

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE
STATE OF CALIFORNIA



FILED

01/06/26

04:59 PM

A2504020

**Application of Southern California Gas
Company (U904G) to Recover Costs
Recorded in the Transmission Integrity
Management Program Balancing Account
from January 1, 2019 to December 31, 2023.**

Application 25-04-020

(Filed April 30, 2025)

REPLY BRIEF OF THE INDICATED SHIPPERS

Nora Sheriff
Samir A. Hafez
Buchalter LLP
425 Market Street, 29th Floor
San Francisco, CA 94105-2491
415.227.3551 office
415.227.0770 fax
nsheriff@buchalter.com
shafez@buchalter.com

Counsel for the Indicated Shippers

January 6, 2026

TABLE OF CONTENTS

| | Page |
|---|-----------|
| I. INTRODUCTION..... | 1 |
| II. REPLY | 3 |
| 1. Whether SoCalGas’s Timpba Expenditures And Cost Recovery Request Of \$173.8 Million Are Just And Reasonable | 3 |
| A. Claims of Compliance and Operational Efficiency Do Not Excuse SoCalGas’s Imprudent Timp Spending | 3 |
| B. SoCalGas Misstates the Relationship between Timp and Long-Term Gas Planning Proceeding Efforts | 5 |
| C. SoCalGas Fails to Establish the Reasonableness of Its Proposed 12-Month Recovery Period | 8 |
| 2. Whether SoCalGas’s Revenue Requirement Associated With The Costs Presented In The Application And Recorded In Its Timpba Is Justified For Rate Recovery | 9 |
| A. SoCalGas’s Reliance on Resolution G-3600 and the UAB Audit Does not Establish Prudence or Justify Recovery | 10 |
| III. CONCLUSION..... | 12 |

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

Application of Southern California Gas Company (U904G) to Recover Costs Recorded in the Transmission Integrity Management Program Balancing Account from January 1, 2019 to December 31, 2023.

**Application 25-04-020
(Filed April 30, 2025)**

REPLY BRIEF OF THE INDICATED SHIPPERS

The Indicated Shippers¹ submit this reply brief pursuant to Rule 13.12 of the California Public Utilities Commission (Commission) Rules of Practice and Procedure, and the schedule set by Assigned Commissioner Darcie L. Houck in the August 18, 2025 *Assigned Commissioner's Scoping Memo And Ruling*.

I. INTRODUCTION

Southern California Gas Company's (SoCalGas) request to recover the \$173.8 million revenue requirement recorded to its Transmission Integrity Management Program (TIMP) Balancing Account (TIMPBA) is unjust, unreasonable, and must be denied. In its opening brief, SoCalGas misleadingly argues that its cost request is reasonable because the TIMP overspending was driven by expanded federal regulatory compliance requirements that were not forecasted in the Test Year (TY) 2019 General Rate Case (GRC).² However, these generalized

¹ The Indicated Shippers represent the natural gas non-core customer interests of the following companies in this proceeding: BP Energy Company, California Resources Corp., Chevron U.S.A. Inc., Marathon Petroleum Company LP, PBF Holding Company, and Phillips 66 Company.

² *Opening Brief of Southern California Gas Company*, Application (A.) 25-04-020, Dec. 12, 2025 (SoCalGas Opening Brief) at 12-13.

assertions fail to affirmatively establish that SoCalGas adhered to these new requirements “at the lowest reasonable cost, consistent with good utility practices.”³

In contrast, Indicated Shippers, SBUA,⁴ and The Public Advocates Office (Cal Advocates)⁵ underscore the glaring deficiencies in SoCalGas’s showing, including the absence of any cost-effectiveness analysis and cost control measures, and the lack of adequate supporting documentation. These deficiencies, coupled with SoCalGas’s troubling historical pattern of overspending on the TIMP,⁶ and the extraordinary disparity between SoCalGas’s claimed costs and federal compliance cost estimates,⁷ raise substantial doubt over the reasonableness of the requested costs. Because SoCalGas fails to overcome this substantial doubt, the Commission must uphold its statutory mandate to ratepayers by disallowing the entirety of these imprudently incurred and inadequately supported costs.

