

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



FILED

01/17/24

04:59 PM

A2209015

Application of SOUTHERN CALIFORNIA GAS COMPANY (U 904 G) and SAN DIEGO GAS & ELECTRIC COMPANY (U 902 G) for authority to revise their natural gas rates and implement storage proposals effective January 1, 2024 in this Cost Allocation Proceeding

A.22-09-015
(Filed September 30, 2022)

JOINT REPLY OF SOUTHERN CALIFORNIA GAS COMPANY (U 904 G), SAN DIEGO GAS & ELECTRIC COMPANY (U 902 G), AND THE PUBLIC ADVOCATES OFFICE FOR APPROVAL OF SETTLEMENT AGREEMENT

JOHN VAN GEFFEN

Attorney for:

PUBLIC ADVOCATES OFFICE CALIFORNIA
PUBLIC UTILITIES COMMISSION

505 Van Ness Avenue

San Francisco, CA 94102

Telephone: (415) 703-2005

Email: john.vangeffen@cpuc.ca.gov

JEFFREY B. FOHRER

Attorney for:

SOUTHERN CALIFORNIA GAS COMPANY
and SAN DIEGO GAS & ELECTRIC
COMPANY

555 West 5th Street, Suite 1400

Los Angeles, CA 90013-1011

Telephone: (213) 244-3061

Facsimile: (213) 629-9620

Email: jfohrer@socalgas.com

January 17, 2024

TABLE OF CONTENTS

	Page
I. THE SETTLEMENT AGREEMENT IS IN THE PUBLIC INTEREST AND IS CONSISTENT WITH THE LAW	2
A. TURN’s Argument That Changes to Residential Rate Design “Are Premature” Is Unavailing.....	2
B. TURN’s Argument About the Scope of This Proceeding Is Misplaced.....	4
C. TURN’s Electric Service Argument Is Not Supported.....	6
II. THE SETTLEMENT IS REASONABLE IN LIGHT OF THE RECORD.....	7
III. CONCLUSION.....	8

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

Application of SOUTHERN CALIFORNIA GAS COMPANY (U 904 G) and SAN DIEGO GAS & ELECTRIC COMPANY (U 902 G) for authority to revise their natural gas rates and implement storage proposals effective January 1, 2024 in this Cost Allocation Proceeding

A.22-09-015
(Filed September 30, 2022)

JOINT REPLY OF SOUTHERN CALIFORNIA GAS COMPANY (U 904 G), SAN DIEGO GAS & ELECTRIC COMPANY (U 902 G), AND THE PUBLIC ADVOCATES OFFICE FOR APPROVAL OF SETTLEMENT AGREEMENT

Pursuant to Rule 12.2 of the California Public Utilities Commission’s (“CPUC” or “Commission”) Rules of Practice and Procedure, Southern California Gas Company (“SoCalGas”), San Diego Gas & Electric Company (“SDG&E”) and the Public Advocates Office at the California Public Utilities Commission (“Cal Advocates,” and, collectively with SoCalGas and SDG&E, the “Settling Parties”)¹ hereby timely² submit these Reply Comments regarding their December 1, 2023 Joint Motion for Approval of Settlement of Southern California Gas Company, San Diego Gas & Electric Company, and the Public Advocates Office (the “Motion”). As presented in the Motion, the Settling Parties requested that the Commission approve the Settlement Agreement Amongst Southern California Gas Company, San Diego Gas & Electric Company, and The Public Advocates Office (“Settlement Agreement”) attached as Attachment A to the Motion. The Settlement Agreement, if approved by the Commission, would resolve all disputed issues between the Settling Parties as they relate to fixed customer charge proposals of the Applicants.

These Reply Comments address the comments of The Utility Reform Network (“TURN”) to the Settlement Agreement. No other party filed comments. As set forth below, the Settling Parties maintain that the Settlement Agreement is reasonable in light of the whole

¹ In accordance with Rule 1.8(d), counsel for Applicants has been authorized by Cal Advocates to file this Joint Reply on their behalf.

² Rule 12.2 provides that parties to a proceeding “may file comments contesting all or part of the settlement within 30 days of the date that the motion for adoption of settlement was served” – in this case, by January 2, 2024 (accounting for weekends and holidays) – and that “[p]arties may file reply comments within 15 days after the last day for filing comments” – in this case, by January 17, 2024.

record, consistent with the law, and in the public interest, and should be approved by the Commission.

