FILED
01/16/26
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
And Related Matter.	Application 22-05-016

RESPONSE OF SOUTHERN CALIFORNIA EDISON COMPANY (U 338-E) TO PETITION OF SOUTHERN CALIFORNIA GAS COMPANY (U 904 G) AND SAN DIEGO GAS & ELECTRIC COMPANY (U 902 M) FOR MODIFICATION OF DECISION 24-12-074

WILLIAM K. BRIGGS
RYAN JERMAN

Attorneys for
SOUTHERN CALIFORNIA EDISON COMPANY

2244 Walnut Grove Avenue
Post Office Box 800
Rosemead, California 91770
Telephone: (626) 302-4632
E-mail: Ryan.Jerman@sce.com

Dated: **January 16, 2026**

RESPONSE OF SOUTHERN CALIFORNIA EDISON COMPANY (U 338-E) TO PETITION OF SOUTHERN CALIFORNIA GAS COMPANY (U 904 G) AND SAN DIEGO GAS & ELECTRIC COMPANY (U 902 M) FOR MODIFICATION OF DECISION 24-12-074

Table of Contents

Section	Page

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE

STATE OF CALIFORNIA

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

RESPONSE OF SOUTHERN CALIFORNIA EDISON COMPANY (U 338-E) TO PETITION OF SOUTHERN CALIFORNIA GAS COMPANY (U 904 G) AND SAN DIEGO GAS & ELECTRIC COMPANY (U 902 M) FOR MODIFICATION OF DECISION 24-12-074

In accordance with Rule 16.4(f) of the California Public Utilities Commission's ("Commission" or "CPUC") Rules of Practice and Procedure, Southern California Edison Company ("SCE") respectfully submits this response to the Petition of Southern California Gas Company ("SoCalGas") and San Diego Gas & Electric Company ("SDG&E") for Modification of Decision 24-12-074 ("Petition").

I. INTRODUCTION

SCE supports the Petition and agrees with SoCalGas and SDG&E that a one-part post-test year ratemaking (PTYR) mechanism as authorized in Decision (D.) 24-12-074 (the "Decision") is inconsistent with "the Commission's stated principle 'that utilities should be provided with a fair opportunity to earn their authorized rate of return[.]'"[1] Specifically, SCE

[1] Petition, p. 1, (*quoting* D.24-12-074, p. 4). SCE notes that this "stated principle" is grounded in and required by federal Constitutional law. *See, e.g.*, *Bluefield Water Works & Improvement Co. v. Pub. Serv. Comm'n of Va.* (1923) 262 US 679, 690 ("Rates which are not sufficient to yield a reasonable return on the value of the property used at the time it is being used to render the service are unjust, unreasonable and confiscatory, and their enforcement deprives the public utility company of its property in violation of the Fourteenth Amendment") and *Fed. Power Comm'n v. Hope Natural Gas*

Continued on the next page

submits this Response to address the second of the three misconceptions of fact identified in the Petition: "that Operations and Maintenance ("O&M") and capital costs impact the revenue requirement in the same way and therefore can be addressed with a one-part post-test year mechanism."[2] Authorizing post-test year revenue requirements through a one-part PTYR mechanism results in a host of negative, unintended effects, including:

- Upending the fundamental distinction between how capital and O&M are treated for ratemaking purposes;
- Significantly underfunding capital cost recovery in the post-test years; and
- Departing from long-standing Commission precedent on PTYR.

To avoid these negative effects and correct the Decision's misconceptions of fact, the Commission should modify the Decision as requested in the Petition.

II. DISCUSSION

A. O&M and Capital Impact Utilities' Revenue Requirement in Materially Different Ways

The Decision's conclusion that O&M expense and capital costs affect the revenue requirement in the same way, and can thus be managed using a one-part PTYR mechanism, is plainly incorrect. O&M directly influences the revenue requirement effectively on a one-to-one basis; the projected O&M spending for a given year closely corresponds to the amount included in the revenue calculation.[3] In the post-test years, it is thus appropriate to implement a ratemaking mechanism that establishes the O&M portion of the revenue requirement at Test Year levels with an additional annual adjustment to account for anticipated inflationary impacts.[4]

(1944) 320 US 591, 603 ("From the investor or company point of view it is important that there be enough revenue not only for operating expenses but also for the capital costs of the business. These include service on the debt and dividends on the stock.").

[2] Petition, p. 2 (*citing* D.24-12-074, p. 901).

[3] Deviations from this timing may occur for various reasons, including, for example, for seasonal or biannual O&M activities.