SoCalGas further fails to affirmatively establish that its request for a 12-month recovery period would be just and reasonable. Indicated Shippers’ opening brief underscores that compressing recovery into a single year is inconsistent with cost-causation principles, and would unduly harm ratepayers by perpetuating the unsustainable upward trend in SoCalGas’s Backbone Transmission Service (BTS) rates.⁸ Although SoCalGas acknowledges that a longer

³ Indicated Shippers Opening Brief at 4 (“SoCalGas must show that its ‘actions, practices, methods, and decisions show reasonable judgment in light of what it knew or should have known at the time,’ and that it sought to accomplish the desired result ‘at the lowest reasonable cost consistent with good utility practices.’ ‘Good utility practices are based upon cost effectiveness, safety, and expedition.’”) (quoting D18-07-025 at 3 and D.17-11-033 at 10).

⁴ *Opening Brief of the Small Business Utility Advocates*, A.25-04-020, Dec. 12, (SBUA Opening Brief).

⁵ *Opening Brief of the Public Advocates Office*, A.25-04-020, Dec. 12, (Cal Advocates Opening Brief).

⁶ Indicated Shippers Opening Brief at 9-10.

⁷ *Id.* at 18 (“The inefficiency of SoCalGas’s approach is objectively verified by the disparity between its costs and federal estimates. PHMSA estimated the national annualized cost of the non-HCA rule expansion at a mere \$4.7 million to \$5.5 million.”) (citing SBUA-01 at 11:fn 22).

⁸ *Id.* at 20.

amortization period could mitigate these impacts, it misleadingly asserts that a 12-month recovery “promotes affordability” by avoiding interest costs.⁹ However, this justification mistakenly assumes full recovery of the entire \$173.8 million, which is far from certain, and ignores the far greater harm of rate shock and rate affordability risks to customers. Thus, to the extent any of the requested TIMP overspending is authorized for rate recovery, the Commission should mitigate ratepayer harm by requiring SoCalGas to recover the associated revenue requirement over a minimum 36-month period, as recommended by the Indicated Shippers.¹⁰

II. REPLY

1. Whether SoCalGas’s Timpba Expenditures And Cost Recovery Request Of \$173.8 Million Are Just And Reasonable

A. Claims of Compliance and Operational Efficiency Do Not Excuse SoCalGas’s Imprudent Timp Spending

SoCalGas’s claims that its Timp overspending was “not optional” and that its cost request “is just and reasonable in light of the compliance nature of Timp and new requirements” are fundamentally misleading.¹¹ While pipeline safety is undoubtedly a critical priority, it does not obviate SoCalGas’s responsibility to mitigate risk in a prudent and reasonable manner. Specifically, SoCalGas must demonstrate that it exercised reasonable judgment in light of what it knew or should have known at the time, and sought to achieve compliance at the lowest reasonable cost consistent with good utility practice (the Prudent Manager Standard).¹² SoCalGas has failed to make such a demonstration.

⁹ SoCalGas Opening Brief at 31-32.

¹⁰ Indicated Shippers Opening Brief at 3, 22.

¹¹ SoCalGas Opening Brief at 2, 12-14.

¹² Indicated Shippers Opening Brief at 4.

As the Indicated Shippers explain, given the ongoing affordability crisis, a prudent manager would have sought “to spread compliance costs over time, evaluated alternative assessment methods, and considered operational strategies to minimize ratepayer impact.”¹³ A prudent manager would have also “continuously tracked and documented its program expenditures and proactively flagged any actual or potential over-expenditure, prior to letting it spiral out of control.”¹⁴

SoCalGas’s opening brief presents no convincing evidence that it undertook any of these prudent and commonsensical steps. Instead, the record reflects that the TIMP work at issue exceeded the scope and pace of what was required under the expanded regulations.¹⁵ The record also reflects that SoCalGas accelerated this discretionary work without conducting any cost-benefit analysis, benchmarking,¹⁶ or proper prioritization of pipeline inspections.¹⁷

SoCalGas attempts, unsuccessfully, to overcome this evidence by relying on an unsupported, post-hoc rationalization that the Commission must reject. Specifically, SoCalGas argues that 49 CFR Section 192.710 “is not the driver” for TIMP costs associated with non-High Consequence Areas (HCAs),¹⁸ and asserts that it combined non-HCA and HCA segments into “one project” for the sake of “operational efficiency.”¹⁹ However, as the Indicated Shippers note, SoCalGas “provides no quantitative analysis or documentation demonstrating that such

¹³ Indicated Shippers Opening Brief at 16.