I. THE SETTLEMENT AGREEMENT IS IN THE PUBLIC INTEREST AND IS CONSISTENT WITH THE LAW

In its comments, TURN argues that the Settlement Agreement purportedly is not in the public interest. In addition, TURN later argues that “[b]ecause the Settlement Agreement’s treatment of the fixed customer charge for SoCalGas’s residential customers is not in the public interest” . . . that “the Settlement Agreement would be inconsistent with the law.”³ Stated otherwise, TURN’s argument that the Settlement Agreement is inconsistent with the law is based on its argument that the Settlement Agreement is not in the public interest – in sum, premised on the same argument. As set forth below and in Settling Parties’ Motion, TURN’s arguments should be rejected as the Settlement Agreement is in the public interest (and, hence, TURN’s argument that the Settlement Agreement is inconsistent with the law therefore also fails).

A. TURN’s Argument That Changes to Residential Rate Design “Are Premature” Is Unavailing

TURN argues that the Settling Parties ask the Commission to adopt a “fundamental change” to the structure of residential gas rates through the Settlement Agreement.⁴ TURN’s characterization of the terms of the Settlement Agreement, however, appears to take liberty with what the phrase “fundamental change” means. The Settlement Agreement, if adopted, would modify an existing charge for SoCalGas customers.⁵ This is not a new structure; hence, to label it as a “fundamental change” is simply incorrect.

TURN also argues that it is concerned with the impacts on low- and moderate-income residential customers if utility revenue requirements continue to grow and meaningful numbers of residential customers fully or partially electrify.⁶ However, TURN does not argue that the Settlement Agreement will harm current customers. This bears emphasizing because if the proposal set forth in the Settlement Agreement provides for a more equitable rate design (which Settling Parties assert it does) and it does not negatively impact customers (which TURN does not argue), then the Settlement Agreement must be found to be in the public interest.

³ TURN Comments at 13.

⁴ *Id.* at 4.

⁵ Motion at 4-5.

⁶ TURN Comments at 6.

SoCalGas and SDG&E (“Applicants”) set forth two chapters of testimony (APP-13 and APP-21) that went to considerable lengths explaining the proposal and the policy and facts underpinning such proposals. Furthermore, in these testimonies, Applicants made clear the benefits of adjusting the customer fixed charge upwards for SoCalGas customers. As set forth in Applicants’ testimony, it is important to recognize that retaining the current low residential fixed charges will increasingly cause affordability challenges for low- and moderate-income gas customers who do not have extremely low usage and are therefore very sensitive to continued increase to per-therm charges.⁷ This is an undesirable outcome because of long- and short-term affordability issues in the face of energy transition.⁸ As certain residential customers electrify some or all of their gas appliances, the resulting gas volume reductions will put upward pressure on natural gas rates faced by customers who are not able to readily transition.⁹

In addition, Applicants presented analysis showing that within the low-income residential customer subsegment, customers at the most indicative usage levels would realize bill decreases due to raising the fixed customer charge to \$10 (as originally proposed by SoCalGas), except for customers at the lowest 10th percentile of usage.¹⁰ In fact, as set forth in Applicants’ testimony, approximately 83% of California Alternative Rates for Energy (“CARE”) customers would have seen bill decreases from SoCalGas’s proposal.¹¹ The remaining customers already have very low bills and, at the 10th percentile level, are expected to see very modest bill increases of about \$3 per month over the 3-year implementation period from 2024 to 2027 – or, only approximately \$1 per month per year.¹² Because the settlement between Applicants and Cal Advocates is less than what was proposed by SoCalGas, there will be even less bill increases than those increases set forth in Applicants’ testimony. In sum, TURN’s academic argument about customers potentially being harmed in the future for reasons beyond those which are the subject of the Settlement Agreement does not support a finding that the Settlement Agreement is not in the public interest.

⁷ Ex. APP-21 (Foster) at 2.

⁸ *Id.*

⁹ *Id.*

¹⁰ *Id.* at 9.

¹¹ *Id.*

¹² *Id.*

B. TURN's Argument About the Scope of This Proceeding Is Misplaced

TURN also argues that the Commission should find that R.20-01-007, the Rulemaking to Establish Policies, Processes, and Rules to Ensure Safe and Reliable Gas Systems in California and Perform Long-Term Gas System Planning (Long-Term Gas Reliability Rulemaking) is the proper proceeding to adjudicate this fixed charge issue. This is an argument Settling Parties address in the Motion (and which SoCalGas addressed at length in testimony which is in the record.¹³) TURN's argument fails for several reasons.

First, in its protest to the Application, TURN argued that:

SoCalGas proposes to retain its residential customer charge for non-CARE customers at \$5 for 2024, but then increase it by \$5 in 2025, 2026 and 2027 so that it would be \$20 per month by the last year of this CAP cycle. For CARE customers, the increases would increase from \$4 to \$10 over the same period. **The Commission will need to address whether the more appropriate forum for consideration of such proposals remains the Gas Planning rulemaking (R.20-01-007) . . .**¹⁴

Following the Commission's evaluation of the Application, Protests, Reply to Protests, and the Prehearing Conference, the Scoping Memo explicitly identified as issue No. 6 in this proceeding "Whether to authorize the proposed residential customer charges at SoCalGas and SDG&E."¹⁵ The Scoping Memo did not exclude the fixed charge issue from consideration in this proceeding.

