

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



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Application of Southern California Gas
Company (U 904 G) to Recover Costs
Recorded in the Distribution Integrity
Management Program Balancing Account from
January 1, 2019 to December 31, 2023

A.25-08-008
(Filed August 15, 2025)

**MOTION OF SOUTHERN CALIFORNIA GAS COMPANY (U 904 G) FOR INTERIM
RATE RECOVERY OF COSTS RECORDED IN THE DISTRIBUTION INTEGRITY
MANAGEMENT PROGRAM BALANCING ACCOUNT**

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I. INTRODUCTION

Pursuant to Rule 11.1(a) of the Rules of Practice and Procedure (Rules) of the California Public Utilities Commission (Commission), Southern California Gas Company (SoCalGas) respectfully submits this Motion for Interim Rate Recovery (Motion) regarding the reasonably incurred costs it seeks to recover in Application of Southern California Gas Company to Recover Costs Recorded in the Distribution Integrity Management Program (DIMP) Balancing Account (Post 2011-DIMPBA or DIMPBA) from January 1, 2019 to December 31, 2023 (Application).

This Motion requests approval of interim recovery of 85 percent of \$59.1 million in under-collected revenue requirement recorded in the DIMPBA and 85 percent of the remaining balance in each subsequent year until final cost recovery is approved. The \$59.1 million represents the DIMPBA under-collections associated with expenditures that are above 35% of the authorized Test Year (TY) 2019 General Rate Case (GRC) cycle operation and maintenance (O&M) and capital expenditures from February 1, 2023 through December 31, 2023 for mandated safety, system integrity, and reliability work.

In recent years, the Commission has authorized interim rate recovery more frequently when doing so would promote fairness to ratepayers and the utilities.¹ In light of the ongoing

¹ D.24-07-012 at 7-8 (citing D.24-02-010; D.23-06-004, D.20-10-026, and D.19-04-039) (granting Southern California Edison Company (SCE) interim rate recovery); D.24-09-003 (granting Pacific Gas and Electric Company (PG&E) interim rate recovery); and D.24-02-010 (granting San Diego Gas and Electric Company (SDG&E) interim rate recovery).

affordability concerns, SoCalGas submits that the requested interim rate recovery is beneficial for customers and for the ongoing financial health of SoCalGas and should be authorized for the following reasons:

- Customers would save an estimated \$1.3 to \$2.7 million² in interest due to the reduction in the under-collected amounts in DIMPBA. Under collections accrue interest during the time they remain outstanding.³
- It will promote the intergenerational-equity ratemaking principle of allocating costs to those customers that most benefited from the services underlying those costs.
- SoCalGas's financial health, including its credit position, will be better supported due to more timely cash inflows for past expenditures while the Commission considers recovery of the under-collection in the DIMPBA. This point is especially salient considering the January 2025 downgrade of SoCalGas's credit rating by Standards and Poor's Global Ratings (S&P). Furthermore, Moody's Ratings in March 2025 issued a ratings action on SoCalGas affirming its rating and outlook however citing the importance of rate adjustments for the recovery of regulatory balancing accounts to, among other things, avoid a downgrade.
- The cash flows associated with interim rate recovery will help to offset expected increased balance sheet pressures resulting from the Commission's increased reliance on memorandum accounts for critical safety work that SoCalGas is mandated to perform such as DIMP. As a result, SoCalGas will have to increasingly rely on its balance sheet to bridge the funding gap until reasonableness review applications for such integrity management program memorandum accounts under-collections are finalized. This will further increase SoCalGas's debt load and borrowing costs which in turn increases costs for

² The \$1.3 and \$2.7 million avoided interest cost is based on the Commission finalizing a decision on the Application within 12 or 18 months of Application filing date, respectively.

³ For every month beyond 12 months of the Application date that a final decision is not issued by the Commission, \$0.2 million of interest would be saved by customers under this 85 percent interim rate recovery proposal.

customers. Interim rate recovery on the DIMPBA will help to mitigate some of this balance sheet pressure and associated interest costs.

- The risks to customers of such interim rate recovery are limited because the payments would be subject to refund, with interest, in the event the Commission authorizes, in the final decision of the Application, an amount less than what had already been collected through interim rate recovery. Further, the costs requested in the Application are of the same type and a portion of which has already been reviewed by Commission staff who “found that the examined [DIMP] expenses and expenditures were appropriately recorded and reasonably incurred.”⁴

The factors described above may combine to increase SoCalGas’s borrowing costs and the costs of servicing the increasing under-collected balances which will ultimately be borne by SoCalGas’s customers. SoCalGas is experiencing increasingly large amounts of under-collected balances in various regulatory accounts awaiting review and recovery. Along with SoCalGas’s downgraded credit rating, increased need to incur debt to finance such balances, and ongoing high costs of borrowing, “fairness to both the utility and the public require[] immediate action” to avoid unnecessary interest costs being passed onto SoCalGas’s customers.⁵

II. OVERVIEW OF THE COSTS RECORDED IN SOCALGAS’S DIMPBA AND OTHER REGULATORY ACCOUNTS

The Application seeks to recover costs totaling \$59.1 million in under-collections in SoCalGas’s DIMPBA. In total, SoCalGas had approximately \$999 million under-collections in its regulatory accounts as of June 30, 2025. As detailed in the following section, the costs that SoCalGas recorded and will continue to record in DIMPBA are costs to comply with federal to enhance pipeline integrity and safety.⁶

1. DIMPBA

In response to the Pipeline Integrity, Protection, Enforcement and Safety Act of 2006, PHMSA established the requirements for the DIMP (49 CFR Part 192, Subpart P) under which operators are mandated to identify and reduce pipeline integrity risks on distribution pipelines to

⁴ Resolution (Res.) G-3610 at 8 (Finding 7).