¹⁴ *Id.*

¹⁵ *Id.* at 15; SBUA Opening Brief at 12.

¹⁶ Indicated Shippers Opening Brief at 13-16; SBUA Opening Brief at 8-9.

¹⁷ Indicated Shippers Opening Brief at 14.

¹⁸ SoCalGas Opening Brief at 15; *see also* Indicated Shippers Opening Brief at 13 (“SoCalGas imprudently accelerated its assessment of non-HCA pipelines, which comprised nearly 60 percent of the 2,177 total pipeline miles assessed during the 2019 GRC cycle.”) (citing IS-01 at 13:15-14:2).

¹⁹ SoCalGas Opening Brief at 16.

bundling of work produced measurable cost savings.”²⁰ SBUA reinforces this point, correctly observing that SoCalGas’s workpapers “contain accounting codes, cost totals, and listings of circuit miles,” without any narrative, or substantive explanation of why these activities were necessary or how they reduced costs.²¹

Such unsupported assertions fail to satisfy SoCalGas’s heavy burden of proof in this proceeding. SoCalGas’s disregard for cost control and failure to demonstrate that its actions reflected reasonable judgement are wholly inconsistent with the Prudent Manager Standard. Critically, SoCalGas’s imprudent TIMP overspending directly contravenes the Commission’s express 2019 recognition of the need to “properly prioritize” TIMP inspections, and to balance TIMP costs with other safety risks “while keeping rates affordable.”²²

B. SoCalGas Misstates the Relationship between TIMP and Long-Term Gas Planning Proceeding Efforts

As the Indicated Shippers explain, the Commission initiated R.20-01-007, and its successor R.24-09-012 (the Long-Term Gas Planning Proceeding), to mitigate the affordability risks associated with the state’s ongoing transition away from fossil natural gas.²³ These proceedings recognize that, as gas demand declines, fixed costs associated with maintaining and upgrading the natural gas transmission system will increasingly be borne by fewer gas customers, creating significant affordability challenges. Mitigating this risk will “necessarily require the Commission to ensure that TIMP costs are optimized, and where the costs are

²⁰ Indicated Shippers Opening Brief at 17.

²¹ SBUA Opening Brief at 9-10.

²² Indicated Shippers Opening Brief at 23-24 (citing D.19-09-051 at Finding of Fact 81-82).

²³ Indicated Shippers Opening Brief at 24.

proven to be unavoidable, are incurred in the most cost-effective manner so as not to result in excessive or stranded costs.”²⁴

SoCalGas willfully ignores the clear nexus between its present cost recovery request and the Commission’s Long-Term Gas Planning policy objectives. Instead, SoCalGas misleadingly asserts that “[n]othing in the Long-Term Gas Planning proceeding exempts SoCalGas from complying with federal requirements.”²⁵ However, SoCalGas’s obligation to comply with federal requirements is not in dispute, and is not the sole issue being addressed in this proceeding. Rather, the issue is whether SoCalGas acted as a prudent manager in choosing to accelerate non-HCA assessments and related spending during an affordability crisis without leveraging the flexibility expressly permitted by federal regulations. Those regulations allow operators the flexibility to complete non-HCA assessments over a ten-year compliance window, using multiple assessment methods. Yet SoCalGas front-loaded this work, and defaulted to the expensive direct examination method, locking ratepayers into costs that, if approved here (contrary to ratepayers’ recommendations), may become stranded as California advances its decarbonization goals.²⁶

SoCalGas also mistakenly relies on D.23-12-003 to suggest that compliance with state and federal safety standards exempts TIMP activities from scrutiny.²⁷ In that Decision, the Commission acknowledged that “transmission pipelines comprise a significant portion of gas infrastructure costs,” and adopted criteria to determine when declining demand can enable

²⁴ Indicated Shippers Opening Brief at 25 (citing IS-01 at 18:15-18).

²⁵ SoCalGas Opening Brief at 30.

²⁶ Indicated Shippers Opening Brief at 14, 25.

²⁷ SoCalGas Opening Brief at 30 (quoting D.23-12-003 at 11).

such pipelines to be derated or decommissioned.²⁸ In adopting these criteria, the Commission expressly sought to “reduce costs to the natural gas pipeline system . . . without comprising the safety or reliability of the rest of the system.”²⁹ The Decision does not state, nor can it be read to suggest, that utilities may accelerate federally mandated work without regard to affordability or alignment with state decarbonization goals.