[4] The Commission has traditionally escalated O&M based on utility-specific forecast cost indices, which is appropriate. In recent years, the Commission has sometimes used an escalation calculation

Continued on the next page

Capital, however, does not impact the revenue requirement on a one-to-one basis. When a utility company incurs capital costs to build, maintain, or upgrade a capital asset, it pays for the entirety of the capital expenditures upfront. The utility then recovers the cost of that asset over its useful life through depreciation expense, tax, and return on the asset at its Commission-authorized rate of return.[5] This allows the utility to begin recovering these amounts when the asset is closed to plant as a capital addition (when the asset is added to rate base). Recovery thus lags behind when the capital dollars are actually spent, which creates a timing difference between expenditures, closing and resulting revenue requirement. For these reasons, a one-part PTYR mechanism that treats capital the same way as O&M does not reflect how capital impacts revenue requirement.

B. A One-Part PTYR Mechanism Significantly Underfunds Capital Cost Recovery in the Post-Test Years

Critically, a one-part PTYR mechanism can cause a significant funding shortfall in the attrition years following the General Rate Case ("GRC") Test Year, which may force utilities to delay or cancel infrastructure projects that the CPUC approved in the Test Year. This is because the Decision's approach fails to fully address actual service costs related to approved capital work and the respective depreciation, rate of return, and taxes, resulting in ongoing revenue deficits once assets are in use and serving customers. These costs are fundamental costs of service that are unique to capital and have traditionally been accounted for through a two-part PTYR mechanism.

Table II-1 below shows the actual annual revenue requirement—as determined by the annual depreciation, return, and tax components—associated with a $100 million capital expenditure on a hypothetical capital project in the Test Year. The table compares these annual

---

based on broader inflationary indexes (e.g., the Consumer Price Index or CPI), which in many cases may not be reflective of the specific cost pressures that utilities will be exposed to in the attrition years.

[5] The utility also incurs tax-related expenses tied to capital investments, which impact the revenue requirement in varied ways.

amounts with the lower, non-compensatory revenue requirements that would be authorized by the Decision's one-part PTYR mechanism. The example assumes the $100 million is fully spent in the Test Year and that the capital addition closes to plant in June of the Test Year. Because the capital addition closes to plant in June, only 50% of the annual revenue requirement is captured in the Test Year, essentially prorating the revenue requirement in the first year. The full revenue requirement is then captured beginning in the first post-test year, and the decreasing revenue requirement over the post-test years reflects the decreasing return and tax expense as the rate base associated with the asset is recovered and reduced through depreciation.

Table II-1
Illustrative Post-Test Year Revenue Requirement for Test Year Capital Expenditures

($ in millions)	TY 2025	PTY 2026	PTY 2027	PTY 2028
Illustrative Approved CapEx	$100			
Capital Additions	$100			
Appropriate Revenue Requirement (Depreciation + Return + Tax associated with TY Cap Adds)	$7.2	$14.1	$13.5	$12.9
Authorized, One-Part PTYR Revenue Requirement (TY RREQ Escalated @ 3%)	$7.2	$7.4	$7.6	$7.9
Revenue Shortfall from Decision	-	-$6.7	-$5.9	-$5.0

As Table II-1 shows, however, escalating the Test Year revenue requirement as directed in the Decision results in a significant cost recovery shortfall in each post-test year. In this simplified example, the shortfall results from only 50% of the revenue requirement being captured in the Test Year due to the June closing. Because authorized Test Year capital additions will close to plant throughout the Test Year, none of the authorized Test Year capital expenditures will have a full revenue requirement in the Test Year. As a result, under the Decision's methodology, all the Test Year capital additions associated with authorized capital expenditures will be escalated through the post-test years at *less* than their annual revenue requirement (in many cases materially so),[6] denying adequate recovery in each of the post-test years.

The cost recovery shortfall illustrated above is significant in its own right, but is substantially compounded by additional capital expenditures in the post-test years. Table II-2 below shows this compounding impact. It assumes capital expenditures remain flat at $100 million per year over the GRC cycle and shows that none of the capital additions associated with these post-test year expenditures are reflected in the post-test years' revenue requirements, despite all becoming used and useful to customers in those years. In this example, the utility has invested $400 million in capital projects over the GRC cycle and has incurred depreciation expense and taxes associated with the projects. Yet, the utility is able to recover only $7.9 million in the final post-test year under the Decision's one-part PTYR mechanism—about one-sixth the actual revenue requirement for its cost of service.