⁵ *Toward Util. Rate Normalization v. Pub. Util. Comm’n*, 44 Cal.3d 870, 879 (1988).

⁶ 49 CFR Part 192, Subpart P.

enhance pipeline safety.⁷ SoCalGas developed its DIMP to meet these requirements as well as incorporate industry standards and best practices to promote safety and reliability.

The DIMP is a comprehensive, data-driven program that continually integrates system risk evaluation with risk reduction measures. The objective of the DIMP is to mitigate safety-related risks with a forward-looking risk-informed approach. SoCalGas's DIMP accomplishes this objective through performing safety activities prescribed by 49 CFR Part 192 Subparts A-N, as well as risk management activities, processes, and procedures that provide for additional monitoring, assessment, or proactive remediation to promote pipeline integrity.⁸ SoCalGas's DIMPBA was authorized in 2013 by D.13-05-010 as part of SoCalGas's TY 2012 GRC to record actual O&M and capital-related costs associated with SoCalGas's DIMP activities.⁹ It has been reauthorized in each of SoCalGas's subsequent GRCs (TY 2016,¹⁰ TY 2019,¹¹ and TY 2024¹²).

The costs included in the Application are from the TY 2019 GRC cycle period. Pursuant to D.19-09-051, SoCalGas is authorized to submit a Tier 3 advice letter to seek recovery of any DIMP under-collections of revenue requirement when actual expenditures exceed the total authorized O&M and capital expenditures by up to 35% for the entire cycle.¹³ For any under-

⁷ "H.R.5782 - 109th Congress (2005-2006): Pipeline Inspection, Protection, Enforcement, and Safety Act of 2006." Congress.gov, Library of Congress, 29 December 2006, <https://www.congress.gov/bill/109th-congress/house-bill/5782>. See also PHMSA Gas Distribution Integrity Management Program: FAQs, Section B: General DIMP Questions, No. B.1.1 "Why did PHMSA mandate integrity management requirements for distribution pipeline systems?"; available at <https://www.phmsa.dot.gov/pipeline/gas-distribution-integrity-management/gas-distribution-integrity-management-faqs>. ("Instead of imposing additional prescriptive requirements for integrity management, PHMSA concluded that a requirement for operator-specific programs to manage pipeline system integrity would be more effective given the diversity in distribution systems and the threats to which they may be exposed.")

⁸ A.17-10-008, Ex. SCG-14, Page MTM-10, Direct Testimony of Maria T. Martinez, dated Oct. 6, 2017; available at <https://www.socalgas.com/regulatory/documents/a-17-10-008/SCG-14%20Martinez%20Prepared%20Direct%20Testimony.pdf>.

⁹ D.13-05-010 at 1106 (OP 20).

¹⁰ D.16-06-054 at 327 (OP 2).

¹¹ D.19-09-051 at 777 (OP 7(f)).

¹² D.24-12-074 ordered SoCalGas to convert the DIMPBA from a two-way to one-way balancing account and to record excess costs and under-collections in a memorandum account. D.24-12-074 at 1089 (OP 10(c)).

¹³ D.19-09-051 at 694-695, 774 (Conclusion of Law (COL) 104); see also A.17-10-008, Direct Testimony of Rae Marie Q. Yu, Ex. SCG-42 (October 6, 2017) at RQY-15 and Appendix B at RQY-

collections of revenue requirement resulting from actual expenditures greater than 35% of the total authorized O&M and capital expenditures, SoCalGas may seek recovery through a separate application.¹⁴

On November 17, 2023, SoCalGas submitted advice letter 6224-G requesting to recover its DIMPBA under-collected balance of \$81.4 million as of January 31, 2023. On July 24, 2025, the Commission adopted Resolution G-3610, approving SoCalGas’s request to recover the under-collection recorded in its DIMPBA for the period of January 1, 2019 to January 31, 2023.¹⁵ The Resolution described Energy Division’s review of the costs recorded in DIMPBA. In approving recovery of the under-collection, the Commission found that “the main cost driver was additional capital expenditures (labor and non-labor) to support replacement activities in its two largest DIMP programs: the Vintage Integrity Plastic Plan (VIPPP) and the Bare Steel Replacement Program (BSRP),”¹⁶ and that “the examined [DIMP] expenses and expenditures were appropriately recorded and reasonably incurred.”¹⁷ Further, “[s]tarting in 2020, SoCalGas began increasing replacement activity for these programs using an existing internal risk analysis tool called the Distribution Risk Evaluation and Monitoring System (DREAMS), which follows risk reduction and safety enhancement guidelines in [49 CFR 192,] Subpart P. [...] This resulted in higher levels of replacement mileage than what was forecasted in the GRC, which in turn increases costs.”¹⁸

Since February 1, 2023, SoCalGas has continued to record under-collections in its DIMPBA due to DIMP activities for the remainder of the TY 2019 GRC cycle. The Application seeks to recover \$59.1 million of revenue requirement, which is the under-collected balance in the DIMPBA accumulated during the period of February 1, 2023 through December 31, 2023.¹⁹

B-1, available at: <https://www.socalgas.com/regulatory/documents/a-17-10-008/SCG-42%20Yu%20Prepared%20Direct%20Testimony.pdf>.