To the contrary, the Commission in that same Decision stated that “[i]f a pipeline is needed to meet reliability standards or for other reasons . . . [t]he question then becomes whether repair or replacement is *the more cost-effective option*.”³⁰ The Commission further found that such considerations should be primarily based “on the respective Risk-Spend Efficiency ratio of transmission pipeline proposals (soon to be Cost-Benefit Ratios).”³¹ SoCalGas’s selective citation ignores this critical context. The language cited in SoCalGas’s opening brief merely affirms that pipelines necessary for reliability must comply with safety standards; it does not relieve SoCalGas of its obligation to demonstrate that its compliance strategy was reasonable in light of known Commission objectives to minimize system costs and avoid stranded investments during the gas transition.

Thus, SoCalGas is mistaken when it suggests that the Indicated Shippers contend that “TIMP is inconsistent with the Long-Term Gas Planning proceeding.”³² Rather, the Indicated Shippers contend that SoCalGas’s *imprudent timing and execution of TIMP activities*, which

²⁸ D.23-12-003 at 8-9.

²⁹ *Id.* at 9.

³⁰ *Id.* at 12 (emphasis added).

³¹ *Id.* at 12 and Finding of Fact (FOF) 8.

³² SoCalGas Opening Brief at 30.

resulted in \$173.8 million in additional overspending,³³ is inconsistent with the policy objectives of that proceeding. While maintaining the integrity of the existing system is essential, the Commission has made clear that doing so must be balanced against affordability, and the risk of stranded assets as part of California’s decarbonization strategy. SoCalGas’s failure to align its compliance strategy with these Commission and statewide policy objectives further warrants disallowance of the imprudent costs it now seeks to recover.

C. SoCalGas Fails to Establish the Reasonableness of Its Proposed 12-Month Recovery Period

The Indicated Shippers’ opening brief underscores that SoCalGas’s proposal to recover its \$173.8 million revenue requirement over a 12-month period is unjust and unreasonable because it ignores cumulative ratepayer impacts and threatens unjustified rate shock.³⁴ Specifically, this proposal would result in an 18.7 percent increase to the BTS rate paid by both core and noncore customers.³⁵ To mitigate that risk, the Indicated Shippers presented evidence supporting a 36-month amortization period, consistent with the nature of the costs as well as with recent Commission decisions approving extended amortization periods to mitigate affordability impacts.³⁶

While SoCalGas acknowledges that a longer amortization period could help mitigate affordability concerns, it argues for a compressed 12-month period based on the flawed suggestion that it is necessary to avoid approximately \$9 million in additional interest costs.³⁷

³³ See Indicated Shippers Opening Brief at 8 (The \$173.8 million additional revenue requirement is due to SoCalGas TAMP spending in excess of the 35% cap set forth in FD.16-06-054).

³⁴ Indicated Shippers Opening Brief at 18-19.

³⁵ Id. at 19.

³⁶ Id. at 20-21 (citing D.24-12-074 and D.25-09-030).

³⁷ SoCalGas Opening Brief at 30-31.

First, this argument presumes full recovery of the requested \$173.8 million over-expenditure amount – a presumption that is unwarranted given SoCalGas’s clear failure to carry its burden in this proceeding. Second, SoCalGas’s focus on the impact of incremental interest ignores the immediate burden that a 12-month recovery would impose on customers.³⁸

The Indicated Shippers’ Opening Brief demonstrates that SoCalGas’s BTS rate increased by 70 percent between January 1, 2020 and July 1, 2025,³⁹ and that SoCalGas is seeking other, concurrent rate increases.⁴⁰ A longer amortization period would “smooth the impact of authorized costs on monthly bills and make increases more manageable.”⁴¹ Thus, to the extent any of SoCalGas’s requested TIMPBA expenditures are authorized for rate recovery, the Commission should direct SoCalGas to recover the associated revenue requirement over a minimum of 36 months.⁴²

2. Whether SoCalGas’s Revenue Requirement Associated With The Costs Presented In The Application And Recorded In Its TIMPBA Is Justified For Rate Recovery

As the Indicated Shippers and SBUA both underscore, the record in this proceeding reflects that SoCalGas failed to demonstrate that its requested TIMP revenue requirement is associated with costs that were reasonably and prudently incurred.⁴³ The Commission cannot determine that SoCalGas’s requested revenue requirement is justified for rate recovery if the underlying costs are not just and reasonable. “Because the underlying expenditures are not

³⁸ Indicated Shippers Opening Brief at 21.

