the necessary expenses incurred in operating a utility."[1965]

CEJA pursued the issue in response to receipt of a confidential privilege log containing descriptions of outside counsel legal costs included in SoCalGas' TY 2024 GRC forecast. In that log, SoCalGas included outside counsel costs for the law firm Hueston Hennigan LLP for the purpose of "SCG: Natural Gas Claims Advice."[1966] Claiming privilege and confidentiality, SoCalGas refused to explain the basis for the costs, initially stating that "unknown future legal matters cannot be predicted and the overall demand for legal services has steadily increased," that "legal matters and needed services can vary from year to year," and that the related costs are "part of the necessary expenses incurred in operating a utility."[1967] In response to further CEJA data requests, the utility was similarly evasive. For example, the utility refused to admit whether the Hueston Hennigan costs were related to the California Attorney General investigation referenced in the FTC comments.[1968]

However, on cross examination, the utility's witness all but admitted that the States' FTC comments referred to the California Attorney General's prosecution of SoCalGas for false advertising: "I think it is a reasonable assumption that what the attorney general is describing [in that blurb] is the matter that we're identifying in our discovery responses" and that SoCalGas has "included the cost of responding to that [inquiry] in the underlying trend data in [its] forecast."[1969] This answer – though oblique – confirms that it is reasonable to assume that the utility knowingly and intentionally

[1965] Ex. CEJA-25 at 1-2 (SoCalGas Response to DR CEJA-SEU-019, Q. 1(a)).

[1966] Ex. CEJA-25 at 1 (SoCalGas Response to DR CEJA-SEU-019, Q. 1).

[1967] Ex. CEJA-25 at 1-2 (SoCalGas Response to DR CEJA-SEU-019, Q. 1(a)).

[1968] Ex. CEJA-25 at 63-64 (SoCalGas Response to DR CEJA-SEU-027, Q. 1(f)-1(g)).

[1969] RT, Vol. 16 at 2823:20-2824:5 (SoCalGas, David Barrett).

booked the costs of its false advertising defense to ratepayers and included similar costs in its GRC estimate for future legal expenditures. At no point has SoCalGas denied having done so.

SoCalGas' decisions to book these costs to ratepayer accounts violate rules that expressly prohibit a utility from booking costs to ratepayers for activities that do not benefit them.[1970] The utility's false advertising claims, and defense of those claims does not benefit ratepayers. The utility's decision to book these costs to ratepayers is another example of the utility's ongoing pattern and practice of hiding behind false claims of privilege and confidentiality to avoid disclosure of costs it inappropriately booked to ratepayers.

48.2.4 SoCalGas may be improperly booking the costs of political activities performed by law firms to a capital account that provides the utility a rate of return on these expenditures – further examination is warranted

As discussed in Section 48.2.3 above, the evidence shows that SoCalGas has booked millions of dollars to ratepayer accounts for law firm costs associated with political activities that advance the utility's pro-gas positions rather than benefitting ratepayers. That discussion also notes that the utility booked legal costs to FERC accounts – such as 417 – that do not appear to be appropriate.[1971]

Significant here is that Cal Advocates' review of both SoCalGas and SDG&E legal costs between 2016 and 2022 recorded in their GO 77-M Reports reflect that both utilities have booked small portions of nearly all of their legal costs to Account 107-Construction Work in Progress.[1972] Account 107 is a capital-related account that

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[1970] *See* discussion in Section 48.2.2 above.

[1971] *See* discussion at Section 48.2.3.2 above, SoCalGas' General Order 77-M reports for 2020 and 2021 reflect that it paid over $788,000 to Sullivan & Cromwell and that instead of booking these costs to a legal services account such as 923 or 928, the utility booked the costs to FERC Account 417 – Expenses of nonutility operations, and included those costs in its GRC request. *See also,* Ex. CA-137 at 12-14.

[1972] *See* Ex. CA-137 and Ex. CA-138 (legal costs excerpted from SoCalGas GO 77-M reports between 2014 and 2022 and from SDG&E GO 77-M reports between 2016 and 2022.

ultimately allows the utilities to earn a rate of return on their legal expenditures for a number of years.[1973]

Cal Advocates first noticed this pattern when it focused on the legal campaigns that SoCalGas had booked to ratepayer accounts. For example, between 2020 and 2022, SoCalGas booked $23,844 to capital account 107 for costs paid to the law firm Hueston Hennigan. This is the law firm that defended the utility's false advertising campaign that natural gas was renewable.[1974] While significantly less than the total amount (approximately $200,000) paid to the law firm over those three years, Cal Advocates is concerned that such recordings evidence a practice of booking small amounts to capital accounts, while generating significant income for the utility. The earnings on the "capital" would generate a rate of return of roughly 7.30% per year[1975] on those expenses for years to come, depending upon how the utility depreciates the "asset."

Looking at the other law firm costs that were booked to ratepayer accounts reveals a continuing pattern. SoCalGas' payments to the Reichman Jorgensen law firm for costs associated with the City of Berkeley litigation included a total of $264,321 booked to Account 107. Similarly, the utility booked a total of $615,897 to Account 107 for the Gibson Dunn law firm's legal services. Ultimately, a review of both SoCalGas and

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[1973] *See* 18 CFR § 367.1070 Account 107, Construction work in progress.