¹⁴ *Id.*

¹⁵ *See* Res. G-3610.

¹⁶ *Id.* at 5.

¹⁷ *Id.* at 8 (Finding 7).

¹⁸ *Id.* at 5.

¹⁹ This amount includes interest on the under-collected balance through December 31, 2024.

2. Other Accounts In Which SoCalGas Is Carrying Under-Collected Balances

In addition to the DIMPBA, SoCalGas continues to carry large under-collected balances in its regulatory accounts. As of June 30, 2025, the under-collected balances in SoCalGas's regulatory accounts totaled approximately \$999 million.²⁰ SoCalGas's under-collected balances in regulatory accounts increased by approximately \$150 million since December 31, 2024, a six-month period.²¹

SoCalGas anticipates that its under-collected balances will continue to grow into the future for several reasons contributing to increased interest costs to be passed on to ratepayers.²² First, SoCalGas will have to rely more on memorandum accounts for its Integrity Management Programs going forward. D.24-12-074 converted SoCalGas's Integrity Management Program balancing accounts (i.e., DIMP, Transmission Integrity Management Program (TIMP), and Storage Integrity Management Program (SIMP)) from two-way balancing accounts to one-way balancing accounts and requires SoCalGas to record any excess costs and under-collections in memorandum accounts which can only be recovered after reasonableness review through an application.²³ Going forward, SoCalGas will have to rely on memorandum accounts as compared to the traditionally more expedient cost recovery mechanism of a Tier 3 Advice Letter and must submit an application to recover any overages further delaying recovery.

SoCalGas is also experiencing protracted Commission proceedings for cost recovery for mandated safety and integrity work. SoCalGas will not only be carrying larger balances in its regulatory accounts but may be carrying those balances longer as cost recovery requests are taking extended periods of time to be decided upon by the Commission.²⁴

²⁰ Declaration of Sara P. Mijares in Support of SoCalGas's Motion for Interim Rate Recovery of Costs Recorded in the Distribution Integrity Management Program Balancing Account (Mijares Decl.) at 4.

²¹ *Id.*

²² *Id.*

²³ D.24-12-074 at 970-972 (FOF 68, 74, and 75).

²⁴ Mijares Decl. at 10.

III. SOCALGAS'S PROPOSED INTERIM RATE RECOVERY

1. Interim Rate Recovery Mechanism And Proposed Ratemaking

SoCalGas proposes to recover the interim revenue requirement of \$50.2 million, 85 percent of \$59.1 million, over a 12-month period,²⁵ commencing January 1, 2026 or as soon as practicable following a Commission decision on this motion. If a decision on the Application is not finalized by the end of the 12-month period, SoCalGas proposes to recover 85 percent of the remaining balance over the subsequent 12-month period. Accordingly, SoCalGas will file a Tier 1 Advice Letter to incorporate the interim revenue requirement into gas transportation rates on January 1, 2026 or the first day of the month following a Commission decision on this motion.

The revenue requirement will be amortized in gas transportation rates based on Equal Percent of Authorized Margin (EPAM) cost allocation consistent with SoCalGas's most recent Cost Allocation Proceeding decision, D.24-07-009.

Table 1 below provides estimated transportation rates should the Commission approve SoCalGas's interim rate recovery.

²⁵ SoCalGas is proposing interim rate recovery of this balance over a 12-month period, or until a decision on the application is reached if it is prior to September 1, 2026.

Table 1
Illustrative Transportation Rates - Interim Rate Recovery Beginning January 2026
\$/therm except as noted

Transportation	Jul- 25Present Rates	Oct-25¹	Jan-26	Sep-26²	Oct-26³
<u>SoCalGas Summary</u>					
Residential	\$1.463	\$1.499	\$1.516	\$1.510	\$1.474
Core Commercial & Industrial (C&I)	\$0.960	\$0.982	\$0.991	\$0.988	\$0.967
Noncore Commercial & Industrial (C&I) - Distribution	\$0.275	\$0.280	\$0.282	\$0.281	\$0.277
Electric Generation - Distribution	\$0.263	\$0.267	\$0.268	\$0.268	\$0.264
Electric Transmission Level Service (TLS)	\$0.248	\$0.249	\$0.250	\$0.249	\$0.248
<i>Residential Non-CARE class average bill - 36 therms/month (\$/month)</i>	\$73.39	\$74.70	\$75.32	\$75.09	\$73.78

Notes:

¹ Rates include under-collection balances approved in D.25-07-009 and CPUC Res. G-3610, amortized over a 12-month period beginning on October 1, 2025.

