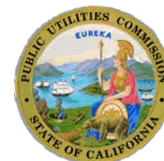

FILED
11/07/24
04:59 PM
A2205015

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 (Filed May 16, 2022)
	CONSOLIDATED
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.	Application 22-05-016 (Filed May 16, 2022)

COMMENTS OF ENVIRONMENTAL DEFENSE FUND ON PROPOSED DECISION

Elizabeth M. Kelly
LAW OFFICE OF ELIZABETH KELLY
P.O. Box 225037
San Francisco, CA 94122
Telephone: (415) 535-9998
Email: beth@emk-law.com

Counsel for:
ENVIRONMENTAL DEFENSE FUND

November 7, 2024

TABLE OF CONTENTS

I. INTRODUCTION 1

II. JOE'S HOUSE: WHY THE EDF HYPOTHETICAL MATTERS 3

III. THE COMMISSION MUST ADDRESS THE SEMPRA UTILITIES' FAILURE TO PLAN FOR DECLINING GAS DEMAND 5

- A. The Sempra Utilities and the Commission Must Realign Their Foundational GRC Assumptions to Align with Declining Demand (Section 4: General Rate Case Ratemaking) 5
- B. The Proposed Decision's Failure to Require the Use of Current Gas Demand Forecasts Significantly Understates the Rate and Affordability Impacts of this GRC and Must Be Corrected (Section 5: Affordability) 7
- C. The Proposed Decision Should Find that the Sempra Utilities' Failure to Plan for Significant Gas Demand Declines Constitutes Imprudent Management (Section 2: Burden of Proof and Evidentiary Standards) 12

IV. THE COMMISSION SHOULD EXPLICITLY FIND THAT SEMPRA UTILITIES PRESENTED A PATENTLY UNREASONABLE APPLICATION AND DIRECT CORRECTIVE ACTION 16

- A. The Commission Should Find that a Utility's Overall Request Must Be Reasonable, Not Each Individual Request (Section 2: Burden of Proof and Evidentiary Standards) 16
- B. The Commission Should Find that the Sempra Utilities' Requested Gas Revenue Requirements and Post Test Year Requests Are Patently Unreasonable, and Egregious Considering Gas Demand Declines (Section 2: Burden of Proof and Evidentiary Standards) 17
- C. At Minimum, the Commission Should Adopt TURN's Inflation Constrained Scenario Proposal for the Next GRC (Section 5: Affordability) 18

V. EDF RECOMMENDATIONS REGARDING SPECIFIC CHAPTERS AND REQUESTS 19

- A. The Proposed Decision Appropriately Denies Hydrogen and Carbon Capture and Storage Requests in this GRC (Section 6: Climate and Sustainability Policy, *Inter Alia*) 20
- B. The Sempra Utilities Failed to Align Safety Programs and Investments with Declining Throughput and Future Cost Burdens (Section 7: Risk-Based Decision-making Framework and Methodology) 20
- C. EDF Urges the Commission to Launch a New GRC Phase to Evaluate and Adopt a Units of Production Depreciation Methodology and Changes to Salvage Value (Section 38: Depreciation) 21
- D. The Commission Should Accept the Entirety of the Proposed Decision's Balancing Account Recommendations (Section 43: Regulatory Accounts) 22

E. EDF Urges the Commission to Modify the Proposed Decision to Eliminate Proposed Increases for Gas Capital and O&M in the Post-Test Year Period (Section 47: Escalation and Post-Test Year Ratemaking) 23

VI. CONCLUSION 24

APPENDIX A PROPOSED MODIFICATIONS TO FINDINGS OF FACT AND CONCLUSIONS OF LAW

SUMMARY OF RECOMMENDATIONS

The Sempra Utilities and the Commission must undertake a course correction in this GRC. The Sempra Utilities presented a GRC entirely untethered from the reality of declining gas demand and without regard to customer affordability. While the Proposed Decision makes many critical cuts to the Sempra Utilities' bloated (unjust and unreasonable) GRC request, without further revision, the Proposed Decision will still not result in just and reasonable rates or a well-balanced and financially sustainable future for ratepayers or the utilities.

EDF recommends that, for all gas-related requests brought before it, the Commission:

1. **Adopt updated foundational assumptions regarding gas planning to align with declining demand**, setting appropriate expectations for the gas investor-owned utilities (IOUs), including that revenue requirements in GRC test years may stay flat or decline, that attrition year adjustments may be flat or negative, and that gas demand may materially decline during a GRC period, among others. (Section IV.A.)

2. **Find that the use of stale gas demand assumptions to present rates and affordability metrics substantially understate the rate and affordability impacts of IOU requests**. In this GRC, rate and affordability impacts are calculated demand assumptions made in 2018 which substantially overstate gas demand and, as a result, understate rate impacts which may in reality be more than 35% higher. (Section IV.B.)

3. **Direct the gas IOUs to use California Gas Report (CGR) demand projections in presenting gas rate impacts and affordability metrics before the Commission until further notice**. EDF notes that these CGRs substantially understate declining gas demand and will require further revision, potentially in the new Long-Term Gas Planning Rulemaking (R.24-09-012), but are the best available source of demand projections subject to Rule 1.1 which requires that pleadings submitted to the Commission must "never… mislead the Commission." (Section IV.B.)

4. **Explicitly find that a gas IOU's failure to plan for projected load declines constitutes imprudent management**. The Commission should specifically find in this Proposed Decision that the Sempra Utilities have demonstrated imprudent management in their failure to plan for a lower demand gas future. To fail to do so invites further unreasonable requests to be presented to the Commission. (Section IV.C.)

5. **Require the gas IOUs—in all gas requests before the Commission—to make a showing that any proposed gas investments align with long-term gas rate affordability and long-term gas demand**. The Commission should specifically find that the Sempra Utilities' GRC proposal fails to align with long-term gas rate affordability and long-term gas demand. (Section IV.C.)

6. **Find that IOUs must demonstrate that its overall requests—including post-test year (PTY)adjustments—are just and reasonable**, and specifically find that the Sempra Utilities' overall GRC requests were patently unreasonable, yielded unjust and

unreasonable rates, and were not the product of "well-informed" and "competent management exercising best practices.". (Sections V.A. and V.B.)

EDF also urges the Commission to adopt the following recommendations pertinent to the present GRC:

7. **Adopt—at minimum—all of the Proposed Decision's essential cuts and changes to the Sempra requests**, including a decrease in direct capital expenditures. (Section V.A. and passim.)

8. **Adopt the inflation-constrained scenario presented by The Utility Reform Network (TURN) for the Sempra Utilities' future gas GRC requests with two modifications**, (1) that the *only* scenario that the Sempra Utilities should present in the next GRC is the inflation-constrained scenario, but that (2) the Sempra Utilities should be allowed to submit supplemental requests for specific project amounts over the inflation-constrained scenario and the reasoning for that supplemental request. (Section IV.C.)

9. **Adopt the Proposed Decision's rejection of the Sempra Utilities' hydrogen and carbon capture and storage requests in this GRC and modify the Proposed Decision to Require that foundational hydrogen questions be addressed in a dedicated proceeding or phase** *prior* to the inclusion of hydrogen matters within a GRC. (Section VI.A.)

10. **Adopt the Proposed Decision's "Safety Program" Reductions**, including its recommendations regarding Aldyl-A pipes, to better align safety investments with declining throughput and cost burdens. (Section VI.C.)

11. **Launch a new phase of this GRC to address depreciation and salvage**, requiring the Sempra Utilities to present Units of Production (UoP)-based depreciation and cost-saving changes to salvage amounts to the Commission. (Section VI.D.)

12. **Adopt the Proposed Decision's modifications to balancing accounts**. (Section VI.D.)

13. **Deny any Post-Test Year (PTY) increases in gas expenditures**, as the Proposed Decision's proposed increases fail to align with the reality of long-term substantial natural gas demand declines. The PTY increase relies upon an underlying assumption that demand for services would be increasing, when the record evidence in this proceeding and the Commission's own policy trajectory is the opposite of this. (Section VI.E.)

EDF provides more detailed recommendations in these Comments.