> (a) This account must include the total of the balances of construction projects for service company property in process of construction.
>
> (b) Construction projects must be cleared from this account as soon as practicable after completion of the job. Further, if a project is designed to consist of two or more units that may be placed in service at different dates, any expenditures that are common to and that will be used in the operation of the project as a whole must be included in service company property upon the completion and the readiness for service of the first unit. Any expenditures that are identified exclusively with units of property not yet in service must be included in this account.
>
> (c) Expenditures on research, development, and demonstration projects for construction of facilities are to be included in a separate subaccount in this account. Records must be maintained to show separately each project along with complete detail of the nature and purpose of the research, development, and demonstration project together with the related costs.

[1974] *See* discussion in Section 48.2.3.3 above regarding SoCalGas' false advertising claims prosecuted by the California Attorney General.

[1975] Ex. CA-15 at A-2, line 28, SCG 2024 proposed rates.

SDG&E legal costs reported in their GO 77-M Reports[1976] shows that the Sempra utilities have booked a portion of nearly every law firm payment to Account 107 and Account 184 (Clearing Accounts) for at least the last 7 years.[1977]

Cal Advocates acknowledges that a law firm may well be consulted to work on a gas project and those costs might be properly capitalized. However, it is unlikely that SoCalGas would use most of its law firms – as is evidenced here – to advise on Construction Work in Progress (CWIP) issues. Among other things, SoCalGas' attorneys should be more familiar with CWIP issues than outside counsel, and to the extent other services are being provided that fall within the rubric of Account 107, a utility is obligated to comply with numerous FERC rules to justify its accounting.[1978]

Significantly, it appears that neither Southern California Edison Company (Edison), nor Pacific Gas & Electric Company (PG&E) booked *any* of the legal costs they incurred over the last seven years to Account 107, and booked far fewer costs to Account 184.[1979] For those utilities, a significant portion of their legal costs are booked to either a 900 series FERC account, or a shareholder-funded 426 series account.[1980]

Given these findings, Cal Advocates suggests that a full investigation of both SoCalGas and SDG&E accounts going back at least ten years is warranted to address these and other accounting practices that may be inappropriate.[1981]

[1976] *See* Ex. CA-137 and Ex. CA-138 (legal costs excerpted from SoCalGas GO 77-M reports between 2014 and 2022 and from SDG&E GO 77-M reports between 2016 and 2022.

[1977] *See* 18 CFR § 367.1840 Account 184, Clearing accounts.

> This account must include undistributed balances in clearing accounts at the date of the balance sheet. Balances in clearing accounts must be substantially cleared not later than the end of the calendar year unless the items held relate to a future period.

[1978] Among other things, the utility would have to demonstrate that those legal costs met the Gas Plant Instruction #3, items 7, 8 or 15 guidelines and were not simply an overhead allocation of all legal costs. *See* 18 C.F.R., Subchapter F – Accounts Natural Gas Act, Part 201 – USofA, Gas Plant Instructions, Instruction # 3.

[1979] *See* Ex. CA-139 and Ex. CA-140 (outside legal costs excerpted from both PG&E and Edison GO 77-M Reports for the years 2016-2022).

[1980] *Id.*

[1981] Such an investigation should include, but not be limited to, the questionable accounting practices identified herein, including bookings to Account 184 and 417. Cal Advocates' inquiry into this accounting matter was necessarily limited given that these observations were made during preparation of

48.2.5 SoCalGas' Use of Ratepayer Funds For Political Advocacy Violates Its Customer's First Amendment Rights Against Compelled Speech

By booking pro-gas advocacy costs to above-the-line accounts, SoCalGas has forced its ratepayers to subsidize speech that they may not agree with, violating their First Amendment rights. The right to be free from compelled speech is well established in both the U.S. and California Constitutions.[1982] As the U.S. Supreme Court has explained: "Just as the *First Amendment* may prevent the government from prohibiting speech, the Amendment may prevent the government from compelling individuals to express certain views, or from compelling certain individuals to pay subsidies for speech to which they object."[1983]

The U.S. Supreme Court broadened what qualifies as compelled speech in *Janus*.[1984] There, the Court held that an Illinois statute authorizing public-sector unions to assess "agency fees" from non-member public employees on whose behalf the union negotiated violated the free speech rights of nonmembers by compelling them to subsidize private speech on matters of substantial public concern. The Court held that "a compelled subsidy must serve a compelling state interest that cannot be achieved through means significantly less restrictive of associational freedoms."[1985]

Given the pattern and practice of SoCalGas' booking the costs of political activities with which its ratepayers may not agree to ratepayer funded accounts, the utility has violated its ratepayers First Amendment rights and the Commission should take every

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this Opening Brief. Among other things, Cal Advocates was not able to quickly obtain and review as many years of GO 77-M reports that it would have liked to understand the magnitude of the issue.

1982 U.S. Const., 1st Amend.; Cal. Const. art. I, § 3.

1983 *U.S. Dept. of Agriculture v. United Foods*, 533 U.S. 405 (2001) (*United Foods*) 410-411 (*citations omitted*) *but see also Wooley v. Maynard, 430 U.S. 705, 714 (1977)*; *West Virginia Bd. of Ed. v. Barnette, 319 U.S. 624 (1943), Abood v. Detroit Bd. of Ed., 431 U.S. 209 (1977)*; *Keller v. State Bar of Cal., 496 U.S. 1*. The California Supreme Court has endorsed these principles as to the California Constitution. *See, e.g., Smith v. Regents of the Univ. of Cal.,* 4 Cal. 4th 843 (1993) *cert denied* 510 U.S. 863 (1993) (*Smith v. Regents*).