² Rates include the remaining DIMPBA under-collection balance requested in this Application, A.25-08-XXX.

³ Rates after the 12-month amortization period of the balances approved in D.25-07-009 and CPUC Res. G-3610.

2. The Interim Rate Recovery Would Be Subject To Refund

If after reviewing SoCalGas’s Application for recovery of the costs recorded in DIMPBA, the Commission issues a final decision authorizing SoCalGas to recover an amount less than what SoCalGas had already collected through the interim rate recovery mechanism, SoCalGas would refund the difference, with interest, as determined by the Commission.

IV. LEGAL STANDARD FOR APPROVAL OF INTERIM RATE RECOVERY

The Commission has the authority to grant interim rate relief.²⁶ “As affirmed by the California Supreme Court, the Commission has the power to authorize interim rate recovery prior to determining, as required by Pub. Util. Code Section 451, the reasonableness of the utility’s costs.”²⁷ When granting interim rate recovery in the past, the Commission stated that “the Commission could set interim rates as long as the rate is subject to refund and sufficiently

²⁶ *TURN*, 44 Cal.3d at 878; *City of L.A. v. Pub. Util. Comm’n* (1972) 7 Cal.3d 331.

²⁷ D.24-07-012 at 6.

justified.”²⁸ The Commission recognized the appropriateness of interim rate recovery when “fairness to both the utility and the public required immediate action.”²⁹

When considering requests for interim rate recovery, the Commission has considered the following factors: (1) promoting fairness to both the utility and the public;³⁰ (2) reduce the potential for rate shock and ensuring rate stability;³¹ (3) preserving the financial integrity of the utility;³² (4) minimizing costs incurred by ratepayers;³³ and (5) preserving “intergenerational equity” so that future customers are not disproportionately paying for costs properly allocated to past or present customers.³⁴ The Commission recently “confirmed that not all the above factors must be established but that any one of those factors may be sufficient for the Commission to grant relief.”³⁵ Each utility request for “interim cost recovery must be considered on a case-by-case basis.”³⁶

The Commission itself has noted that in “the past several years, the Commission authorized interim rate recovery more frequently.”³⁷ Notably, in D.23-06-004, the Commission granted PG&E approximately \$1.1 billion in interim rate relief finding that the “cost savings” of

²⁸ D.23-06-004 at 28 (COL 2).

²⁹ *Id.*, at 10 (citing *TURN*, 44 Cal.3d at 879); *see also* D.24-07-012 at 6.

³⁰ D.24-07-012 at 7 (citing D.20-10-026 at 23; D.19-04-039 at 6; D.02-07-031 at 14.)

³¹ *Id.*, at 7 (citing D.20-10-026 at 23; D.16-08-003 at 9).

³² *Id.* at 7 (citing D.20-10-026 at 23; D.88-05-074 at 19).

³³ *Id.*

³⁴ D.23-06-004 at 10; *see also TURN*, 44 Cal.3d at 877 (“The possibility that the current rates will ‘fall short of’ the capital expenditures ultimately found reasonable can place no undue burden on the current ratepayers, but to the contrary may provide them with a windfall, shifting the burden to those future ratepayers who ... will have to make up for the undercollection. Conversely, if current ratepayers are burdened because current charges for investment-related costs exceed those later found reasonable, the excess will be refunded, with interest, to future ratepayers. As commission counsel point out in their answer to TURN's petition, the provision for interim rates ... lessens both of these risks in accordance with the ‘key’ principle ‘that costs borne by ratepayers should closely match benefits they receive.’”)

³⁵ D.24-07-012 at 7 (citing D.20-10-026 at 23).

³⁶ D.23-06-004 at 23 (listing as considerations, “the amount at issue, the financial conditions of the utility, the time between expenditure and collection, and the utility’s part in adequately timing the request.”)

³⁷ D.24-07-012 at 7-8 (citing D.24-02-010; D.23-06-004, D.20-10-026, D.19-04-039, and D.88-05-074).

nearly \$30 million for ratepayers from avoided interest expenses was the “deciding factor.”³⁸ In D.20-10-026, the Commission authorized interim rate recovery where “warranted to promote fairness, minimize costs to ratepayers, and promote rate stability.”³⁹ And, in D.24-07-012, granting interim rate relief to Southern California Edison (SCE), the Commission found “persuasive SCE’s argument that saving ratepayers approximately \$7 million is significant and weighs in favor of granting the interim rate recovery, subject to refund, especially in the context of rising energy rates.”⁴⁰ Further, the Commission found that “SCE has met one component of the required standard for authorizing interim rate relief, that SCE’s projected savings of approximately \$7 million promotes fairness to ratepayers and is in the public interest.”⁴¹

Commission precedent places an emphasis on customer benefits when granting interim rate recovery.