TABLE OF AUTHORITIES

STATUTES

Section 451 ... 15, 16

COMMISSION DECISIONS

Decision 62260 (1961) ... 12
Decision 87-06-021 ... 15
Decision 94-04-063 ... 12
Decision 95-01-039 ... 11, 12
Decision 04-07-022 ... 24
Decision 06-05-016 ... 16
Decision 09-03-025 ... 16
Decision 09-07-021 ... 15
Decision 14-06-007 ... 17
Decision 19-05-020 ... 17
Decision 19-19-051 ... 22
Decision 20-02-045 ... 7, 10
Decision 22-07-002 ... 12
Decision 22-08-023 ... 10
Decision 22-09-026 ... 14
Decision 22-12-021 ... 14
Decision 23-12-003 ... 14
Decision 23-12-037 ... 14
Resolution G-3600 ... 23

RULES

Rule 1.1 ... iii, 11
Rule 14.3 ... 1

OTHER AUTHORITIES

California Gas Report (Various Years).. passim

CEC Gas Planning Forecast.. 3, 6, 13

OTHER REFERENCES

"Managing the Transition: Proactive Solutions for Stranded Gas Asset Risk in California," EDF, 2009 3

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 (Filed May 16, 2022)
	CONSOLIDATED
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.	Application 22-05-016 (Filed May 16, 2022)

COMMENTS OF
ENVIRONMENTAL DEFENSE FUND
ON PROPOSED DECISION

Pursuant to Rule 14.3 of the California Public Utilities Commission (Commission) Rules of Practice and Procedure and the *Assigned Commissioner's Scoping Memo and Ruling* dated October 2, 2022 (Scoping Memo), Environmental Defense Fund (EDF) respectfully submits the following Comments on the Proposed *Decision Addressing the 2024 Test Year General Rate Cases of Southern California Gas Company [(SoCalGas)] and San Diego Gas & Electric Company [(SDG&E, together with SoCalGas, Sempra or the Sempra Utilities)]*, issued October 18, 2024 (Proposed Decision). Pursuant to Rule 14.3(a), these Comments are timely filed.

EDF recognizes the intense amount of work that went into this Proposed Decision and thanks the Administrative Law Judges and the Commission Staff for their time. However, despite their best efforts, EDF is strongly concerned that the Proposed Decision does not go far enough to prevent serious equity and affordability concerns from disproportionately impacting the service territory's most vulnerable customers. The Proposed Decision also needs to better align the revenue requirement with decarbonization goals.

I. INTRODUCTION

At the oral argument, the Commissioners asked SDG&E why their gas rates were so high. The answer is simple. From 2013 to 2023, SDG&E's recorded total gas throughput declined 30%.[1] During this time, SDG&E's revenue requirements increased as well, compounding the

[1] SDG&E 2013 and 2023 recorded year throughput from the 2016 California Gas Report (CGR), and 2024 CGR respectively.

affordability crisis. Here, the Proposed Decision—notwithstanding the yeoman's work of the Commission and the Intervenors to cut back the Sempra Utilities' egregious General Rate Case (GRC) request—presents a dire future for the Sempra Utilities' gas ratepayers. Under a best-case scenario and using the Sempra Utilities' most recent—optimistic—projected demand, GRC-attributable system average gas rates will rise 41.1% for SoCalGas and 55.1% for SDG&E from 2023-2027. Residential gas rates will rise considerably more.

GRC Period System Average Rates	SoCalGas	SDG&E	Rate Impact
Natural Gas Demand 2023-2027, Utilities' 2024 California Gas Report	**-8.5%**	**-15.8%**	↑
Base Year Revenue Requirement (RRQ) Increase 2023-2024, Proposed Decision	**+14.8%**	**+16.2%**	↑
Post-Test Year Annual RRQ Increases 2024-2027, Proposed Decision	**+4%**	**+4%**	↑
Total Rates Impact 2023-2027	**+41.1%**	**+55.1%**	↑↑↑

Without a change in trajectory—using the Sempra Utilities' projections, continuing the Commission's proposed 4% escalation factor, and holding all other assumptions equal—GRC-attributable gas rates will more than double for SoCalGas (+111.1%) and SDG&E by 2035 and (+136.2%) by 2035.

On behalf of its over 500,000 California members and supporters, EDF has presented a General Rate Case (GRC) scenario that aligns the Sempra Utilities' gas revenue requirements and depreciation with the realities of the future: the California Energy Commission (CEC) gas planning projections find that by 2050, the Sempra Utilities' residential gas demand will decline by 85%, a bellwether for the Sempra Utilities' gas demand as a whole.

EDF strongly supports common sense decarbonization trajectory of the State and this Commission. In most cases, decarbonization is electrification, switching from natural gas to electricity; in some limited cases, such as for difficult to electrify industrial customers, decarbonization may be to green hydrogen.[2] EDF has said throughout this proceeding that it wants

[2] This GRC is not the appropriate home for the discussion of hydrogen as a new line of business for the Sempra Utilities. EDF supports rejection of all of the Sempra Utilities' hydrogen requests here; those requests are more appropriately considered in standalone proceedings.

to better align the revenue requirements with decarbonization goals so that this gas transition can be done responsibly. The Utilities, the Commission, and the State need to plan for this gas transition, or they will place ratepayers, equity, utility workers, and the utilities themselves at risk. Time is of the essence, and the time to start is now.[3]

The Proposed Decision is an important base recommendation, but EDF recommends that further revisions are crucial to result in just and reasonable rates now, and to mitigate disastrous outcomes for ratepayers, equity, utility workers, and the utilities in the future.

II. JOE'S HOUSE: WHY THE EDF HYPOTHETICAL MATTERS

Every adult knows about budgets and planning. Maybe a family needs a new car: they look at their budget, they consider that their kids are heading off to college next year, so they opt for a sedan in their price range rather than a minivan. During Oral Arguments, EDF posed the following personal finance hypothetical to the Commission:

> Joe makes $200,000 per year. This year he bought a house with a 30-year fixed mortgage. With the mortgage, he's spending all his income. In 13 years, Joe plans to retire and only have social security income of $30,000 per year. He's prepared a budget of $230,000 for this coming year since he plans to repair the leaky roof and renovate the kitchen,[4] and the cost of groceries, vacations, and clothing are going up. What should Joe do in the next couple of years?

This hypothetical is simply a scaled down version of the Sempra Utilities' gas-related requests in this proceeding in terms of time and money. In the hypothetical, Joe's income is decreasing by 85% over time. The California Energy Commission (CEC) adopted a gas planning forecast (CEC Gas Planning Forecast) this year which shows that the Sempra Utilities' residential gas demand—which will be a bellwether for overall demand—will decrease by 85% by 2050.[5] This simple personal finance example is a way of turning Sempra's GRC jargon into more understandable language.

---

[3] *See*, *e.g.*, "Managing the Transition: Proactive Solutions for Stranded Gas Asset Risk in California," EDF, 2009. Available at: https://www.edf.org/sites/default/files/documents/Managing_the_Transition_new.pdf.

[4] The Sempra Utilities took umbrage at the example of renovating the kitchen, but as EDF will demonstrate here, some of the expenses may be like a leaky roof and others like a fancy kitchen.

[5] This 85% figure is derived using figures in CEC Docket 23-IEPR-03: Take the CED 2023 Baseline Natural Gas Forecast (TN255171, March 19, 2024) and subtract the Gradual Transformation AAFS Scenario Annual (TN255741, April 19, 2024). Available at: https://efiling.energy.ca.gov/Lists/DocketLog.aspx?docketnumber=23-IEPR-03. Together EDF refers to this as the CEC Gas Planning Forecast.

Joe's House	General Rate Case
Joe	**SoCalGas and SDG&E**
Income	**Base Margin**: the amount the utilities are authorized to collect from customers for service provided through "just and reasonable" rates. This is directly tied to demand. **Just and Reasonable Rates**: Joe's employer (ratepayers), will only pay him a reasonable salary for the work he does. If Joe's working 15% less than he did a decade ago, the employer may wonder why they are paying him <u>more</u> and getting <u>less</u> now than before, and why he is asking for a 25% raise when he will be working even less going forward.
Budget	**Revenue Requirement**: how much, and in which category, the utility spends in a year. For utilities, in essence, budget and income are equal. This is broken into two parts: the base year budget (this year) and the attrition years (later years, based on adjustments to his base year budget)
House	**Gas Plant in Service**: the gas system's total "steel in the ground"
Mortgage (Amount Outstanding)	**Rate Base**: the utilities' capital investments that ratepayers have not yet paid for
Mortgage Payment	**Depreciation**: how much utility customers "pay down" the mortgage/rate base in a year
"30-year Fixed" Mortgage	**Straight-Line Depreciation**: paying down the mortgage/rate base in equal amounts over a specified period; gas distribution mains are depreciated over about 70 years for the Sempra Utilities
New Roof or Kitchen	**Direct Capital Expenditures**: new capital investments which add to the mortgage/rate base. Each of these investments is paid back by ratepayers with a new "30-year fixed" mortgage for these expenditures, unlike homeowners who may have a shorter-term home equity line of credit.
Groceries, Clothes, and a Vacation	**Operations and Maintenance (O&M) Expenses**: "daily living" expenses that are paid in the current year.
Credit Cards	**Balancing Accounts**: Balancing accounts are the accounting tool used to track actual costs from the budget. Balancing accounts

The Sempra Utilities' revenue requirement—the annual amount they are approved to spend each year—needs to be proportionate to the volume of gas demand to maintain current rates and affordability. For purposes of the Joe hypothetical, income is a direct corollary to gas demand to maintain just and reasonable rates.