³⁹ *Id.*

⁴⁰ Indicated Shippers Opening Brief at 22 (citing SoCalGas Q3 2025 Cost Rate Tracker, Reporting Date: Quarter Ended September 30, 2025 (Q3 2025 CRT)).

⁴¹ Indicated Shippers Opening Brief at 21.

⁴² Indicated Shippers Opening Brief at 22.

⁴³ Indicated Shippers Opening Brief at v, 3, 12; SBUA Opening Brief at iii, 9-10.

established as prudent, the associated revenue requirement is, *per se*, unjustified and must be denied in its entirety.”⁴⁴

A. SoCalGas’s Reliance on Resolution G-3600 and the UAB Audit Does not Establish Prudence or Justify Recovery

In light of SoCalGas’s deficient showing, its assertion that the TAMPBA expenditures have “already been reviewed twice by the Commission” is both misleading and irrelevant to the issues in this proceeding.⁴⁵ Neither Resolution (Res.) G-3600,⁴⁶ nor the Utility Audit Branch’s (UAB) performance audit,⁴⁷ constitutes a determination that the \$173.8 million recorded to the TAMPBA for the period of October 1, 2022, to December 31, 2023 was reasonably and prudently incurred.

Res. G-3600 addressed SoCalGas’s Tier 3 Advice Letter seeking recovery of under-collected TAMPBA balances through September 30, 2022. That resolution approved recovery based on a limited invoice-level review of selected expenditures that are not related to the costs at issue here. Furthermore, as the Indicated Shippers explain, the Commission has expressly recognized that the advice letter process does not allow for the same level of ratepayer protections compared to the reasonableness review application process.⁴⁸ Thus, Res. G-3600 cannot be construed as a blanket endorsement of cost recovery for SoCalGas’s purported compliance activities undertaken for subsequent periods.

⁴⁴ Indicated Shippers Opening Brief at 18.

⁴⁵ SoCalGas Opening Brief at 32.

⁴⁶ Res. G-3600, *Southern California Gas Company’s request for recovery of the Transmission Integrity Management Program Balancing Account balance for January 1, 2019 to December 31, 2023*, Jun. 4, 2024.

⁴⁷ UAB, *Balancing Accounts Performance Audit, Southern California Gas Company*, Feb. 19, 2025 (UAB Audit).

⁴⁸ Indicated Shippers Opening Brief at 9 (quoting D.24-12-074 at 248).

Similarly, the UAB Audit cited by SoCalGas was a compliance audit, not a prudence review; its stated objective was to verify that transactions recorded in SoCalGas's balancing accounts during 2023 were "for allowable purposes and supported by appropriate documentation."⁴⁹ The UAB Audit did not assess whether SoCalGas's decision-making comported with the Prudent Manager Standard, nor did it address whether the timing and scope of SoCalGas's TIMP activities were reasonable, given known affordability risks and Commission policy objectives. Moreover, the UAB Audit tested only \$4.88 million, or 16% of SoCalGas's 2023 recorded TIMPBA expenditures, a fraction of the \$1.053 billion total underlying TIMP costs incurred by SoCalGas.⁵⁰ Compliance with accounting and documentation requirements for a limited sample does not equate to the robust reasonableness review the Commission must conduct in the instant proceeding.

SoCalGas bears the burden of proving by a preponderance of the evidence that its expenditures were reasonable and prudent based on what it knew, or should have known at the time. Neither Resolution G-3600 nor the UAB audit relieves SoCalGas of this burden. The Commission must independently determine whether SoCalGas's accelerated spending strategy was consistent with its statutory obligation to ensure just and reasonable rates, and was aligned with critical policy objectives. Thus, SoCalGas's attempt to rely on these prior reviews to sidestep this inquiry must be rejected.

⁴⁹ UAB Audit at 3.

⁵⁰ UAB Audit at 5. Indicated Shippers Opening Brief at 9.

III. CONCLUSION

The Indicated Shippers appreciate this opportunity to submit this reply brief.

Respectfully submitted,

Buchalter LLP

By:

A handwritten signature in black ink, appearing to read 'S. Hafez', is written over a light gray rectangular background.

Samir A. Hafez

Counsel for the Indicated Shippers

January 6, 2026