V. SOCALGAS’S INTERIM RATE RECOVERY REQUEST IS IN THE BEST INTEREST OF ITS CUSTOMERS AND AFFORDABILITY

In light of affordability concerns, SoCalGas’s proposed interim rate recovery mechanism is in the best interest of its customers because it would save customers an estimated \$1.3 to \$2.7 million in the form of lower interest due to the reduction in under-collected amounts in DIMPBA. Interim rate recovery will also promote intergenerational-equity ratemaking by allocating costs to those customers that most benefited from the services underlying the costs. In addition, interim rate recovery will help support SoCalGas’s financial health and in turn, costs to customers, through reduced under-collections and more timely cash inflows. For all the reasons enumerated above, SoCalGas’s proposal will provide direct and indirect customer benefits and promote affordability. The Commission previously held that the “direct and indirect cost savings to ratepayers and in turn to the utility justify the exception to the general ratemaking rule to put costs into rates only after the Commission determines the costs reasonable.”⁴²

³⁸ D.23-06-004 at 23.

³⁹ D.20-10-026 at 26 (citing D.19-04-039 at 6).

⁴⁰ D.24-07-012 at 14.

⁴¹ D.24-07-012 at 14.

⁴² D.23-06-004 at 28 (COL 5).

1. The Proposed Interim Rate Recovery Will Directly Benefit Customers by Reducing Interest Costs

Assuming that the Commission resolves the Application within 12 months of the filing date and this Motion is approved by December 4, 2025, with rates effective January 1, 2026, SoCalGas's interim rate recovery proposal would save customers an estimated \$1.3 million⁴³ in the form of reduced interest when compared with rate recovery only upon a final decision on the Application.⁴⁴ If the Commission takes 18 months to resolve the Application, then SoCalGas's interim rate recovery proposal will save customers approximately \$2.7 million in the form of reduced interest.⁴⁵

DIMPBA accrues interest at the 3-month commercial paper rate, as reported by the Federal Reserve.⁴⁶ The commercial paper rate has increased significantly compared to historical levels and especially over the time that these DIMPBA costs were incurred. For example, in 2022, the average 3-month commercial paper rate applied to regulatory accounts was 1.70%, compared to an average of 5.14% in 2024.⁴⁷ Throughout this period the rate was indicative of market volatility, starting as low as 0.13% in the beginning of 2022 and climbing as high as 5.38% at the end of 2023,⁴⁸ a trend that could continue while this Application is pending. In this high and volatile interest rate environment, authorizing SoCalGas to more expeditiously reduce the under-collected balance in the DIMPBA will reduce the overall amount of interest that SoCalGas must pay to service the under-collection.⁴⁹

⁴³ Based on the S&P Global Market Intelligence March 2025 forecasted 3-month commercial paper rate. Future interest rates may change. For ease of calculation, the most recent interest rate forecast has been used.

⁴⁴ Mijares Decl. at 6.

⁴⁵ *Id.*

⁴⁶ The Federal Reserve, *H.15 Selected Interest Rates*, available at: <https://www.federalreserve.gov/datadownload/Choose.aspx?rel=H15>.

⁴⁷ *Id.*

⁴⁸ *Id.*

⁴⁹ Mijares Decl. at 7.

Table 2
Estimated Interest Cost With and Without Interim Recovery (Final Decision on
Application by August 2026)
\$ in millions

	2025	2026	2027	Total
No Interim Recovery	\$7.1	\$4.0	\$0.7	\$11.7
Interim Recovery	\$7.1	\$3.1	\$0.3	\$10.4
Avoided Interest Cost	\$0.0	\$(0.9)	\$(0.4)	\$(1.3)

2. The Proposed Interim Rate Recovery Will Promote the Intergenerational-Equity Ratemaking Principle

Interim rate recovery also promotes the intergenerational-equity ratemaking principle of allocating costs to those customers that most benefited from the services underlying those costs. In D.20-10-026, the Commission granted interim rate recovery and noted that “the bulk of the costs at issue were incurred in 2018 and 2019 and some of the proceedings to consider them will take another 12-18 months to resolve, there is a level of interim relief that will improve intergenerational equity.”⁵⁰ The same concept holds true here, as the DIMPBA under-collections as of December 31, 2023 were composed of O&M and capital expenditures from February 1, 2023 through December 31, 2023. Aligning the cost closer to the benefit will improve intergenerational equity.

3. The Proposed Interim Rate Recovery Will Indirectly Benefit Customers By Helping To Support SoCalGas’s Financial Health By Improving SoCalGas’s Cash Inflows

Interim rate recovery would also provide indirect benefits to customers by improving SoCalGas’s financial health through reduced under-collections and more timely cash inflows while the Commission considers the reasonableness of SoCalGas’s Application.

a. SoCalGas’s Credit Rating Was Recently Downgraded

SoCalGas’s credit rating was recently downgraded by S&P by one notch to A- from A in January 2025, citing the expectation that SoCalGas’s funds from operations (FFO) to debt ratio

⁵⁰ D.20-10-026 at 26.

would remain below its downgrade threshold.⁵¹ Weak financial measures were cited due to higher capital spending, higher regulatory balancing account receivables, and higher cash interest paid.⁵² In addition, Moody’s Ratings in March 2025 issued a ratings action on SoCalGas affirming its rating at A2 but noted that “... the regulatory uncertainty going forward positions the utility weakly at the current A2 rating level.”⁵³ Moody’s Ratings cited the importance of rate adjustments for the recovery of regulatory balancing accounts to, among other things, avoid a downgrade.⁵⁴ Moody’s Ratings specifically highlighted the Commission’s decision in SoCalGas’s 2024 GRC to postpone authorizing incremental revenues for SoCalGas integrity management programs and converting the existing two-way balancing accounts to one-way balancing accounts as a “credit negative” action because it further exposes SoCalGas to regulatory lag.⁵⁵