1984 *Janus v. American Federation of State, County, and Mun. Employees, Council 31,* 138 S.Ct. 2448 (2018).

1985 *Janus* at 2465.

action available to it to ensure this Constitutional violation is addressed.[1986] The Commission can start in this GRC proceeding by granting Cal Advocates' proposed $80 million disallowance to its rate request.[1987]

48.2.6 SoCalGas Has Not Demonstrated That All Political Activity Costs Have Been Removed From The GRC Request

48.2.6.1 SoCalGas has the burden of proving that its GRC request does not include the costs of employee labor supporting political activities

As described in Section 48.2.2 above, the law is clear that SoCalGas has the burden of proving that its GRC request has not been inflated by political activities booked to ratepayer accounts. And while the evidence identified in this brief has focused on costs paid to vendors, it is also clear that many SoCalGas employees' time was spent in support of the vendors engaging in those activities; consequently, the utility must also show that employee time spent supporting those political activities have been removed from the GRC.

However, the utility has failed to make that showing. As Mr. Castello explains, the evidence shows that the utility has made no meaningful effort over the years to accurately track employee lobbying activities, notwithstanding the policies in place that required it to do so. Instead, until Cal Advocates' inquiry into these issues, it booked nearly all employee costs to ratepayer accounts as a matter of course, and only later removed some of the costs to shareholder accounts in preparation for a GRC.[1988]

[1986] SoCalGas' billing of political activity costs to ratepayer would be subject to exacting First Amendment scrutiny pursuant to *Janus*. Such scrutiny would require SoCalGas to demonstrate that forcing ratepayers to subsidize activities that only benefit the utility and its shareholders serves a compelling state interest that could not be achieved through other less restrictive means. This the utility cannot do, under either the First Amendment, or the fundamental rules of rate regulation that prohibit ratepayers from being charged for utility activities from which they do not benefit.

[1987] Ex. CA-23 (Castello) at 1-2 and 34-38.

[1988] *See, e.g.,* Ex. SCG-245 (Mijares) at SPM-8 (explaining SoCalGas' process of manual exclusions when errors are identified); similar at SPM-13 (manual adjustments as part of the GRC process); and SoCalGas admission at SPM-13 (" it would not be possible to identify the exact labor costs associated with Political Activities given the passage of time…").

As documented in Mr. Castello's testimony, when Cal Advocates asked for SoCalGas to identify employee time spent on the four political campaigns identified by Cal Advocates, the utility routinely underreported the number of employees engaged in political activities, and the amount of time spent by those few employees it did identify.[1989] For example, while it is evident from the workpapers supporting Mr. Castello's testimony that two specific employees expended significant efforts over several years on political activities related to pro-gas advocacy, including the four campaigns identified in Mr. Castello's testimony, their Lobbying Activity Tracking Reports (LATS) show that they reported only 28.5 hours in lobbying activities between February 1, 2016 and April 13 2018.[1990] Based on similarly obvious misrepresentations, Mr. Castello reasonably concluded that the utility has no ability to accurately quantify the employee time spent on political activities.[1991]

SoCalGas agrees. In its rebuttal testimony the utility admits that "for this GRC, SoCalGas determined that it would not be possible to identify the exact labor costs associated with Political Activities given the passage of time and communicated this to Cal Advocates as part of DR PAO-SCG-019-BKZ, Question 10 (*see* Appendix E)." SoCalGas now takes the position that allocating roughly $1 million per year for 2021 and 2022 employee labor spent on political advocacy is sufficient to address the issue.[1992]

However, given the number of employees routinely involved in such activities, SoCalGas' claims are not credible. Nevertheless, by placing this stick in the sand, the utility seeks to shift the burden of proof to the Parties to show how much the utility actually spent on employee labor for political activities. This the law does not require. Faced with a clearly deficient utility showing, Cal Advocates does not have the obligation to demonstrate more than the fact that the utility's showing is not credible – which it has done here, notwithstanding the utility's efforts to prevent even that inquiry.

[1989] Ex. CA-23 (Castello) at 25-29.

[1990] Ex. CA-23 (Castello) at 27.

[1991] Ex. CA-23 (Castello) at 25-29.

[1992] Ex. SCG-245 (Mijares) at SPM-6.

In sum, it is up to the utility to convince us that its labor estimates are reasonable, which it has declined to do.