Joe's house is a capital investment, and his monthly mortgage payment is like depreciation, it is the mechanism for paying back the capital loan, and how much you pay depends on how long the repayment goes for (such as a 30-year fixed) and whether you're paying down the loan sooner rather than later. Joe's living expenses are the Sempra Utilities' routine operations and maintenance (O&M) expenses. Joe's bank account and credit cards are like the Sempra Utilities'

various accounts, including memorandum accounts. In these Comments, EDF will illustrate its recommendations, often using Joe as an example to simplify the complex matters before this Commission.

III. The Commission Must Address the Sempra Utilities' Failure to Plan for Declining Gas Demand

A. The Sempra Utilities and the Commission Must Realign Their Foundational GRC Assumptions to Align with Declining Demand (Section 4: General Rate Case Ratemaking)

In its simplest form, there are two factors that go into calculating gas rates for SoCalGas's and SDG&E's gas customers as a whole: the total gas revenue requirement and the total throughput of gas. The revenue requirement divided by the throughput is the system average gas rate.

If the utilities' revenue requirements increase, rates increase. If gas demand increases, rates decrease. And, in theory—though not in practice as the ratepayer's wallet well knows—revenue requirement increases coupled with demand increases in more or less the same proportion means that rates will remain more or less constant. These basic assumptions—that utility revenue requirements will increase, and that gas demand will increase—are baked into GRCs in myriad ways, including in this GRC:

- The gas utilities seek a revenue requirement increase in the test year, and revenue requirement increases in the attrition years;
- Gas customers now are going to use the same amount of gas as customers a few years ago, a few years from now, and even many years from now; and
- Gas capital expenditures increase over time, and by depreciating those capital expenditures over time, the amount ratepayers pay for those capital expenditures remains fairly constant.

These assumptions are dangerous because they are predicated on false assumptions. In its evidence and in its brief, EDF pointed out how these assumptions were no longer valid. The Commission must correct these assumptions in this GRC and for prospective requests before this Commission.

Joe's income (demand) went down 15% in the past decade, and he knows his income will continue to go down significantly. What assumptions should he make in making his budget? Should he only plan for this year or should he plan farther into the future?

SoCalGas and SDG&E's customers' demand for gas has declined significantly over the past decade and these declines are accelerating. This decrease is in line with state policy and state

adopted forecasts and the numbers from the utilities themselves. From 2013 to 2023, SDG&E's recorded total gas throughput declined 30% and SoCalGas's declined 10.9%.[6] CEC Gas Planning Forecast projects that by 2050, the Sempra Utilities' residential gas demand will decline by 85% from current levels, a bellwether for the Sempra Utilities' gas demand as a whole. The Sempra Utilities' new reality is this: If the utilities' revenue requirements increase, rates increase. If gas demand declines, rates increase even more. Revenue requirement increases coupled with demand decreases that rates will substantially increase, resulting in further gas usage decline. As described above, were the Commission to adopt the Proposed Decision as drafted and maintain the 4% escalation factor GRC-attributable gas rates will more than double for SoCalGas (+111.1%) and SDG&E by 2035 and (+136.2%) by 2035, holding all else equal (which is yet another dangerous assumption).

When prices go up, customers: use less (turning the thermostat down in winter; not opening the restaurant Mondays through Wednesdays), increase efficiency (installing insulation; refine industrial processes), or just stop using the fuel (fuel-switching to electricity or, as the Sempra Utilities hope, hydrogen; moving business operations out of state; going out of business). We need to acknowledge that budgets are not infinite, and rate increases budget constraints will harm more vulnerable customers already burdened by pollution.

EDF asks the Commission to find that gas GRC assumptions must be updated to that the Sempra Utilities prudently plan for the future. The Sempra Utilities and the Commission must base their GRC assumptions, proposals, and approvals in reality: that gas demand is declining, including in this GRC period. Updated GRC assumptions that the Commission should adopt are:

- The gas utilities revenue requirements may stay flat or decline in the test year;
- The attrition year adjustments may be flat or negative;
- Gas demand may materially decline during a GRC period;
- Gas demand will certainly materially decline beyond the GRC period;
- Gas customers today will not be the same customers tomorrow (the CEC projects residential demand to decrease by 85% by 2050) so capital investments and depreciation need to align with that future expected load, i.e. differing core and noncore needs;
- Rate base (the outstanding undepreciated gas plant in service) needs to decline over time to avoid stranded asset risk;

[6] *See*, 2016 CGR and 2024 CGR.

- Depreciating gas assets over too long of a period—or by straight line depreciation—reduces' today's rates but results in severe gas rate pressures—and stranded asset risk—in the medium- to long-term. Tomorrow's rate pressures will disproportionately impact (lower income customers and renters).
- Overspending, such as through balancing accounts, unravels otherwise prudent budgeting, and will have significant negative impact on rates and affordability.

B. The Proposed Decision's Failure to Require the Use of Current Gas Demand Forecasts Significantly Understates the Rate and Affordability Impacts of this GRC and Must Be Corrected (Section 5: Affordability)

Let's assume that Joe has made his budget this year and his expenses match his income. That is a balanced budget. However, if Joe balances his expenses with his *old, higher* income, by the end of the year he is going to realize that he has significantly overspent his *actual* income. Joe needs to use accurate assumptions about his income in order to make a prudent budget. Joe, like the utilities, cannot take on unlimited amounts of new debt and maintain the ability to repay those debts.

Rates and affordability metrics presented in this GRC are deceptive: they assume that gas demand is the same as it was six years ago by using gas projections made in 2018. As a result, rates in the GRC *appear* lower—more affordable—than what they *actually* will be. In order to properly consider rates and affordability in the GRC, the Commission must take into account this misalignment.

Here, the gas demand presented by SoCalGas and SDG&E reflect an average demand projected in 2018 and approved in the Sempra Utilities last Cost Allocation Proceeding (TCAP) in 2020.[7] This may have been reasonable in prior years when gas was more stable or increasing. But now this methodology results significantly understates actual rate impacts and present affordability metrics. The Sempra Utilities most recent recorded actual demand and projections of future demand are set forth in the IOUs' 2024 CGR.[8] (EDF notes that the CGR consistently overestimates future gas demand, but still recommend its use in this proceeding over the 2018

---

[7] D.20-02-045.

[8] EDF notes that the IOUs' CGRs have a history of significantly over-forecasting demand, an issue that will need to be addressed, possibly in the Long-Term Gas Planning Rulemaking.

TCAP.) The following tables present the Sempra Utilities' own projections in the 2024 CGR[9] with what has been presented in this GRC.

Projected Gas Demand (MMTherm/Year)	2023	2024	2025	2026	2027	Change 2023-2027
SCG Projection - 2024 GRC	9,142	9,142	9,142	9,142	9,142	**0.0%**
SCG Projection - 2024 CGR	9,045	8,625	8,537	8,424	8,277	**-8.5%**
SCG Change in Annual Projected Demand	**-1.1%**	**-5.7%**	**-6.6%**	**-7.9%**	**-9.5%**	
SDGE Projection - 2024 GRC	1,109	1,109	1,109	1,109	1,109	**0.0%**
SDGE Projection - 2024 CGR	973	890	876	857	819	**-15.8%**
SDGE Change in Annual Projected Demand	**-12.3%**	**-19.8%**	**-21.1%**	**-22.7%**	**-26.1%**	

What these charts show is that in each case, the GRC projection assumes flat gas demand (i.e. no change in demand from 2023 to 2027), but that the Sempra Utilities' current projections show projected gas demand declines of 8.5% for SoCalGas and 15.8% for SDG&E from 2023-2027. Recorded (actual) 2023 gas demand was 1.1% under what the GRC assumes, and SDG&E's was an astonishing 12.3% below GRC projections. In the outer years, the GRC assumptions significantly overstate projected gas demand. Framed in terms of revenue requirement impact on rates, a $10 million revenue requirement increase in 2027, would be shown in this GRC to have a rate impact of $0.090/Therm, but based on current projections would be expected to have an actual rate impact of $0.122/Therm, 35.4% more than what the GRC shows.

In his 2024 budget, Joe *assumes* he will make $249,000, just like he did in 2018. He plans on spending $249,000. But Joe already *knows* that he will make $200,000 in 2024 (19.8% less, just like in SDG&E's case). This is not prudent budgeting. A reasonable budget would update income to reflect this.

The Proposed Decision, however, does not reconcile the out-of-date Sempra Utilities demand assumptions, despite having more accurate assumptions available. While critical now, this issue will become even more significant in the future. The CEC's long-term gas planning projects that, from 2023-2050, residential gas demand will decline 84.2% for SoCalGas and 88.7% for

[9] For rates purposes, as is reflected here, this is calculated by taking the daily throughput and subtracting demand related to enhanced oil recovery (EOR). These figures have been converted to MMTherms/year for consistency with what has been presented in this GRC. The 2024 CGR contains 2023 recorded (actual) demand.