SoCalGas’s credit rating is one of the primary factors in determining the price of investor capital and is a signal to investors.⁵⁶ As the Commission has recognized, a strong investment grade credit rating benefits both the utility and ratepayers.⁵⁷ The riskier that SoCalGas is considered as an investment by credit rating agencies or investor analysts, the more expensive it is for SoCalGas to raise capital—because it must compensate bond and shareholders for that increased risk—through higher interest rates, a higher return on equity or, most likely, both.⁵⁸ If SoCalGas’s credit rating is downgraded further—in addition to the recent S&P January 2025 downgrade⁵⁹—that could further increase interest costs to customers.⁶⁰

⁵¹ S&P Global Ratings, Research Update: Sempra Outlook Revised to Negative, Ratings Affirmed; Southern California Gas Downgraded, Outlook Stable (January 9, 2025).

⁵² *Id.*

⁵³ Source: Moody’s, Credit Opinion: Southern California Gas Company (March 31, 2025).

⁵⁴ *Id.*

⁵⁵ *Id.*

⁵⁶ Mijares Decl. at 8.

⁵⁷ D.12-12-034 at 7-8.

⁵⁸ D.03-12-035 at 42 (“the cost of investment grade debt is considerably less [...] the lower cost of a utility’s debt translates into lower rates, all else being equal.” (citation omitted)).

⁵⁹ Source: S&P Global Ratings, Research Update: Sempra Outlook Revised to Negative, Ratings Affirmed; Southern California Gas Downgraded, Outlook Stable (January 9, 2025).

⁶⁰ Mijares Decl. at 8.

b. Increased Regulatory Lag Increases SoCalGas's Financial Risks

Rating agencies have taken notice of regulatory delays and the impacts on financial metrics, commenting “[t]he ratings also capture the recent deterioration in the company’s financial metrics largely due to some regulatory lag on the recovery of certain expenditures given the considerable delay in the utility’s pending general rate case order for the test years 2024-2027.”⁶¹

Credit rating agencies consider the timely recovery of costs a priority when evaluating utility credit ratings.⁶² The delay in recovery of costs tracked in regulatory accounts increases the risk of SoCalGas’s cash flows, credit metrics, and capital structure being negatively impacted due to a higher debt burden to manage the under collections.⁶³ More importantly, protracted proceedings involving cost recovery and general rate cases result in higher under recovered costs continuing to accrue with interest, which are borne by SoCalGas through additional financing needs to fund its operations and ultimately passed on to customers.⁶⁴

SoCalGas continues to experience an increase in the amount of time it takes for proceedings and advice letters to be resolved.⁶⁵ For example, in Advice Letter 5057-G, SoCalGas sought recovery of under-collected funds in its TIMPBA on November 4, 2016. This advice letter was approved by Resolution G-3528 on November 9, 2017. By contrast, SoCalGas submitted Advice Letter 6060-G on November 23, 2022 (supplemented on January 13, 2023) for recovery of under-collected funds in its TIMPBA; this advice letter was not approved until May 30, 2024 in Resolution G-3600 – 50% longer than when the similar advice letter was filed a few years before. Advice Letter 6224-G was submitted on November 17, 2023, for recovery of

⁶¹ Source: Moody’s Ratings, Periodic Review: Southern California Gas Company and San Diego Gas & Electric Company (November 28, 2024).

⁶² See, e.g., Moody’s Q4 2022 Credit Ratings (revising its outlook for the utility sector to negative from stable and indicating that one factor that could change that outlook would be quicker cash flow recovery for utilities), available at: https://www.eei.org/-/media/Project/EEI/Documents/Issues-and-Policy/Finance-And-Tax/QFU_Credit/2022_Q4_Credit_Ratings.pdf?la=en&hash=1B9711941E0BFBF0B3D04DDAF12.

⁶³ Mijares Decl. at 9.

⁶⁴ *Id.*

⁶⁵ *Id.* at 10.

under-collected funds in the DIMPBA. Experiencing a similar delay, AL 6224-G was approved in Resolution G-3610 on July 24, 2025.⁶⁶

c. The Commission’s Increase Use of Memorandum Accounts for Critical Work that Protects Safety, System Integrity, and Reliability

In D.24-12-074, the Commission eliminated SoCalGas’s Integrity Management Programs’ two-way balancing accounts (i.e., DIMP, TIMP, and SIMP) replacing them with one-way balancing accounts and requiring SoCalGas to record any excess costs and under-collections in memorandum accounts.⁶⁷ These are mandated programs that SoCalGas is required to comply with for safety, system integrity, and reliability.⁶⁸ As a result, SoCalGas will have to rely on its memorandum accounts to record costs in excess of GRC authorized funding for this compliance work and undergo lengthy reasonableness reviews.⁶⁹ With memorandum accounts, the utility finances the costs upfront.⁷⁰ This will further increase SoCalGas’s debt load and borrowing costs.⁷¹ This, in turn, increases costs for customers through higher under-collected balances and interest costs.