48.2.6.2 SoCalGas has evaded data requests seeking proof that all political activity costs have been removed from the GRC request

SoCalGas' refusal to demonstrate that all political activity costs have been removed from the GRC is shown by its evasive data responses. For example, in workpapers supporting its testimony, the utility provides vague references to "adjustments" to "[e]xclude labor expenses associated with lobbying activities (FERC 426.4). This adjustment is in addition to other costs that have already been excluded based other specific accounting attributes."[1993] No other information was provided and when asked to "[p]rovide documentation that identifies all lobbying and activities associated with educating officials and the associated labor and non-labor costs for 2021" SoCalGas objected on the basis that such information was not relevant because the utility was not seeking rate recovery for the costs:

> SoCalGas objects to the request as it lacks foundation and seeks information not relevant to the subject matter involved in the pending proceeding and therefore, the burden, expense and intrusiveness of this request outweighs the likelihood that the information sought will lead to the discovery of admissible evidence. Specifically, SoCalGas is not seeking rate recovery of costs booked to the FERC 426 Accounts "in the instant Application," making the premise of the question incorrect. For this reason, information concerning the types of costs recorded in FERC 426 Accounts is also beyond the scope of any issue relevant to the test year (TY) 2024 GRC Application.[1994]

Similarly, when asked to provide an Excel spreadsheet with "supportive documentation and breakdown calculation that clearly explains how SCG arrived at labor and non-labor costs excluded and reflected in this general rate case" the utility again evaded. Instead, it referred Cal Advocates to the "response" just above, and "SoCalGas's

[1993] Ex. SCG-16-WP, pp.11-12. Workpaper 2IN001 – CI- Strategic Communications & Engagement. Details of Adjustments to Recorded.

[1994] Ex. CA-135 - PAO-SCG-094-MCL at SoCalGas Response 3a.

amended response to PAO-SCG-019-BKZ Question 10 that was provided on December 30, 2022 that provides a non-exhaustive sample of the key steps taken to properly record costs that should be booked below-the-line in addition to the process SoCalGas performs as part of the GRC in a good faith effort to exclude all costs that should be booked to below-the-line accounts in accordance with the FERC definition of 426 accounts."[1995]

However, SoCalGas' December 30, 2022, response to PAO-SCG-019-BKZ Question 10 provided no evidence that the utility actually booked political activity costs to shareholder accounts. Rather, it discussed the utility's efforts between 2020 and 2021 to hire PricewaterhouseCoopers to perform an independent assessment of SoCalGas' "costs" and the modifications made and training conducted to address the utility's practices, procedures and internal controls going forward.

And when asked to "[p]rovide supportive documentation and a breakdown that clearly explains if the labor costs excluded are associated with a number of specific(s) full-time employees (FTEs)" and to "[p]rovide the number of FTE(s) included in the calculations for years 2017 through 2021" the utility again declined to do so and instead referred Cal Advocates to both answers above.[1996]

In sum, though asked three different times in three different ways, the utility declined to provide *any* evidence showing that its political activity costs – for both vendors and employees – were removed from its GRC requests.

Also significant is that when Cal Advocates sought to include these SoCalGas data responses in the record of this proceeding, the utility objected. In response, the assigned ALJ advised that Cal Advocates should communicate with the utility and brief the issues raised in those data responses in its Opening Brief.[1997] As reflected in the Motion to Admit Ex. CA-135 into the record of this proceeding, which is filed concurrently with its Opening Brief, Cal Advocates conferred with SoCalGas and the utility continues to

[1995] Ex. CA-135 - PAO-SCG-094-MCL at SoCalGas Response 3b.

[1996] Ex. CA-135 - PAO-SCG-094-MCL at SoCalGas Response 3c.

[1997] RT, Vol. 22 at 3823:2-6 (ALJ Lakhanpal, CPUC).

object to the admission of Ex. CA-135 into the record. Given that these SoCalGas data responses demonstrate the utility's refusal to show that all political activities costs have been removed from this GRC, they are highly relevant and should be admitted and considered in this GRC.

48.2.6.3 SoCalGas' rebuttal testimony does not fix SoCalGas' failure to meet its burden of proof

48.2.6.3.1 SoCalGas' Rebuttal does not confirm that all political activity costs have been removed from the GRC request

In response to Mr. Castello's testimony served on March 27, 2023, SoCalGas submitted rebuttal testimony purporting to address "Political Activities Booked to Ratepayer Accounts."[1998] However, nothing in that testimony demonstrates that all political activity costs have been removed from the GRC request; indeed, rather than demonstrating that political activities booked to ratepayer accounts were removed from the GRC request, the information provided in that rebuttal testimony suggests just the opposite.

The utility reports a total of roughly $30 million booked to Account 426.4, a shareholder funded account, between the years 2020-2022. This represents about $10 million per year in labor and non-labor spent for *all* of the utility's political activities that should have been booked to Account 426.4.[1999] Pursuant to FERC rules, this $10 million "must include *expenditures for the purpose of influencing public opinion with respect to the election or appointment of public officials, referenda, legislation, or ordinances (either with respect to the possible adoption of new referenda, legislation or ordinances or repeal or modification of existing referenda, legislation or ordinances) or approval, modification, or revocation of franchises; or for the purpose of influencing the decisions of public officials."* And as set forth in Commission decisions, the account should also

[1998] Ex. SCG-245 (Mijares Testimony).

[1999] Ex. SCG-245 at SPM-6, Table SM-1, 426.4 FERC Form 2 Results 2020-2022.

include institutional advertising,[2000] advertising that encourages increased consumption of services,[2001] advocacy costs,[2002] lobbying activities at all levels,[2003] public relations efforts to increase load,[2004] and political advocacy that ratepayers may not agree with.[2005]

It is not credible that roughly $10 million per year covers all the utility's costs that *must* be booked to Account 426.4. For example, the evidence shows that the utility budgeted roughly $5 million a year just for the *vendor costs* associated with the Balanced Energy initiative.[2006] This budget did not include the three other political campaigns identified in Mr. Castello's testimony,[2007] or *any* of the employee labor for those campaigns.