Southern California Gas Company (SoCalGas) Demand and Rates

Line	**Total Demand** (MMTherm/year)		2023	2024	2025	2026	2027	2035	2040	2050	2023-2027	2023-2035	2023-2040	2023-2050
1	SCG	2024 GRC	9,045	9,142	9,142	9,142	9,142				+1.1%			
2	SCG	2024 CGR	9,045	8,625	8,537	8,424	8,277	7,569	7,703		-8.5%	-16.3%	-14.8%	
	Revenue Requirement ($ in millions)		**2023**	**2024**	**2025**	**2026**	**2027**	**2035**	**2040**	**2050**	**2023-2027**	**2023-2035**	**2023-2040**	**2023-2050**
3	SCG	Proposed Decision RRQ	3,540	4,063	4,225	4,394	4,570	6,254	7,609	11,264	+29.1%	+76.7%	+115.0%	+218.2%
	GRC-Attributable System Average Rate ($/Therm)		**2023**	**2024**	**2025**	**2026**	**2027**	**2035**	**2040**	**2050**	**2023-2027**	**2023-2035**	**2023-2040**	**2023-2050**
4	SCG	2024 GRC	0.391	0.444	0.462	0.481	0.500				+27.7%			
5	SCG	2024 CGR	0.391	0.471	0.495	0.522	0.552	0.826	0.988		+41.1%	+111.1%	+152.4%	
	Core Residential Demand (MMTherm/year)		**2023**	**2024**	**2025**	**2026**	**2027**	**2035**	**2040**	**2050**	**2023-2027**	**2023-2035**	**2023-2040**	**2023-2050**
6	SCG	2024 CGR	2,339	2,153	2,117	2,080	2,046	1,918	1,942		-12.5%	-18.0%	-17.0%	
7	SCG	CEC Planning Forecast	2,339	2,262	2,226	2,184	2,132	1,517	896	370	-8.8%	-35.1%	-61.7%	-84.2%

Line	**SCG Capital Investment in 2024 (% Depreciated)**	**2027**	**2035**	**2040**	**2050**
8	Distribution Main (68 years)	4%	16%	24%	38%

San Diego Gas & Electric Company (SDG&E) Demand and Rates

Line	**Total Demand** (MMTherm/year)		2023	2024	2025	2026	2027	2035	2040	2050	2023-2027	2023-2035	2023-2040	2023-2050
1	SDGE	2024 GRC	973	1,109	1,109	1,109	1,109				+14.0%			
2	SCG	2024 CGR	973	890	876	857	819	737	754		-15.8%	-24.3%	-22.5%	
	Revenue Requirement ($ in millions)		**2023**	**2024**	**2025**	**2026**	**2027**	**2035**	**2040**	**2050**	**2023-2027**	**2023-2035**	**2023-2040**	**2023-2050**
3	SDGE	Proposed Decision RRQ	518	602	626	651	677	927	1,128	1,669	+30.7%	+78.9%	+117.6%	+222.1%
	GRC-Attributable System Average Rate ($/Therm)		**2023**	**2024**	**2025**	**2026**	**2027**	**2035**	**2040**	**2050**	**2023-2027**	**2023-2035**	**2023-2040**	**2023-2050**
4	SDGE	2024 GRC	0.533	0.543	0.564	0.587	0.611				+14.6%			
5	SDGE	2024 CGR	0.533	0.677	0.715	0.760	0.827	1.258	1.496		+55.1%	+136.2%	+180.8%	
	Core Residential Demand (MMTherm/year)		**2023**	**2024**	**2025**	**2026**	**2027**	**2035**	**2040**	**2050**	**2023-2027**	**2023-2035**	**2023-2040**	**2023-2050**
6	SDGE	2024 CGR	307	260	256	248	244	229	230		-20.4%	-25.3%	-25.1%	
7	SDGE	CEC Planning Forecast	307	240	237	233	229	162	95	35	-25.5%	-47.3%	-69.1%	-88.7%

Line	**SDG&E Capital Investment in 2024 (% Depreciated)**	**2027**	**2035**	**2040**	**2050**
8	Distribution Main (69 years)	4%	16%	24%	38%

Notes

Lines 1-6	2023 figures are actuals to provide ; 2024 onward are projections
Line 1	Demand projection provided by Sempra in this GRC. Projection is the Commission-approved projection from the 2020 TCAP. Projection was made in 2018.
Lines 2, 4, 6	2024 California Gas Report issued by the California gas IOUs
Line 3	Post-GRC years assume continued use of the Proposed Decision's escalation rate of 4%
Line 7	CEC gas planning scenario adopted in May 2024 in docket 23-IEPR-03

SDG&E.[10] These gas demand declines are material, imminent, and a long time coming; it is unreasonable for the Commission to approve any number that indicates otherwise. Yet in this GRC, the Sempra Utilities have presented egregious requests for single-year gas revenue requirement *increases*: 25.3% for SoCalGas and 27.1% for SDG&E, to be further compounded by aggressive post-test year (PTY) annual increases.[11] These dramatic results are encapsulated in the table above. The Commission understands that the assumptions are unreasonable, yet still permits them:

> While EDF is correct that SoCalGas and SDG&E used 2018 gas demand assumptions, it should be noted that pursuant to D.22-08-023 at 84 (OP 5), the utilities are required to use "revenues in effect at the time of filing." We agree with Sempra Utilities that the most recently approved triennial cost allocation proceeding filed in 2018 and a final gas forecast approved in D.20-02-045 are appropriate for the affordability metric calculation given the timing of their triennial cost allocation proceeding. The affordability metrics offer a historical baseline for tracking changes in affordability, provided the Commission maintains consistent measurement standards.[12]

Calculating the gas rates or gas rate affordability metrics using anything other than known or best available gas throughput data results meaningless rate impacts. In this case, the Sempra Utilities presented their rates—and affordability metrics—using gas demand data from 2018, which the Proposed Decision acknowledges.[13] These impacts are not small.

GRC-Attributable Gas Rate	SoCalGas	SDG&E
2027 Gas Rate – GRC Demand (2018 Forecast)	$0.500	$0.611
2027 Gas Rate – 2024 CGR Forecast (2024 Forecast)	$0.552	$0.827
Difference	+10.4%	+35.4%

[10] To arrive at the total demand figure, one must combine two separate forecasts: CEC 23-IEPR-03, Gradual Transformation AAFS Scenario Annual, April 17, 2024, available at: https://efiling.energy.ca.gov/GetDocument.aspx?tn=255741&DocumentContentId=91578, and CEC 23-IEPR-03, CED 2023 Baseline Natural Gas Forecast, March 19, 2024, available at https://efiling.energy.ca.gov/GetDocument.aspx?tn=255171&DocumentContentId=90855.

[11] Proposed Decision, Appendix A at PDF page 11 (gas revenue requirements); Proposed Decision at 3-4 (PTY annual increases).

[12] Proposed Decision at 40-41.

[13] Proposed Decision at 40.

Using most recent gas data from the IOUs' 2024 California Gas Report forecasts, SDG&E's rates will be 35% higher than what the affordability metrics present. The affordability metrics do not "offer a historical baseline for tracking changes in affordability, provided the Commission maintains consistent measurement standards" as the Proposed Decision asserts.[14] The purpose of the affordability metrics is to determine whether customers will be able to afford their essential utility bills, not for generating rates with no correspondence with reality. Significantly more troubling than useless affordability metrics, however, is the actual impacts on ratepayers. The entire Proposed Decision of the GRC is rooted in, and therefore the underlying reasonableness review is predicated upon, **stale gas demand figures** and a set of assumptions that maintains the status quo that has not existed in a decade. This renders the Proposed Decision's analysis on rates and the underlying review of the affordability metrics meaningless. EDF notes that the affordability metrics are intended to consider whether customers will be able to pay their utility bill,[15] but the Proposed Decision, by ignoring the decline in gas demand, is only doing an analysis of whether customers will be able to afford two-thirds of a utility bill.

The Sempra Utilities' ratepayers are facing an affordability crisis. The Proposed Decision should be revised to direct the Sempra Utilities to present, and we encourage the Commission to closely consider, the *true* impact of the GRC on rates. The Proposed Decision fails to require this, instead valuing process over an accurate analysis of the proposal's impact on ratepayers and affordability.