Table II-2
Illustrative Revenue Requirement Including Flat Capital Expenditures in Post-Test Years

($ in millions)	TY 2025	PTY 2026	PTY 2027	PTY 2028
Illustrative Approved CapEx	$100	$100	$100	$100
Capital Additions	$100	$100	$100	$100
Appropriate Revenue Requirement (Depreciation + Return + Tax associated with TY Cap Adds)	$7.2	$21.3	$34.8	$47.7
Authorized, One-Part PTYR Revenue Requirement (TY RREQ Escalated @ 3%)	$7.2	$7.4	$7.6	$7.9
Revenue Shortfall from Decision	-	-$13.9	-$27.2	-$39.8

6 In this simplified but realistic example, the utility would miss out on $17.6 million of appropriate, cost-of-service revenue requirement over the GRC cycle on a $100 million Test Year capital expenditure.

In contrast, a two-part PTYR mechanism addresses the specific way utilities should appropriately recover capital costs by escalating actual Test Year capital additions rather than the Test Year revenue requirement. By escalating capital additions in the post-test years, a two-part PTYR mechanism ensures that factors such as depreciation expense, return on rate base, and taxes are appropriately included within the revenue requirement. Conversely, as the tables above illustrate, simply escalating the total Test Year revenue requirement as the Decision did, does not allow for a recalibration of the revenue requirement to reflect these key components, which are critical for addressing capital costs incurred in post-test years for Commission-approved capital projects.

C. A Two-Part PTYR Mechanism Aligns With CPUC Precedent

Because capital and O&M impact revenue requirements differently, the Commission has typically chosen to implement a two-part PTYR mechanism in GRCs:

- "[T]he main factors affecting projected increases in costs anticipated during the PTYs are dissimilar with respect to O&M and capital additions. . . . [T]he PTY mechanism for capital additions should reflect projected capital additions rather than just escalation. . .. Since O&M expenses and capital expenditures affect the revenue requirement differently, we find that ***a two-part attrition mechanism, where O&M expenses and capital-related revenues are separately escalated, is reasonable***."[7]
- Adopting "***a two-part mechanism to capture distinctions driving attrition increases (a) for expenses versus (b) for capital expenditures***" and declining "to set post-test-year revenue increases simply based on a single index, with no distinction between expenses versus capital additions," because "[w]hile applying a single index . . . offers simplicity, we conclude that such an approach fails to adequately capture the distinctions between expense and capital expenditure attrition."[8]
- "[T]he Commission ***finds it reasonable to treat expense and capital-related costs differently for purposes of post-test year ratemaking because expense and capital-related costs can affect revenue requirement differently***, and adopts this practice in this proceeding."[9]

---

[7] SDG&E/SoCalGas 2019 GRC D.19-09-051, pp. 706-07 (emphasis added).
[8] PG&E's 2014 GRC, D.14-08-032 at 653 (emphasis added).
[9] PG&E 2023 GRC, D.23-11-069, pp. 707-08 (emphasis added).

A two-part PTYR mechanism is also consistent with long-standing Commission practice in SCE GRCs: it has been authorized in SCE's last six GRC cycles, dating back to 2012. The practice should not be unique to SCE, but rather should be a fundamental aspect of PTYR for all CPUC-regulated utilities.[10] The Commission should modify the Decision to adopt the same practice for SoCalGas and SDG&E.

III. CONCLUSION

For the foregoing reasons and as further stated in the Petition, the Commission should modify the Decision to correct the misconception of fact that capital and O&M impact revenue requirement in the same way. The Commission should authorize a two-part PTYR mechanism for SoCalGas and SDG&E as requested in the Petition.

Respectfully submitted,

WILLIAM K. BRIGGS
RYAN JERMAN

/s/ Ryan Jerman
By: Ryan Jerman

Attorneys for
SOUTHERN CALIFORNIA EDISON COMPANY

2244 Walnut Grove Avenue
Post Office Box 800
Rosemead, California 91770
Telephone: (626) 302-4632
E-mail: Ryan.Jerman@sce.com

Dated: January 16, 2026

[10] The Commission's Energy Rate Case Plan recognizes capital should be escalated separately from O&M in PTYR:

> The Commission's [GRC] decision is based on its extensive review of the test-year forecasts. The post-test year revenue requirements are typically determined by (1) escalating the test-year O&M expenses, and (2) authorizing capital expenditures at a level determined by either (i) applying additional escalation factors, or (ii) further review of the applicant utility's actual capital budgets for those years. D. 20-01-002, p. 8.