Similarly, the utility claims to have made manual adjustments to its GRC request to exclude costs "[r]elated to FERC Account 426.4."[2008] Those "excluded" costs total

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2000 D. 88232 (1977) at 99, 1977 Cal. PUC LEXIS 233 ("We have previously made it clear that institutional advertising (which tends primarily to build the image of the company) will not be charged to the ratepayer.").

2001 *See* California Public Utilities Code § 796(a) ("The commission shall disallow, for purposes of setting the rates to be charged by any electrical, gas, or heat corporation for the services or commodities furnished by it, all expenses for advertising which encourage increased consumption of such services or commodities"); *see also*, D.87-05-074 (1987), 1987 Cal. PUC LEXIS 785 at 24-27).

2002 *See, e.g.,* Pacific Tel. & Tel. Co. v. Public Utilities Commission, 62 Cal. 2d 634 (1965) at 670 (". . . we agree with the general policy of the commission that the cost of legislative advocacy should not be passed on to the ratepayers and find the disallowance proper"); D. 84902 (1975), 1975 Cal. PUC LEXIS 949 at 104-105 ("We see nothing improper in PG&E's looking out for its interests in Washington and Sacramento, but we do believe that the cost of such lobbying activities should be borne by PG&E's stockholders. We will adopt the staff recommendation and not include allowances for legislative advocacy in our adopted A&G expense") and FNs 1879, 1880, 1881, and 1882 above.

2003 D.93-12-043 (1993), 1993 Cal. PUC LEXIS 728 at 105-106 ("ratepayers should not pay the costs associated with SoCalGas' lobbying efforts, whether those efforts are at the federal, state or local level, and whether or not the effort is directed at legislation or administrative action …").

2004 D.93-12-043 (1993), 1993 Cal. PUC LEXIS 728 at 105-106 ("Generally speaking, ratepayers should not have to bear the costs of public relations efforts in this area which, according to SoCalGas, are designed primarily to increase load by promoting natural gas use to business and government leaders.").

2005 D.14-08-032 (2014) at 566 ("We are persuaded by TURN that PG&E's limited exclusion of 13% of CCEEB dues for lobbying costs is too narrow, and doesn't account for the other public advocacy activities of CCEEB. We agree that ratepayers should not pay for political advocacy conducted by the CCEEB with which they may not agree").

2006 Ex. CA-23-WP (Castello), WP 183, PDF p. 402.

2007 Ex. CA-23 (Castello).

2008 Ex. SCG-245 at SPM-6, Table SM-2, GRC Manual Exclusions Related to FERC Account 426.4.

roughly $7 million for the years 2017 through 2022. Again, given the evidence of extensive expenditures for political activities,[2009] including at least 40 employees supporting those activities,[2010] and the recent evidence of SoCalGas' use of law firms to engage in political activities at significant cost,[2011] the utility's quantification of the costs of its political activities in its rebuttal testimony is simply not credible. Consequently, Cal Advocates' recommended $80 million adjustment to the utility's GRC request is again, more than justified.

48.2.6.3.2 SoCalGas' Rebuttal falsely claims that the utility has changed its ways

In response to Mr. Castello's testimony, SoCalGas admitted in rebuttal that "historically, time spent on advocacy activities was not always consistently recorded correctly."[2012] In other words, SoCalGas admits to a historic practice of inaccurately booking its advocacy activities to ratepayers.[2013] However, SoCalGas claims that in 2020 it "began enhancing its policies, practices, procedures, governance, and internal controls to assist employees to more accurately record their time and expenses."[2014] SoCalGas' rebuttal testimony routinely chastises Cal Advocates for not taking the utility at its word regarding the utility's claims to have addressed the matter:

> SoCalGas has made a concerted and good faith effort to accurately track Political Activities in internal orders that settle to FERC Account 426.4 and also exclude the costs from the GRC manually if an error is identified as part of SoCalGas's GRC controls. These efforts have been communicated to Cal Advocates multiple times over the course of the past three years through in-person meetings and responses to data requests. SoCalGas disagrees with Cal Advocates' statement that the evidence shows that

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[2009] *See, e.g.,* Ex. CA-23-WP (Castello), WP 183, PDF p. 402, Ex. CA-104, Ex. CA-113, and Ex. CA-122.

[2010] Ex. CA-109 at 4.

[2011] *See* discussion at Section 48.2.3 above regarding SoCalGas' use of law firms to advance its political agendas.

[2012] Ex. SCG-245 (Mijares Rebuttal) at SPM-8.

[2013] Indeed, the utility had no choice but to make this admission given the PricewaterhouseCoopers report on its failure to track employee time spent on political activities. *See* Ex. CA-23-WP (Castello Workpapers) at PDF pp. 417-442 *and especially* "Observations" made at PDF pp. 424-426.

[2014] Ex. SCG-245 (Mijares Rebuttal) at SPM-8.