The Sempra Utilities' CGR forecasts (rosy as they may be) are, for now, the best option for updating demand projections that the Commission has at hand: they are submitted to the Commission as required by D.95-01-039 and the utilities must "never… mislead the Commission or its staff by an artifice or false statement of fact or law" as required by Rule 1.1. EDF has also requested that this forecast be used, so the Commission has the flexibility to choose this option. For this reason, EDF urges the Commission to update the demand and rate figures in this GRC with the 2024 CGR forecasts and direct the use of CGR forecasts for future pleadings.

To the extent the Commission does not update these rates and figures in the decision in this case, it should clearly state that any rates and affordability metrics reflected in the Decision significantly understate rate and affordability impacts.

---

[14] Proposed Decision at 40-41.

[15] Proposed Decision at 36.

C. The Proposed Decision Should Find that the Sempra Utilities' Failure to Plan for Significant Gas Demand Declines Constitutes Imprudent Management (Section 2: Burden of Proof and Evidentiary Standards)

Since 1961, the Commission has required the gas investor-owned utilities (IOUs) to prepare gas demand planning projections in the form of the California Gas Report (CGR).[16] The purpose of the CGR is clear:

> The California Gas Report is a lengthy document which presents the outlook for natural gas supply and demand over a long-term planning horizon. <u>The projections are intended for long-term planning purposes</u> only.[17]

The last time the IOUs projected long-term gas demand <u>increases</u> in their CGR was in 2008.[18] From 2013 to 2023, SDG&E's recorded total gas throughput declined 30% and SoCalGas's declined 10.9%.[19] From 2023 to 2027, the GRC period, SoCalGas expects total gas demand to decline by 8.5% and SDG&E by 15.8% (see above).

On a qualitative basis, the Commission can confirm that these demand declines will continue by considering recently adopted policies and regulations impacting gas demand.

---

[16] D.62260, dated July 11, 1961, and subsequently modified by D.94-04-063, D.94-05-039, D.95-01-039, and D.22-07-002. D.62260 is a legacy Commission decision unavailable on Lexis, but available through the following link: https://files.cpuc.ca.gov/LegacyCPUCDecisionsAndResolutions/Decisions/Decisions_D57801_to_D73750/D62260_19610711_C5924.pdf.

[17] D.95-01-039 at 3 (995 Cal. PUC LEXIS 38, *3, 58 CPUC2d 552 (Cal. P.U.C. January 24, 1995), emphasis added.

[18] 2008 CGR at 15. Pursuant to D.95-01-039, the IOUs submit a full update of long-term California gas demand projections to the Commission every two years. CGRs are available at: https://www.socalgas.com/regulatory/cgr.

[19] *See*, 2016 CGR and 2024 CGR.

Recent Developments Impacting Natural Gas Demand

				GRC Period						
CPUC	**Earlier**	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**
BUILD and TECH Programs	★									
Elimination of Gas Line Extension Subsidies		★								
Elimination of Electric Line Subsidies for Dual Fuel			★							
CARB										
State SIP Strategy		★								
Priority Climate Action Plan				★						
Comprehensive Climate Action Plan					☆					
Zero Emission Space and Water Heater Standards						☆	✓		✓	
CEC										
2026 Title 24 Heat Pump Baseline				★		✓				
South Coast AQMD										
Rule 1153.1 - Zero Emission Commercial Food Ovens			★				✓			
Rule 1146.2 - Zero Emission Commercial Space and Water Heating				★		✓		✓	✓	
Rules 1111 and 1112 - Zero Emission Residential Space and Water Heaters				☆		✓	✓	✓		✓
San Diego APCD										
Rule 69.6 - Ultra-Low NOX Gas-Fired Furnaces				☆	✓					

Key: ★ Adopted ☆ Planned Adoption ✓ Effective Date

Beyond 2027, the Sempra Utilities' gas demand will continue to decline as the Sempra Utilities themselves project. EDF notes that the Sempra Utilities' projections have significantly understated and continue to understate projected gas declines. Here, EDF compares the 2024 CGR with the CEC's adopted Gas Planning Forecast.

Residential Demand Forecast		2023-2035	2023-2040	2023-2050
SoCalGas	2024 CGR Residential Forecast	-18.0%	-17.0%	
	2024 CEC Gas Planning Forecast	-35.1%	-61.7%	-84.2%
SDG&E	2024 CGR Residential Forecast	-25.3%	-25.1%	
	2024 CEC Gas Planning Forecast	-47.3%	-69.1%	-88.7%

Simply stated, there is no factual dispute that gas demand will decline considerably, the only dispute is by how much.

While the Commission *should* be able to safely assume that the Sempra Utilities are planning for this lower demand future and all of the financial and operational changes that will be

necessary as a result, it cannot. The Sempra Utilities have failed to present *any* evidence of planning for changing future demand. In fact, in the entirety of the Sempra Utilities' testimony, EDF was able to find only two references to declining gas demand.[20] In a footnote, SDG&E observes that "overall throughput in the natural gas pipeline system is projected to decrease 65% by 2045."[21] SoCalGas states, in euphemistically-laden language, that "[b]ased on the new decarbonization-driven trendline, the role of the high-pressure transmission system to provide high just-in-time volumes of fuel to power generators will evolve while the annual natural gas throughput and demand will decline."[22]

SoCalGas and SDG&E conceded in hearings that they simply did not have any strategic lead for this GRC. Bruce Folkmann, SDG&E's President and Chief Financial Officer, stated that SDG&E's GRC request was simply a "bottom up" amalgamation of requests.[23] Maryam Brown, SoCalGas's Chief Executive Officer, stated in hearings: "I don't believe that we have a specific strategic lead for the GRC, though there is a strategic lens that many of us in the SoCalGas organization apply to developing this GRC application."[24]

The Commission, for its part, has undertaken concrete actions in recent years to address declining gas demand:

- D.22-09-026 eliminated gas line extension allowances, mitigating new stranded gas assets;[25]
- D.22-12-021 adopted General Order (GO) 177, enhancing oversight over large-scale gas projects proposed by the California's investor-owned gas utilities (IOUs);
- D.23-12-003 adopted criteria for derating transmission pipelines, reducing costs related to existing gas infrastructure; and
- D.23-12-037 eliminated electric line extension allowances for mixed-fuel new construction.

---

[20] EDF Opening Brief at 8.

[21] Exhibit SDG&E-08 at NGK-14, footnote 33.

[22] Exhibit SCG-06-2R-E at CHB-106:26-28.

[23] EDF Opening brief at 41, citing to June 5, 2023 Evidentiary Hearing Transcript at 774:20-22.

B. Folkmann (SDG&E): Our general rate case obviously is composed of a number of witnesses who have prepared from the bottom up, so to speak.

[24] EDF Opening Brief at 41, citing to the June 5, 2023 Evidentiary Hearing Transcript at 805:24-806:2.

[25] D.22-09-026 also eliminated the 10-year refundable payment option, and the 50 percent discount payment option provided under gas line extension rules at that time.

But here, the Sempra Utilities have left critical questions unasked regarding—much less taken concrete actions to address—continued significant gas demand declines, such as how the Sempra Utilities are planning for and addressing gas rate affordability? undepreciated gas assets? work prioritization given a more financially constrained future? workforce impacts?

As the Sempra Utilities have had more than a decade to plan for declining gas demand, the Commission should expect that a "prudent manager" of the gas system to present a GRC request that takes this core business reality into consideration.[26] The Sempra Utilities have failed to be prudent managers in their preparation of their gas-related requests in this GRC, leaving it to Intervenors and this Commission to work to align their proposal with what is needed for affordability and the business reality of declining gas demand. In general, the prudent manager test is to protect ratepayers from shareholder greed. Here, the Commission must take steps to protect ratepayers from shareholder greed *and* the prospect of a future utility bankruptcy.

The Sempra Utilities have not planned for the future and the Commission must clearly state that this recklessness fails to reflect "prudent management" and the resulting proposal fails to result in just and reasonable rates.

For Joe, failing to plan for the future is not unlawful, it is just irresponsible. But the Sempra Utilities are subject to various laws and Commission Decisions that <u>require</u> that they be responsible. The Section 451 "just and reasonable" requirement is only one example. The Commission holds its regulated IOUs to the standard of a "prudent manager":

> "The term 'reasonable and prudent' means that at a particular time any of the practices, methods, and acts engaged in by a utility follows the exercise of reasonable judgment in light of facts known or which should have been known at the time the decision was made. The act or decision is expected by the utility to accomplish the desired result at the lowest reasonable cost consistent with good utility practices. Good utility practices are based upon cost effectiveness, reliability, safety, and expedition." […]
>
> The standard of reasonableness does not derive from the consequences of managerial action, but the soundness of the utility's decision-making process. [27]

---

[26] An extensive discussion of the "prudent manager" standard is set forth in the EDF Opening Brief at 39-42.

[27] EDF Opening Brief at 39, citing D.09-07-021 at 64, in turn citing D.87-06-021 (1987 Cal. PUC Lexis 588, 28-29, 24 CPUC2d 476).