Further, D.24-12-074’s elimination of SoCalGas’s ability to recover any revenue requirement associated with any overages up to 35% of the authorized amount for the Integrity Management Programs (DIMPBA, TIMPBA, and SIMPBA) through the Commission’s Advice Letter process and require any overage to be recovered through an application—which is vulnerable to longer regulatory lag—further increases financial risk that could negatively impact credit metrics and ratings and increase financing costs that will be passed on to customers.⁷²

Both the increase use of memorandum accounts and the cost recovery mechanism in place will result in SoCalGas having to increasingly rely on its balance sheet to bridge the funding gap until reasonableness review applications for the Integrity Management Programs’

⁶⁶ *Id.*

⁶⁷ D.24-12-074 at 970 (FOF 68, 74, and 75).

⁶⁸ Mijares Decl. at 11.

⁶⁹ *Id.*

⁷⁰ *Id.*

⁷¹ *Id.*

⁷² *Id.* at 12.

memorandum accounts under-collections are finalized.⁷³ Interim rate recovery on the DIMPBA will help to mitigate some of this balance sheet pressure and associated interest costs.⁷⁴

4. The Costs in the Application Are of the Same Type that the Commission Has Already Found to be Appropriate and Reasonably Incurred

DIMP activities are federally mandated under 49 CFR § 192, Subpart P. The costs that SoCalGas seeks to recover in the Application are a portion of the same type that the Commission has already found to be appropriate and reasonable in Resolution G-3610. On November 17, 2023, SoCalGas submitted AL 6224-G requesting to recover up to 35% of its DIMPBA under-collected balance for the period of January 1, 2019 through January 31, 2023. The Commission adopted Resolution G-3610 approving SoCalGas’s request with no disallowance. The Resolution described Energy Division’s review of the costs recorded in DIMPBA which found that “the main cost driver was additional capital expenditures (labor and non-labor) to support replacement activities in its two largest DIMP programs: the VIPP and the BSRP,”⁷⁵ and that “the examined [DIMP] expenses and expenditures were appropriately recorded and reasonably incurred.”⁷⁶ Further, “[s]tarting in 2020, SoCalGas began increasing replacement activity for these programs using an existing internal risk analysis tool called the Distribution Risk Evaluation and Monitoring System (DREAMS), which follows risk reduction and safety enhancement guidelines in [49 CFR 192,] Subpart P. [...] This resulted in higher levels of replacement mileage than what was forecasted in the GRC, which in turn increases costs.”⁷⁷ The Application seeks to recover revenue requirement for expenditures that represents under-collection above 35% of the total authorized O&M and capital expenditures for the period February 1, 2023 through December 31, 2023. These expenditures were necessary for the same reasons presented in AL 6224-G and are of the same nature. As such, these expenditures should be approved for the same reasons the expenditures in AL 6224-G were approved.

⁷³ *Id.* at 13.

⁷⁴ *Id.*

⁷⁵ Res. G-3610 at 5.

⁷⁶ *Id.* at 8 (Finding 7).

⁷⁷ *Id.* at 5.

**DECLARATION OF SARA P. MIJARES IN SUPPORT OF SOUTHERN CALIFORNIA
GAS COMPANY’S MOTION FOR INTERIM RATE RECOVERY OF COSTS
RECORDED IN THE DISTRIBUTION INTEGRITY MANAGEMENT PROGRAM
BALANCING ACCOUNT**

1. I, Sara P. Mijares, make this declaration to support Southern California Gas Company’s (SoCalGas) Motion for Interim Rate Recovery (Motion) of Costs Recorded in the Distribution Integrity Management Program (DIMP) Balancing Account (DIMPBA). The statements in this declaration are true and correct to the best of my knowledge.

2. I am the acting Chief Financial Officer and acting Treasurer for SoCalGas.

3. On August 15, 2025, SoCalGas filed its Application of Southern California Gas Company to Recover Costs Recorded in the Distribution Integrity Management Program Balancing Account from January 1, 2019 to December 31, 2023 (Application). The Application seeks recovery of \$59.1 million which represents the DIMPBA’s under-collections associated with expenditures that are above 35% of the authorized Test Year (TY) 2019 General Rate Case (GRC) cycle operation and maintenance (O&M) and capital expenditures from February 1, 2023 through December 31, 2023. The costs that SoCalGas seeks to recover in the Application are a portion of the same type that the Commission has already found to be appropriate and reasonable in Resolution G-3610.

4. As of December 31, 2024, the under-collected balances in SoCalGas’s regulatory accounts totaled approximately \$852 million. By June 30, 2025, the total under-collected balances in SoCalGas’s regulatory accounts (inclusive of DIMPBA) were approximately \$999 million. SoCalGas anticipates that its under-collected balances will continue to grow into the future contributing to increased interest costs to be passed on to ratepayers.

5. Customers will directly benefit from interim rate recovery through reduced interest costs and intergenerational-equity. Customers will also indirectly benefit by SoCalGas’s financial health being supported through reduced under-collections and more timely SoCalGas cash inflows.