Next, TURN's argument also ignores the background set forth in the Motion as to why Settling Parties submit that resolving the issue in this cost allocation proceeding is appropriate. As set forth in the Motion, in the 2020 TCAP decision, the Commission did not adopt SoCalGas's recommendation to increase its non-CARE fixed customer charge to \$10 per month.¹⁶ In doing so, however, in the 2020 TCAP decision, the Commission found that SoCalGas's showing complied with the guidelines adopted in the D.17-09-035.¹⁷ In D.17-09-035, the Commission made several key determinations which provided prescriptive guidance on how electric utilities should calculate and present fixed customer charge proposals. Notably, that guidance applies to establishing *new* fixed customer charges for *electric* utilities, while

¹³ Ex. APP-13 (Foster) at 15.

¹⁴ TURN Protest to Application (November 4, 2022) at 2 (emphasis added).

¹⁵ Scoping Memo at 4.

¹⁶ D.20-02-045 (*Decision Addressing San Diego Gas & Electric Company and Southern California Gas Company Triennial Cost Allocation Proceeding Application*) at 100 (Conclusions of Law (COL) 36).

¹⁷ *Id.* at 94 (Findings of Fact (FOF) 82).

SoCalGas, a gas-only utility, already has a fixed customer charge. As set forth in the Motion, it is SoCalGas's position that its fixed customer charge proposal adheres to the same guidelines, while enhancing the proposal to reflect concerns enumerated in the 2020 TCAP decision as well as advancements in ratemaking policy.

In the 2020 TCAP decision, the Commission gave two primary reasons for not authorizing SoCalGas to increase its residential fixed customer charge at that time: (i) that the then-upcoming Long-Term Gas Reliability Rulemaking proceeding would be the appropriate proceeding to address residential fixed customer charges and (ii) the affordability of bill impacts attributable to Applicants' fixed customer charge proposal was in question.¹⁸

In the 2020 TCAP decision, the Commission stated, "The long-term gas reliability rulemaking, as opposed to this TCAP application, is the appropriate venue to determine overall policies regarding rate design for recovering gas infrastructure costs, including whether to adopt fixed monthly charge."¹⁹ While the Gas Planning rulemaking proceeding is ongoing, the cost allocation and rate design principles are to be addressed at a later phase in the proceeding which has not yet commenced. Given the considerable delay in addressing cost allocation and rate design issues in the Long-Term Gas Reliability Rulemaking proceeding, and the future uncertainty as to when the Commission might rule on these issues in the Long-Term Gas Reliability Rulemaking, the Settling Parties submit that addressing the appropriate level of cost-based residential fixed customer charge in this proceeding is warranted.

Accordingly, because this issue is in scope in this proceeding and because the evidentiary record supports inclusion of this issue at this time, TURN's argument that this issue should be resolved outside the cost allocation proceeding should be rejected.

¹⁸ The affordability argument was addressed in Settling Parties' Motion. As set forth in the Motion, a second reason articulated by the Commission behind rejecting the Applicants' residential fixed customer charge proposal in the last TCAP was that "The Applicants' request for a \$10 fixed monthly residential customer charge for SDG&E and SoCalGas customers does not meet the objective of affordability." The Settling Parties presented in the Motion that the settlement has been constructed to minimize gas bill increases for its low-income customers, as represented by CARE customers.

¹⁹ D.20-02-045 at 95 (FOF 89).

C. TURN's Electric Service Argument Is Not Supported

In its comments to the Motion, TURN argues that Settling Parties' analogies to fixed charges for electric service is misplaced.²⁰ TURN's arguments in this context, however, are not supported.

As a threshold matter, Applicants originally presented a proposal to gradually increase the residential fixed customer charge.²¹ The justification for this increase was based on cost causation principals and increasing intraclass equity, and it was supported by an analysis of costs for the term of the current CAP period.²²

The gist of TURN's argument is that EV and electrification rates are intended to encourage greater electricity consumption, "specifically, consumption that reduces GHG emissions from gasoline vehicles and fossil fuel burning appliances."²³ TURN then further cites policy reasons supporting its statement about policies of the state on energy consumption. Notably, TURN does not meaningfully address the cost causation evidence and rationale that support the terms of the settlement. As set forth in the Motion, these cost causation principles support the residential fixed charge settlement presented.²⁴

An economically efficient outcome cannot be achieved with existing SoCalGas residential rates because their very low fixed charge forces the per-therm charges to be artificially high and much higher than marginal per-therm costs.²⁵ It is important for charges to reflect as close as possible the true cost impact of changes in usage for two main reasons. First, if price is above the marginal per-therm cost, customers will be likely to reduce the amount of natural gas consumption but without any efficiency gain or capacity cost savings.²⁶ As set forth in Applicants' testimony, SoCalGas's infrastructure currently has and expects to continue to have sufficient capacity in gas delivery system to accommodate higher usage.²⁷ Second, SoCalGas must recover its fixed costs, and when sales decrease, the same share of the revenue

²⁰ TURN Comments at 9.