In this GRC, EDF urges the Commission to explicitly find that the Sempra Utilities have not been prudent managers in preparing their GRC request: the Sempra Utilities created bottom-up budgets which would have resulted in exorbitant rate increases, and they failed to align their proposed investments and expenditures to align with the present and future reality of declining gas demand. This is simply not a sound decision-making process. If the Commission fails to take the Sempra Utilities to account, it indicates that the Sempra Utilities' imprudence doesn't matter.

In these Comments, EDF demonstrates several of the Sempra Utilities' specific failures to address present and future gas demand declines, but most critically, EDF strongly urges the Commission to direct the Sempra Utilities—in all of their requests before this Commission—to present proposals that are reasonable in light of best available projections of gas demand.

The Commission should be clear in this Proposed Decision that being a "prudent manager" of the gas system means proactively planning for both affordability and gas demand declines. Individual requests may appear reasonable in isolation, but an overall GRC proposal which does not plan for affordability and future demand is not just and reasonable.

IV. THE COMMISSION SHOULD EXPLICITLY FIND THAT SEMPRA UTILITIES PRESENTED A PATENTLY UNREASONABLE APPLICATION AND DIRECT CORRECTIVE ACTION

A. The Commission Should Find that a Utility's Overall Request Must Be Reasonable, Not Each Individual Request (Section 2: Burden of Proof and Evidentiary Standards)

California Public Utilities Code Section 451[28] requires all utilities—including the Sempra Utilities—to provide "adequate, efficient, just, and reasonable service" at just and reasonable rates, stating:

> 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.

The Proposed Decision sets forth the Commission's standards that:

- The Sempra Utilities "have the burden of affirmatively establishing the reasonableness of all aspects of their application"[29];

[28] All references are to the Public Utilities Code unless otherwise noted.

[29] Proposed Decision at 16, citing to D.09-03-025 at 8; D.06-05-016 at 7.

- The Sempra Utilities "must establish requested rate changes are *prima facie* just and reasonable";[30] and
- That the Sempra Utilities' "[c]osts are just and reasonable if 'prudently incurred by competent management exercising the best practices of the era, and using well-trained, well-informed and conscientious employees and contractors who are performing their jobs properly.'"[31]

Notwithstanding the demonstrated fact that the Sempra Utilities' GRC overall requests were unjust and unreasonable, the Proposed Decision does not state that the Sempra Utilities have failed to meet their burden of proof. Instead, the Proposed Decision limply notes that the Commission "reviewed and considered all exhibits in this proceeding pertaining to each Section, the evidentiary hearing transcripts, and all the arguments raised by the parties, in deciding the revenue requirements and related policy directives adopted in this decision."[32] This fails to ensure overall just and reasonable rates and further invites the Sempra Utilities to continue presenting unjust and unreasonable requests to the Commission.

EDF strongly urges the Commission to find that: (1) utilities must demonstrate that its overall requests are just and reasonable; and (2) the Sempra Utilities' overall GRC requests were patently unreasonable, yielded unjust and unreasonable rates, and were not the product of "well-informed" and "competent management exercising best practices." The Commission should—at minimum—adopt all of the cuts to the Sempra Utilities' gas capital and operational budgets and modifications to the Sempra Utilities' regulatory accounts as set forth in the Proposed Decision.

B. The Commission Should Find that the Sempra Utilities' Requested Gas Revenue Requirements and Post Test Year Requests Are Patently Unreasonable, and Egregious Considering Gas Demand Declines (Section 2: Burden of Proof and Evidentiary Standards)

Californians are facing a rates crisis. Yet in this GRC, The Sempra Utilities requested single-year increases of over 25% for their GRC gas revenue requirement: from 2023-2024, SoCalGas requested an increase of 25.3% and SDG&E requested an increase of 27.1%.[33] The Sempra Utilities have failed to "establish requested rate changes are *prima facie* just and reasonable."[34] Even more concerning is the fact that these requested revenue requirement increases

---

[30] Proposed Decision at 17, citing to D.19-05-020 at 7.

[31] Proposed Decision at 17, citing to D.14-06-007 at 31.

[32] Proposed Decision at 17.

[33] Proposed Decision, Appendix A, PDF page 11.

[34] Proposed Decision at 17, citing to D.19-05-020 at 7.

are made in the context of substantially declining gas demand, putting even greater upward pressure on rates. Further, these requested astronomical rates would have exacerbated, not mitigated, already significant gas stranded asset risk. The Sempra Utilities GRC proposals—Joe's budget—would:

- Increase capital spending (fix a leaky roof and install a new kitchen);
- Increase the amount of undepreciated gas assets (increase Joe's outstanding mortgage);
- Maintain current depreciation (not pay down the mortgage he has while he has the money);
- Increase operations and maintenance (O&M) spending (increase spending on daily living expenses like groceries and vacations);
- Continue to allow significant overspending in their balancing accounts (let Joe run up credit card debt); and
- Set a dramatic course of further increases in the post-test year (PTY) period (plan to spend even more).

All of these would occur while gas demand continues to decline dramatically (while Joe's income continues to go down dramatically).

While many issues before the Commission are "grey areas," the patent unreasonableness of Sempra Utilities' GRC gas requests are not. EDF strongly urges the Commission to find that the Sempra Utilities' GRC-requested gas revenue requirements and proposals are patently unreasonable, and egregious in light of declining gas demand.

C. At Minimum, the Commission Should Adopt TURN's Inflation Constrained Scenario Proposal for the Next GRC (Section 5: Affordability)

In this GRC, EDF has recommended even greater cuts than the Proposed Decision would adopt and has recommended post-test year (attrition) *decreases* to maintain just and reasonable rates.

To ensure prudent planning and cost containment, EDF urges the Commission to—at minimum—adopt The Utility Reform Network's (TURN) inflation-constrained scenario proposal for the next GRC.[35] Even under the TURN scenario, gas rates will rise significantly, far outstripping inflation, as reflected in the demand projections above. EDF specifically recommends that the *only* scenario that the Sempra Utilities should be required to present is the inflation-constrained scenario, but that the Sempra Utilities should be allowed to submit supplemental

[35] This scenario is described in the Proposed Decision at 33-34.

requests for specific project amounts over the inflation-constrained scenario and the reasoning for that supplemental request.

The Proposed Decision substantially errs in denying the TURN proposal and the Proposed Decision specifically errs in its reasoning for denying the proposal. The Proposed Decision states that "requiring [the] Sempra Utilities to submit additional testimony in the next GRC cycle with an inflation-constrained alternative budget proposal, as suggested by TURN, would add unnecessary complexity."[36] Here the "complexity" simply is not "unnecessary."

We expect Joe to balance his budget. When he tightens his belt, he needs to make important tradeoffs: how much to spend on the leaky roof, whether to go on vacation, and how much to pay down his mortgage. Prudent management and the requirement of just and reasonable rates *require* that the Sempra Utilities make these tradeoffs. Further, the Proposed Decision finds:

> TURN contends that if SDG&E surpasses the inflation rate in one business line, they should balance it out in another. However, this approach would force utilities to focus on justifying their spending adjustments across all units to meet the inflation cap, rather than basing requested expenditures on <u>actual need</u>.[37]

The Proposed Decision's logic seriously errs. Sempra Utility budgeting is not based on <u>actual need</u>. The record demonstrates that the Sempra Requests are the result of bottom-up budget requests from each department without regard to affordability and future demand. The Sempra Utilities have not presented evidence of strategies to control overall costs or increase efficiency to maintain affordability.

EDF strongly urges the Commission to revise the Proposed Decision to adopt the TURN inflation-constrained scenario with two modifications: (1) that the *only* scenario that the Sempra Utilities should present in the next GRC is the inflation-constrained scenario, but that (2) the Sempra Utilities should be allowed to submit supplemental requests for specific project amounts over the inflation-constrained scenario and the reasoning for that supplemental request.

V. EDF RECOMMENDATIONS REGARDING SPECIFIC CHAPTERS AND REQUESTS

In addition to the general recommendations above, EDF makes specific recommendations regarding specific Sempra Utility requests and the Commission proposed disposal of those issues.

---

[36] Proposed Decision at 41.

[37] Proposed Decision at 41.