6. Customers would see a direct cost benefit resulting from interim rate recovery by reducing interest costs that would otherwise be paid for in customer rates associated with the under-collections in DIMPBA. Based on the S&P Global Market Intelligence March 2025 forecasted 3-month commercial paper rate, assuming that the Commission resolves the

Application within 12 months of the filing date and approves this Motion by August 14, 2025, with rates effective November 1, 2025, SoCalGas's interim rate recovery proposal would save customers an estimated \$1.3 million in the form of reduced interest when compared with rate recovery only upon a final decision on the Application. If the Commission takes 18 months to resolve the Application, then SoCalGas's interim rate recovery proposal will save customers an estimated \$2.7 million in the form of reduced interest.

7. In this high and volatile interest rate environment, authorizing SoCalGas to more expeditiously reduce the under-collected balance in the DIMPBA will reduce the overall amount of interest that SoCalGas must pay to service the under-collection. DIMPBA accrues interest at the 90-day commercial paper rate, as reported by the Federal Reserve. The commercial paper rate has increased significantly compared to historical levels and especially over the time that these DIMPBA costs were incurred. For example, in 2022, the average 90-day commercial paper rate applied to regulatory accounts was 1.70%, compared to an average of 5.14% in 2024. Throughout this period the rate was indicative of market volatility, starting as low as 0.13% in the beginning of 2022 and reaching as high as 5.38% at the end of 2023.

8. Customers will also benefit indirectly by SoCalGas's financial health being supported through more timely cash inflows. SoCalGas's credit rating is one of the primary factors in determining the price of investor capital and is a signal to investors. In January 2025, SoCalGas's credit rating was downgraded by S&P from A to A-. In addition, in Moody's Ratings' March 2025 Credit Opinion, it issued a ratings action on SoCalGas affirming its rating at A2 but noted that "... the regulatory uncertainty going forward positions the utility weakly at the current A2 rating level." Moody's Ratings cited the importance of rate adjustments for the recovery of regulatory balancing accounts to, among other things, avoid a downgrade. Moody's Ratings specifically highlighted the Commission's decision in SoCalGas's 2024 GRC to postpone authorizing incremental revenues for SoCalGas integrity management programs and converting the existing two-way balancing accounts to one-way balancing accounts as a "credit negative" because it further exposes SoCalGas to regulatory lag.

9. Timely recovery of costs is another factor that credit rating agencies consider when evaluating utility credit ratings. Delays in recovery of costs tracked in regulatory accounts increases the risk of SoCalGas's cash flows, credit metrics, and capital structure being negatively impacted due to a higher debt burden to manage the under-collections. More importantly,

protracted proceedings involving cost recovery result in higher under collected costs continuing to accrue with interest for longer periods of time, which are borne by SoCalGas through additional financing needs to fund its operations and ultimately passed on to customers.

10. SoCalGas has experienced regulatory lag in recovering under-collections in its Integrity Management Program balancing accounts. In Advice Letter 5057-G, SoCalGas sought recovery of under-collected funds in its TIMPBA on November 4, 2016 and the advice letter was approved by Resolution G-3528 on November 9, 2017. By contrast, SoCalGas submitted Advice Letter 6060-G on November 23, 2022 (supplemented on January 13, 2023) for recovery of under-collected funds in its TIMPBA. This advice letter was approved without any disallowances on May 30, 2024 in Resolution G-3600 – 50% longer than the prior advice letter. Advice Letter 6224-G was submitted on November 17, 2023, for recovery of under-collected funds in the DIMPBA. Experiencing a similar delay, AL 6224-G was approved in Resolution G-3610 without any disallowances on July 24, 2025.

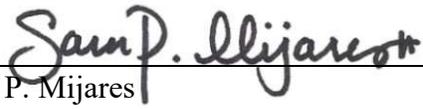
11. The Commission's increasing use of memorandum accounts for SoCalGas's Integrity Management Programs in its recent GRC decision will result in higher under-collected balances and interest costs, which ultimately will be passed on to customers. These are mandated programs that SoCalGas is required to comply with for safety, system integrity, and reliability. SoCalGas will have to rely on its memorandum accounts which requires SoCalGas to finance the costs upfront. This will further increase SoCalGas's debt load and borrowing costs.

12. In addition, D.24-12-074 eliminated the Tier 3 Advice Letter mechanism previously available to SoCalGas to recover under-collections of revenue requirement in its Integrity Management Programs regulatory accounts when actual expenditures exceed the total authorized O&M and capital expenditures up to 35%. For the TY 2024 GRC cycle, SoCalGas must file an application to recover any under-collection in any of these memorandum accounts which further increases risk of regulatory lag and delays cost recovery.

13. Both the Commission's increase use of memorandum accounts and the cost recovery mechanism that exist for SoCalGas's TY 2024 GRC cycle will result in SoCalGas having to increasingly rely on its balance sheet to bridge the funding gap until reasonableness review applications for the Integrity Management Programs' memorandum accounts under collections are finalized. Interim rate recovery on the DIMPBA will help to mitigate some of this balance sheet pressure and associated interest costs.

I declare under penalty of perjury under the laws of the State of California that the foregoing is true and correct to the best of my knowledge.

Executed on August 15, 2025, at Los Angeles, California.


Sara P. Mijares