> SoCalGas has made no meaningful effort over the years to accurately track employee lobbying activities.[2015]

The utility's insistence that Cal Advocates is improperly ignoring the changes SoCalGas initiated in 2020 is a recurring theme throughout the utility's rebuttal:

> Conveniently missing from Cal Advocates' workpapers is SoCalGas's Supplemental Response to GRC data request PAO-SCG-019-BKZ, Question 10 (*see* Appendix E) that describes in great detail that during this time, "The Company has enhanced governance and designed and implemented policies, practices, procedures and internal controls that directly address the FERC and CPUC requirements that certain costs be recorded below-the-line."[2016]

SoCalGas further explained that in 2021 it established an Accounting Compliance group "with the directive to implement and enhance policies, procedures and business controls and facilitate training across the organization."[2017] This group "developed and delivered Political Activities training to approximately 750 employees between 2020-2021 and another approximate 580 employees in 2022."[2018] The creation of this group and its focus "(in part) on the distinction between above-the-line (ATL) and below-the-line (BTL) costs as defined by the FERC USofA" and its "direct interaction with the Company's senior management team" are offered to demonstrate "the Company's commitment to compliance."[2019]

SoCalGas' rebuttal claims are nothing but a rhetorical reinterpretation of events intended to discredit Cal Advocates' work on these matters. The utility would have us

[2015] Ex. SCG-245 (Mijares Rebuttal) at SPM-8.

[2016] Ex. SCG-245 (Mijares Rebuttal) at SPM-9. *See also* SPM 4-5 ("Cal Advocates' testimony and conclusions: - inappropriately focus on select activities from 2017-2019 while failing to acknowledge the full information and evidence provided by SoCalGas over the past three years on the policies, controls, governance 1 and GRC exclusion process that the Company has implemented/enhanced to record Political Activities to Federal Energy Regulatory Commission (FERC) 426.4 since 2020 …"); and SPM-9 ("Despite SoCalGas communicating and providing evidence of our good faith effort with Cal Advocates multiple times over the past three years, they appear to have ignored this evidence and focused their argument on four "campaigns" that occurred between 2017-2019.").

[2017] Ex. SCG-245 (Mijares Rebuttal) at SPM-10.

[2018] Ex. SCG-245 (Mijares Rebuttal) at SPM-10.

[2019] Ex. SCG-245 (Mijares Rebuttal) at SPM-10.

believe that it took decisive steps to fix the problems. However, the current evidence shows SoCalGas continues its three-part pattern and practice of inappropriately billing ratepayers for its political activities, making false legal claims to hide these practices and, when all else fails, claiming inadvertent error. SoCalGas must be judged by the evidence identified herein, rather than the story it tells.

48.2.6.3.3 Evidence shows the utility continued to book the costs of its political activities to ratepayers

The current evidence SoCalGas demands we consider in this proceeding demonstrates that the utility continues to book political advocacy costs to ratepayer accounts, notwithstanding its claims to the contrary. As discussed in Section 48.2.3 above, the current evidence shows that SoCalGas continued to book legal costs clearly associated with political advocacy to ratepayer accounts in 2020, 2021, and 2022. Also significant is that SoCalGas' GO 77-M Reports show that between 2014 and 2021 the utility *never* recorded *any* legal costs to *any* 426 account,[2020] even though the record in this proceeding shows that it has been using law firms for political activities for years, and even though both Edison and PG&E have routinely recorded legal costs to 426 accounts for years as shown in their GO 77-M Reports.[2021]

Had the utility been committed "to compliance,"[2022] as it claims, it would have addressed these issues as well when Cal Advocates identified the political activities contracts and employee time improperly booked to ratepayers. The fact that it did not address these additional issues is telling.

Further, while the utility insists that has made "adjustments" to exclude from the GRC all of the costs associated with the four campaigns identified in Mr. Castello's

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[2020] *See* Ex. CA-137 (Outside legal costs excerpted from SoCalGas GO 77-M Reports for the years 2012-2022). SoCalGas booked legal costs to a 426 account for the first time in its 2022 GO 77-M Report. *See* Ex. CA-137 at 16.

[2021] *See* Ex. CA-139 and Ex. CA-140 (outside legal costs excerpted from both PG&E and Edison GO 77-M Reports for the years 2016-2022).

[2022] Ex. SCG-245 (Mijares Rebuttal) at SPM-10.

testimony,[2023] as described in this Section, that showing is essentially non- existent. In sum, the utility asks us to take its word for it, something which Cal Advocates and the Commission cannot do.

48.2.6.3.4 Cross examination shows that the utility continues to obfuscate, rather than embrace compliance, contrary to its claims

If SoCalGas has really changed its ways – as its rebuttal testimony would have us believe[2024] – its key witnesses would be willing and able to explain the types of costs that should be booked above- and below-the-line and would be forthcoming with related information. However, this was decidedly not the case.

When Cal Advocates asked Mr. Prusnek – who was sponsoring the budget for Strategic Communications and Engagement, which includes marketing and communications campaigns to customers and vendors[2025] – whether he was "familiar with the type of lobbying and advocacy costs that must be booked to shareholders," SoCalGas' lawyer objected that the question was "vague and ambiguous as to lobbying," took a more than five minute break to review the new Sempra Political Activities policy, which defines lobbying, and then objected that Cal Advocates' attorney was "using the wrong definition of lobbying."[2026]

While Mr. Prusnek eventually identified some costs that must be booked to shareholder accounts – "political activities related to certain activities to influence public officials,"[2027] his lawyer then objected that he need not answer whether he could identify any lobbying or advocacy activities that are *not* included in Sempra's own definition of lobbying.[2028] Yet these are exactly the types of things Mr. Prusnek should know from his

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[2023] Ex. SCG-245 (Mijares Rebuttal) at SPM-8.

[2024] Ex. SCG-245 (Mijares Rebuttal) at SPM-10.