A. The Proposed Decision Appropriately Denies Hydrogen and Carbon Capture and Storage Requests in this GRC (Section 6: Climate and Sustainability Policy, *Inter Alia*)

Over a year ago, on October 19, 2023, EDF filed its *Motion to Sever Hydrogen Requests* (EDF Hydrogen Motion). In that Motion, EDF recommended that the Commission deny the significant hydrogen requests in the Application without prejudice and also undertake an additional phase of this proceeding to ensure that the fully-loaded capital and O&M costs, including overhead, rates of return, and other hydrogen-associated costs, have been excluded from any revenue requirement authorized. The Proposed Decision would deny the EDF Hydrogen Motion and allow hydrogen to be considered in future GRCs, but also finds that:

> The utilities' hydrogen proposals are largely ineligible for cost recovery due to the lack of clear benefits to gas service ratepayers. However, they are also often lacking in other areas, which this decision addresses on a case-by-case basis. Several proposals lack critical details, such as how requested costs translate to specific line items, potential impacts on market competition, ESJ community effects, and long-term plans for making capital expenditures useful for gas service provision. Some proposals, like the Palomar Hydrogen Fueling project and the Hydrogen Build Ready Infrastructure project, are premature because the burgeoning nature of hydrogen energy means that necessary comparison data and resource planning guidance are not yet available. Finally, considering the clean fuel sector's rapid acceleration, it is significant that the Utilities demonstrate that these projects are not duplicative of efforts elsewhere and leverage all available funding opportunities, including public-private partnerships.[38]

EDF strongly supports disposition and reasons for denying the hydrogen proposals as set forth in the Proposed Decision. EDF requests, however, that *prior* to the inclusion of hydrogen matters within a future GRC application, that the Commission first address various foundational questions in a dedicated new proceeding or a pre-phase of the GRC. Simply put, without asking these fundamental questions, the clarity that the Proposed Decision reasonably finds was lacking in this GRC request will not be resolved.

B. The Sempra Utilities Failed to Align Safety Programs and Investments with Declining Throughput and Future Cost Burdens (Section 7: Risk-Based Decision-making Framework and Methodology)

Essential investments in gas system safety are necessary. However, safety investments are not investments "at any cost." In Joe's case, his leaky roof is a serious concern that needs to be addressed, but with his budget he should plan to get an asphalt shingle roof, not a fancy slate roof.

---

[38] Proposed Decision at 914.

This GRC is similarly about prospective risk: how much risk should Joe mitigate? Perhaps Joe wanted a full security system installed in his house, but in considering cost and crime rates, he installs a stronger deadbolt and a Ring camera. The Sempra Utilities and the Commission must consider different pathways of reducing the cost of work or deciding not to do work.

One of the Sempra Utilities' safety programs is the Distribution Integrity Management Program (DIMP). At Oral Arguments, the parties and decisionmakers extensively discussed the question of to what extent Aldyl-A pipes should be replaced under the DIMP. In this GRC, the Sempra Utilities presented a Vintage Integrity Plastic Plan (VIPP) sub-program which recommended replacing 350 miles of Aldyl-A pipe at a 2024 capital forecast cost of $447 million for SoCalGas and SDG&E at $195 million.[39] The Utility Reform Network (TURN) performed an extensive analysis of Aldyl-A in this proceeding, delving into the risks of specific vintages of Aldyl-A pipe, specific consequences of failure, and cost.[40] The Proposed Decision appropriately adopts TURN's recommendations on this matter.[41] EDF supports this aspect of the Proposed Decision.

C. EDF Urges the Commission to Launch a New GRC Phase to Evaluate and Adopt a Units of Production Depreciation Methodology and Changes to Salvage Value (Section 38: Depreciation)

Joe is currently making regular monthly payments on his 30-year fixed mortgage. The Sempra Utilities are using straight line depreciation (regular payments) over a longer time horizon. For example, the repayment (depreciation) of gas distribution mains is 68 years for SoCalGas and 69 years for SDG&E.[42] These time horizons were designed to match the expected useful life of the assets. However, state policy is forcing an earlier end than they had originally expected, and now we have a policy mandated end of life in 2045-2050 timeframe. Again, using the 85% decline in residential gas demand by 2050 figure, a capital investment made in 2024 is only going to be 38% depreciated by 2050. This has serious negative impacts on equity. The remaining 15% of demand is much more likely to be customers who are renters and lower income; the customers the Commission's Environmental and Social Justice Action Plan (ESJ Plan) is intended to protect.

---

[39] TURN Opening Brief at 132, citing to Exhibit SCG-09-CWP at 43, Exhibit TURN-05-R-E1 at 74, and Exhibit SDG&E-09-CWP at 21.

[40] *See*, TURN Opening Brief at 118-138.

[41] Proposed Decision at 249 (SoCalGas Non-Shared DIMP O&M Forecast), 252-253 (SoCalGas DIMP Capital)

[42] Exhibit SDGE-36 at DAW-65.

Placing the burden of the remaining 62% outstanding on the mortgage on these customers is inequitable.

By using EDF's Units of Production (UoP) model of depreciation—which was proposed and, unfortunately, rejected by the Commission in the recent Pacific Gas and Electric Company (PG&E) GRC—would front-load costs of depreciation based on expected gas demand over time. This would create upward pressure on rates today as it would increase the Sempra Utilities' revenue requirement, but would result in significantly less pain and would provide a more sustainable future in the coming years and decades.

EDF asks that the Commission launch a new phase of this proceeding or identify a new proceeding that will solely focus on better aligning depreciation with decarbonization. Regardless of forum, the Proposed Decision should be revised to direct the Sempra Utilities to prepare a depreciation proposal based on EDF's UoP model of depreciation. The Proposed Decision should be further revised to direct the Sempra Utilities to re-evaluate its inherent salvage value of its physical gas related infrastructure, which is the cost of taking pipes out of the ground at the end of their useful life. In conjunction with presenting the UoP model of deprecation, the Sempra Utilities should be directed to develop a plan to minimize salvage costs of gas plant, such as by leaving pipes in place at the time of retirement, which would mitigate the upward current rate pressure the UoP model would result in.

D. The Commission Should Accept the Entirety of the Proposed Decision's Balancing Account Recommendations (Section 43: Regulatory Accounts)

The Proposed Decision would adopt significant, critical changes to existing Sempra Utility balancing accounts. EDF urges the Commission to adopt the Proposed Decision's recommendations. Existing Balancing Accounts have allowed the Sempra Utilities' to recklessly overspend without adequate oversight.

For Joe, his "balancing account" is his credit card. Joe can responsibly use his credit card by not spending more than his budget. However, if Joe spends 35% or 45% more than his budget on his credit card, he has "blown" his budget and Joe should make sure there's an appropriate – lower—credit limit.

While the example of 35% and 45% overspending may sound extreme, certain of the Sempra Utilities' balancing accounts have these 35%, or even 45% allowances for overspending, and when they are allowed to do so, the Sempra Utilities will overspend. In a recent example, in D.19-19-051, the Commission authorized SoCalGas to spend $539 million in its Transmission

Integrity Balancing Account (TIMPBA). The TIMPBA allowed SoCalGas to exceed costs by 35% and simply have the overages reviewed in a Tier 3 Advice Letter, with the overage costing ratepayers $227 million.[43] This is not proper stewardship of ratepayer dollars. The Proposed Decision adopts various modifications and limitations to the Sempra Utilities' balancing accounts and EDF urges the Commission to adopt the Proposed Decision's recommendations in their entirety.

E. EDF Urges the Commission to Modify the Proposed Decision to Eliminate Proposed Increases for Gas Capital and O&M in the Post-Test Year Period (Section 47: Escalation and Post-Test Year Ratemaking)

In this GRC, EDF urges the Commission to deny any post-test year increases in revenue requirements for the gas utilities. While the Proposed Decision substantially reduces the PTY escalation factor from the Sempra Utilities' request, these post-test year increases will result in unjust and unreasonable rates as a result of declining gas demand. Without changes, the Proposed Decision's approach on post-test year ratemaking compounds the false assumption that the state is in a business-as-usual scenario. As described extensively above, this is no longer accurate. EDF urges the Commission to deny any post-test year increases in the attrition years. Simply put, a 0% budget increase is probably insufficient, but if you find yourself in a hole, the first thing you should do is stop digging.

Under a best-case scenario and using the Sempra Utilities' most recent—optimistic—projected demand, GRC-attributable system average gas rates will rise 41.1% for SoCalGas and 55.1% for SDG&E from 2023-2027, as described in Section I. above. Residential gas rates will rise considerably more. In this GRC, EDF has demonstrated that the Sempra Utilities and even the Intervenors have failed to fully consider the "double" upward rate pressure of further increasing revenue requirements and declining demand.[44]

Without a change in trajectory—using the Sempra Utilities' projections, continuing the Commission's proposed 4% escalation factor, and holding all other assumptions equal—GRC-attributable gas rates will more than double for SoCalGas (+111.1%) and SDG&E by 2035 and (+136.2%) by 2035, as described in Section IV.B. Above. These rate increases are unjust and unreasonable, and the Commission must take urgent action to address upward-spiraling rates.

---

[43] *See*, Resolution G-3600 at 1.

[44] EDF Opening Brief at 96 *et seq*.