²¹ Ex. APP-13 (Foster).

²² *Id.* at 13-26.

²³ TURN Comments at 10.

²⁴ Ex. APP-13 (Foster) at 13-26.

²⁵ Ex. APP-21 (Foster) at 3.

²⁶ *Id.* at 3-4.

²⁷ *Id.* at 4.

requirement needs to be recovered from a lower amount of sales (therms).²⁸ This leads to increased rates for all customers.²⁹

Accordingly, the increased fixed charge as set forth in the Settlement Agreement are economically justified and in line with the energy policies of California.

II. THE SETTLEMENT IS REASONABLE IN LIGHT OF THE RECORD

TURN argues that the Settlement Agreement is not reasonable in light of the record because the Settling Parties “ignore the record developed by TURN on SoCalGas’s fixed charge proposal.”³⁰ In this context, TURN readily admits that its proposal was to recommend “no change to SoCalGas’s current residential fixed charge.”³¹ It is instructive again to review the proposals of the parties in the proceeding and compare those proposals to the terms of the Settlement Agreement.

SoCalGas proposed to implement residential non-CARE fixed customer charge increases in a phased-in approach over the CAP horizon: retain the \$5 customer charge in 2024; increase it from \$5 to \$10 in 2025; from \$10 to \$15 in 2026; and from \$15 to \$20 in 2027. To mitigate the bill impacts for low-income CARE customers, SoCalGas proposed to establish a separate, lower fixed customer charge for CARE customers which, when taking into account the 20% CARE discount, will be effectively 50% below the non-CARE fixed customer charge. The corresponding proposed effective residential CARE fixed customer charges, after accounting for the 20% discount, are \$4, \$5, \$7.50 and \$10 in 2024, 2025, 2026 and 2027, respectively.

Cal Advocates recommended a \$5 fixed charge for SoCalGas CARE customers for all of 2025-2027.³² For SoCalGas non-CARE customers, Cal Advocates recommends fixed charge amounts of \$7.50 for 2025-2026 and \$10 in 2027.³³ No other party, besides TURN and Cal Advocates provided a counter proposal on SoCalGas’s fixed charge proposal.

Of the three parties who provided recommendations on this issue, TURN recommended “no change” to SoCalGas’s current residential fixed charge, Cal Advocates’ recommendation

²⁸ *Id.*

²⁹ *Id.*

³⁰ TURN Comments at 11-12.

³¹ *Id.* at 12.

³² Ex. CalAdv-01 (Logan) at 1-5.

³³ *Id.*

was an increase (for 2025-2027), and Applicants' proposal was an increase that was larger than that proposed by Cal Advocates' proposal. In short, Cal Advocates' proposal was in the middle of that proposed by Applicants and TURN. The terms of the Settlement Agreement are much closer to the proposal recommended by Cal Advocates (which is in the middle of the proposals of TURN and Applicants). Hence, the argument that the Settlement Agreement is "not reasonable in light of the record" is simply incorrect considering where the Settling Parties ultimately agreed to resolve this issue.

III. CONCLUSION

As set forth in Settling Parties' Motion, the Settlement Agreement is reasonable in light of the whole record, is consistent with law, is in the public interest, and should be approved by the Commission. Furthermore, the Settlement Agreement represents a mutually acceptable outcome in a pending regulatory proceeding. It avoids the time, expense, uncertainty, and burden of litigating these issues.

Accordingly, the Settling Parties respectfully request that the Commission grant the Settling Parties' Motion, approve the Settlement Agreement without modification, and find that (1) the Settlement Agreement is reasonable in light of the whole record, consistent with the law, and in the public interest; and (2) the Settlement Agreement should be adopted in its entirety without modifications by the Commission and should be expeditiously approved.

Respectfully submitted,

By: /s/ Jeffrey B. Fohrer

Jeffrey B. Fohrer
Attorney for:
SOUTHERN CALIFORNIA GAS COMPANY
SAN DIEGO GAS & ELECTRIC COMPANY
555 West Fifth Street, Ste. 1400
Los Angeles, CA 90013
Telephone: (213) 244-3061
Facsimile: (213) 629-9620
Email: jfohrer@socalgas.com

January 17, 2024