[2025] RT, Vol. 11, 2033:20 - 2035:20 (Prusnek, SoCalGas).

[2026] RT, Vol. 11, 2033:20 - 2035:20 (Prusnek, SoCalGas).

[2027] RT, Vol. 11, 2036:10-23 (Prusnek, SoCalGas).

[2028] RT, Vol. 11, 2038:10 -2039:24 (Prusnek, SoCalGas).

training. The witness never answered the question, despite significant back and forth on this issue. His attorney argued that Mr. Prusnek was only "here today to testify about his forecast with the base year 2021. That is -- so your questioning is completely irrelevant to his forecast."[2029] However, on re-direct the next day, Mr. Prusnek insisted that employees in his group would direct charge all time that meets the definition of FERC Account 426.4 to below-the-line accounts.[2030]

SoCalGas' rebuttal testimony claims that enhanced policies, procedures and business controls have been put in effect; more than 1,300 employees have been trained; and "direct interaction with the Company's senior management team" demonstrate "the Company's commitment to compliance."[2031] However, when asked, Mr. Prusnek's attorney treated such information as irrelevant to his GRC request, and not something he should be familiar with. Mr. Prusnek was similarly unresponsive, or potentially uneducated. When asked to identify any lobbying activities that would not be encompassed by SoCalGas' very broad definition of the term, he could not answer the question. Instead, he explained that lobbying activities under the utility's own definition should be booked to the company's Lobbying Activities Tracking System (LATS):

> The Sempra political activities definition of lobbying is for activities that are required to report in -- in the LAPS [sic] system. Those, obviously, will differ for jurisdiction to jurisdiction under Sempra Utilities. So, for the State of California, my understanding is that lobbying activities that are booked into our LAPS [sic] system are for -- include activities to influence ·government officials, political parties, et cetera, per the definition.[2032]

[2029] RT, Vol. 11, 2030:1-10 (Prusnek, SoCalGas).

[2030] RT, Vol. 12, 2061:17-24 (Prusnek, SoCalGas).

[2031] Ex. SCG-245 (Mijares Rebuttal) at SPM-10.

[2032] RT, Vol. 11, 2040:22 - 2041:12 (Prusnek, SoCalGas).

In addition to being nonresponsive, this answer demonstrates that Mr. Prusnek was evidently not aware that all lobbying time must be booked to myTime.[2033] This, notwithstanding the training he received.[2034]

Mr. Prusnek's cross examination is just one example of SoCalGas' withholding of information regarding how and when it decides to book costs above- or below-the-line. Notwithstanding the changes described in the utility's rebuttal testimony, the utility delayed and obfuscated at every opportunity during cross examination. The utility must provide uncontroverted evidence in this proceeding to meet the burden of proof required to justify its rate request.

48.2.7 SoCalGas' Representations Regarding SAP Access Are Misleading

SoCalGas' rebuttal testimony provides a table summarizing "SoCalGas SAP Access Offers to Cal Advocates" which purports to show how Cal Advocates chose not to take advantage of SoCalGas' willingness to make SAP access available.[2035] As the record demonstrates, SoCalGas' representations at Table SM-7 of its rebuttal testimony are incomplete, inaccurate, and misleading.

Contrary to SoCalGas' representations, Cal Advocates has not been provided the access necessary to perform a meaningful review of the utility's accounts, and the utility has not been cooperative in facilitating the access Cal Advocates requires. Indeed, Cal Advocates' inability to know when and if the utility will actually provide access has been a recurring theme throughout Cal Advocates' inquiries into SoCalGas' improper booking of political activities to ratepayer accounts.

To be clear, the plain meaning and an important aspect of the law requiring the utility to make its records available to its regulators is the fact that access must be

[2033] *See* RT, Vol. 16, 2938 (Mijares, SoCalGas) (explaining that employees report time spent lobbying to myTime).

[2034] RT, Vol. 11, 2038:5-8 (Prusnek, SoCalGas).

[2035] Ex. SCG-245 (Mijares Rebuttal) at SPM-20.

provided "at any time."[2036] This aspect of the law implicitly recognizes that if the utility has extensive notice of a review of its records, it may seek to change or hide those records. This requirement is also relevant here because it ensures that the Commission's staffing constraints are accommodated. Commission staff cannot be expected to drop everything when the utility "offers" access.

SoCalGas has never acknowledged Cal Advocates' right to review its above-the-line accounts "at any time" and Table SM-7 of its Rebuttal Testimony omits the tortured history of SoCalGas' refusal to provide Cal Advocates access to its SAP. Relevant here is that the utility has always stated that it is willing to provide access to its ratepayer accounts, but withheld such access whenever Cal Advocates has tried to take it up on the offer. Thus, despite SoCalGas' telling the Court of Appeals at least seven times that it was more than willing to make its ratepayer accounts available to Cal Advocates, including via remote access to its SAP database,[2037] the utility refused to provide that access when Cal Advocates asked for it on April 1, 2021,[2038] and again when Cal

[2036] Cal. Pub. Utils. Code Sec. 314(a): The commission, each commissioner, and each officer and person employed by the commission may, at any time, inspect the accounts, books, papers, and documents of any public utility. The commission, each commissioner, and any officer of the commission or any employee authorized to administer oaths may examine under oath any officer, agent, or employee of a public utility in relation to its business and affairs. Any person, other than a commissioner or an officer of the commission, demanding to make any inspection shall produce, under the hand and seal of the commission, authorization to make the inspection. A written record of the testimony or statement so given under oath shall be made and filed with the commission.