To the extent the Commission does not adopt EDF's negative attrition values, EDF strongly urges the Commission to deny PTY adjustments in the attrition years. The Commission should find—as it has previously—that "[a]ttrition allowances for non-test years… are neither automatically granted nor are they entitlements. They are not intended to insulate utilities from economic pressures that all businesses experience."[45]

VI. CONCLUSION

EDF thanks Commissioner Houck and Assigned Administrative Law Judges Lakhanpal and Larsen for considering the critical revisions presented in these Comments to protect California's ratepayers for decades to come.

Respectfully submitted,

/s/ Elizabeth Kelly
Elizabeth M. Kelly
LAW OFFICE OF ELIZABETH KELLY
P.O. Box 225037
San Francisco, CA 94122
Telephone: (415) 535-9998
Email: beth@emk-law.com

Counsel for:
ENVIRONMENTAL DEFENSE FUND

November 7, 2024

[45] D.04-07-022 at 270.

APPENDIX A

PROPOSED FINDINGS OF FACT AND CONCLUSIONS OF LAW

FINDINGS OF FACT

Gas Demand (after FOF 5)

New FOF: Gas demand in California has been declining and is expected to continue to decline.

New FOF: It is reasonable to clarify the base assumptions gas utilities should use for future general rate case requests as gas demand continues to decline. These assumptions are:

- The gas utilities revenue requirements may stay flat or decline in the test year;
- The attrition year adjustments may be flat or negative;
- Gas demand may materially decline during a GRC period;
- Gas demand will certainly materially decline beyond the GRC period;
- Gas customers today will not be the same customers tomorrow (the CEC projects residential demand to decrease by 85% by 2050) so capital investments and depreciation need to align with that future expected load, *i.e.* differing core and noncore needs;
- Rate base (the outstanding undepreciated gas plant in service) needs to decline over time to avoid stranded asset risk;
- Depreciating gas assets over too long of a period—or by straight line depreciation—reduces' today's rates but results in severe gas rate pressures—and stranded asset risk—in the medium- to long-term. Tomorrow's rate pressures will disproportionately impact (lower income customers and renters).
- Overspending, such as through balancing accounts, unravels otherwise prudent budgeting, and will have significant negative impact on rates and affordability.

New FOF: It is reasonable for gas utilities to plan for future gas demand declines.

New FOF: A gas utility's failure to plan for projected load declines constitutes imprudent management.

New FOF: The Sempra Utilities have demonstrated imprudent management in their failure to plan for a lower demand gas future.

New FOF: It is reasonable for gas utilities to make a showing that any proposed gas investments align with long-term gas rate affordability and long-term gas demand.

Burden of Proof and Evidentiary Standards (after FOF 5)

New FOF: It is reasonable to require utilities to demonstrate that their overall requests, not simply each individual request, be just and reasonable.

New FOF: The Sempra Utilities' overall general rate case requests were unreasonable, yielded unjust and unreasonable rates, and were not the product of "well-informed" and "competent management exercising best practices."

Sempra Utilities - Affordability Metrics and Affordability Analysis

FOF 6: Sempra Utilities presented affordability metrics (Affordability Ratio and Hours-at-Minimum-Wage) and related data (Areas of Affordability Concern, essential usage bills, and average usage bills) based on ~~the available data at the time of filing its general rate case application~~ gas demand forecasts approved in the Sempra Utilities' last Cost Allocation Proceeding.

New FOF: The demand assumptions used in this general rate case date to 2018 and substantially overstate current and future gas demand and, as a result, understate the gas rate and affordability impacts of the gas-related proposals.

New FOF: Due to the divergence of actual demand from prior projections, it is reasonable to require the investor-owned utilities to use current gas demand projections as submitted in the most recent California Gas Report for presenting gas rates and affordability metrics.

New FOF: The Sempra Utilities' general rate case proposals fail to align with long-term gas rate affordability and long-term gas demand.

New FOF: The inflation-constrained scenario presented by The Utility Reform Network for the Sempra Utilities' future gas GRC requests is reasonable with the following modifications, (1) the sole scenario that the Sempra Utilities should present in its next general rate case is the inflation-constrained scenario, and (2) the Sempra Utilities may submit supplemental requests for specific project amounts over the inflation-constrained scenario, but must fully justify why exceeding the inflation-constrained scenario is reasonable for the specific line item.

Sempra Utilities - Depreciation

FOF 401. In light of declining gas demand, retaining Southern California Gas Company's and San Diego Gas & Electric Company's depreciation lives ~~for the Test Year strikes a reasonable balance between the parties' positions and competing policy considerations.~~ requires reconsideration.

FOF 402. In light of declining gas demand, the retention of Southern California Gas Company's and San Diego Gas & Electric Company's current net salvage values ~~strikes a reasonable balance between the parties' competing positions.~~ requires reconsideration.

New FOF: It is reasonable for the Commission to evaluate units of production (UoP)-based depreciation proposals and cost-saving changes to salvage amounts.

Sempra Utilities - Escalation and Post Test Year Ratemaking

FOF 444. ~~An escalation factor, which is close to the Consumer Price Index inflation index, as recommended by Cal Advocates and The Utility Reform Network-Southern California Generation Coalition for Post-Test Year Ratemaking, can help balance the interests of the utility and its ratepayers~~. <u>It is unreasonable to adopt revenue requirement increases in the post-test year period in light of declining gas demand.</u>

Motions

FOF 454. EDF's October 19, 2023 motion to remove Clean Energy Innovations and hydrogen projects from the GRC <u>highlights the need to more closely evaluate hydrogen and carbon capture requests prior to their inclusion in a GRC.</u> ~~does not bring new facts on the projects other than updates on federal funding available to Alliance for Renewable Clean Hydrogen Energy Systems in California.~~ The hydrogen projects in the GRC still need review and are comparable to infrastructure and Research, Development, and Demonstration requests in a GRC or formal rate recovery application.

<u>CONCLUSIONS OF LAW</u>

Sempra Utilities - Affordability Metrics and Affordability Analysis

New COL: In light of declining gas demand, it is reasonable to use California Gas Report gas demand reported to the Commission for calculating rate impacts and affordability metrics.

Sempra Utilities - Depreciation

COL 282. <u>In light of declining gas demand, r</u>etaining Southern California Gas Company's and San Diego Gas & Electric Company's depreciation lives ~~for the Test Year is reasonable and should be adopted.~~ <u>requires reconsideration.</u>

COL 283. <u>In light of declining gas demand, t</u>he retention of Southern California Gas Company's and San Diego Gas & Electric Company's current net salvage values ~~strikes a reasonable balance between the parties' competing positions.~~ <u>requires reconsideration.</u>

New COL: It is reasonable for the Commission to evaluate units of production (UoP)-based depreciation proposals and cost-saving changes to salvage amounts.

Sempra Utilities' Escalation and Post-Test Year Ratemaking

COL 308. It is reasonable to deny an ~~adopt Cal Advocates at the California Public Utilities Commission's recommendation with a modification to~~ increase the Post-Test Year revenue requirement ~~by 4 percent rather than 3 percent~~ for each year for 2025, 2026, and 2027 because it ~~reflects the general price increases ratepayers endure and expect while allowing~~ requires the utilities to take proactive steps to reduce unnecessary expenses and contribute to addressing the affordability crisis on California ratepayers.

ORDERING PARAGRAPHS

OP 7-9. Strike.

OP.12 Southern California Gas Company and San Diego Gas & Electric Company shall utilize the results of their Affordability Metric calculations to continue seeking ways to make their rates more affordable for the customers most impacted by their proposed rate increases. They shall also include information on the actions taken to make rates more affordable in their next general rate case. On a going forward basis for calculation of rates and Affordability Metrics, they shall use their most recently submitted California Gas Report gas demand projections to reflect declining gas demand.

New OP: The Sempra Utilities' future gas-related general rate case requests must reflect the updated assumptions as described herein.

New OP: The Sempra Utilities are directed to use current gas demand projections as submitted in the most recent California Gas Report for presenting gas rates and affordability metrics going forward.

New OP: For future general rate cases, the Sempra Utilities are directed to file solely the inflation-constrained scenario presented by The Utility Reform Network, but are permitted to file supplemental requests for specific project amounts over the inflation-constrained scenario provided those scenarios fully justify why exceeding the inflation-constrained scenario is reasonable for the specific line item.

New OP: The Sempra Utilities shall not include hydrogen and carbon capture and storage requests in their general rate case until foundational questions regarding those products are decided by the Commission in a dedicated phase or proceeding.

New OP: The Commission opens Phase 3 of this proceeding to evaluate a units of production-based depreciation methodology and cost-saving changes to salvage amounts. By no later than June 1, 2025, the Sempra Utilities are directed to submit a Units of

Production-based depreciation proposal and specific recommendations to reduce salvage values.

New OP: The Sempra Utilities' requests for post-test year increases in revenue requirement are denied.