[2037] *See, e.g.,* Public Advocates Office Motion To Compel Information Related To Southern California Gas Company's Booking Of Unauthorized Costs To Ratepayer Accounts And [Proposed] Ruling, January 12, 2023 at 13-14.

[2038] Cal Advocates' April 1, 2021 request for SAP access is available at Exhibit 1 attached to Public Advocates Office Motion To Compel Southern California Gas Company To Provide Remote Access To Sap Database To Audit Ratepayer Accounts; [Proposed] Order, October 21, 2021 *at* *https://www.publicadvocates.cpuc.ca.gov/-/media/cal-advocates-website/files/legacy3/1---10-21-21-caladvocates-motion-to-compel-access-to-socalgas-ratepayer-accts.pdf*.

Advocates asked for it in this GRC on December 7, 2022.[2039] In both instances, Cal Advocates filed motions to compel access.[2040]

Cal Advocates' first and only access to the SAP system was provided between March 13 and 24, 2023 in response to the February 14, 2023, ALJ Ruling in this proceeding. Four staff members prepared for the access and then spent their available time becoming familiar with the system when the access was provided. However, just when staff were becoming comfortable with how to search the limited parts of the system the utility provided, SoCalGas declined to grant Cal Advocates' repeated requests for additional time on the system and terminated access at some point before Saturday, March 15 at 10:30 a.m. When SoCalGas finally agreed to provide access on its own terms Cal Advocates had already re-allocated its staff to other assignments. Thus, contrary to the law, Cal Advocates' inability to perform a meaningful review of SoCalGas' SAP system was entirely within the utility's – not Cal Advocates' – control.

48.2.8 Conclusion: The Commission Must Significantly Reduce SoCalGas' GRC Request To Ensure Ratepayers Do Not Continue To Fund The Utility's Pro-Gas Advocacy

Notwithstanding the utility's efforts to delay, mislead, and withhold evidence of its political activities, Cal Advocates and CEJA have obtained significant, troubling, and compelling information that SoCalGas has a pattern and practice of engaging in political

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[2039] Ex. CA-116 at 1 (PubAdv-SCG-TBO-071, Q.1): "Please do all things necessary to provide full and complete remote access to the utility's SAP (System Application and Product in Processing) database so that Cal Advocates may audit all above the line accounts. Please confirm that SoCalGas is prepared to provide such access no later than December 19, and when such access will be available. If such access cannot be made available within this time frame, please identify the SoCalGas office closest to the Commission's San Francisco location where Cal Advocates can access the SAP database."

[2040] *See See, e.g.,* Public Advocates Office Motion To Compel Information Related To Southern California Gas Company's Booking Of Unauthorized Costs To Ratepayer Accounts And [Proposed] Ruling, January 12, 2023 at 13-14; and Cal Advocates' April 1, 2021 request for SAP access is available at Exhibit 1 attached to Public Advocates Office Motion To Compel Southern California Gas Company To Provide Remote Access To Sap Database To Audit Ratepayer Accounts; [Proposed] Order, October 21, 2021 *at https://www.publicadvocates.cpuc.ca.gov/-/media/cal-advocates-website/files/legacy3/1---10-21-21-caladvocates-motion-to-compel-access-to-socalgas-ratepayer-accts.pdf.* .

activities and charging the costs to ratepayers. It is also clear that the evidence adduced thus far is only the tip of the iceberg.

Mr. Castello has explained, and SoCalGas agrees, that there is no way to accurately identify and quantify the full amount of political activity costs the utility has booked to ratepayer accounts. Among other things, the utility had no incentive to accurately track employee time spent on those efforts. And when Cal Advocates initiated its accounting inquiry, the utility used every weapon at its disposal to obfuscate and delay Cal Advocates' efforts.[2041] More importantly, the law makes clear that it is not incumbent upon Cal Advocates to identify all costs that have been improperly recorded.

With Cal Advocates having effectively rebutted any prima facia claim that the utility's billing was appropriate and consistent with the law, the burden falls to the utility to provide evidence showing that Cal Advocates' evidence is flawed. Having failed to suppress the evidence of its wrong doing, the utility relies on the flawed claim that it is entitled to recovery unless Cal Advocates can show that it isn't, and repeated representations that it has changed; a claim that is rebutted by its ongoing actions. Consequently, the only just and reasonable remedy is to remove the utility's incentive to engage book political advocacy costs to ratepayers by ensuring its GRC budget is *only* what is needed for just, reasonable, and necessary activities – and nothing more. Indeed, this is what the law requires.

Every day, we are reminded that climate change is here. It is incumbent upon the Commission to reinforce the reality that the use of gas unmitigated for carbon will be significantly reduced in the near future. To this end, Mr. Castello's proposal to remove $80 million from the GRC request to address the utility's ongoing and historic misuse of ratepayer funds for political activities is reasonable and appropriate.[2042]

[2041] *See* discussion in Section 48.2.7 above.

[2042] Ex. CA-23 (Castello) at 1-2 and 34-38.

49 CONCLUSION

For the reasons set forth above and in its testimony, Cal Advocates requests that its recommendations be adopted.

Respectfully submitted,

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