

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



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Order Instituting Rulemaking to Establish  
Policies, Processes, and Rules to Ensure  
Safe and Reliable Gas Systems in  
California and Perform Long-Term Gas  
System Planning.

Rulemaking 24-09-012  
(Filed September 26, 2024)

**JOINT OPENING COMMENTS OF SOUTHERN CALIFORNIA GAS COMPANY  
(U 904 G) AND SAN DIEGO GAS & ELECTRIC COMPANY (U 902 G) ON  
ADMINISTRATIVE LAW JUDGE'S RULING REQUESTING ADDITIONAL  
INFORMATION TO IMPLEMENT SENATE BILL 1221**

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Pursuant to the March 17, 2026, Administrative Law Judge’s Ruling Requesting Additional Information to Implement Senate Bill (SB) 1221, Southern California Gas Company (SoCalGas) and San Diego Gas & Electric Company (SDG&E) (collectively, the Joint Utilities), hereby submit these joint opening comments.<sup>1</sup>

**I. INTRODUCTION**

The Joint Utilities appreciate the Commission’s commitment to thorough and thoughtful consideration of critical and foundational aspects of SB 1221 implementation including recovery of cost associated with implementing the Zero Emission Alternatives (ZEA) as authorized in statute. We offer these initial comments on the complex issue of cost recovery of ZEA implementation being cognizant of the statutory impetus for the Commission to establish the Neighborhood Decarbonization Pilot Program by July 1, 2026, and seek to be helpful and efficient to facilitate compliance with this upcoming timeline.

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<sup>1</sup> Pursuant to Rule 1.8(d) of the California Public Utilities Commission’s (Commission or CPUC) Rules of Practice and Procedures, counsel for SoCalGas was authorized to submit these Joint Opening Comments on behalf of SDG&E.

## II. DISCUSSION

### A. To further develop the record for Phase 3, Track 3 of this proceeding and in light of Section 663(b)(8)

#### 1. *Are Pub. Util. Code Section 663(b)(8) and Section 663(b)(9) in conflict? If not, why not? If so, in what way and how can they be harmonized?*

No. The Joint Utilities submit that the two cited code provisions are not in clear conflict and there is a way to harmonize their interaction. Pub. Util. Code Section 663(b)(8) establishes a prohibition of a gas corporation to recover behind-the-meter/beyond-the-meter (BTM) costs as capital that is afforded a rate of return: “A requirement that gas corporations recover costs related to the pilot projects that are deemed just and reasonable and a requirement that prohibits a gas corporation from recovering behind-the-meter costs associated with the pilot projects as capital costs that are afforded a rate of return.” On the other hand, Pub. Util. Code Section 663(b)(9) establishes authority for the Commission to assess, if any, “[t]he appropriate rate of return and recovery period that a gas corporation is eligible to receive for its costs to implement a zero-emission alternative.”

The term “capital asset” has a specific meaning and associated financial treatment under regulatory accounting principles and refers to plant assets that the utility owns. Generally, capital asset costs are collected in rates in the form of depreciation, taxes, and return. Regulatory asset investments have been authorized by the Commission in the Mobile Home Park proceeding<sup>2</sup> to account for costs incurred by the utilities relating to assets that they do not own. There, the Commission authorized BTM investments as regulatory assets afforded incremental revenue requirements comprised of amortization, income taxes, and return.<sup>3</sup> In that proceeding,

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<sup>2</sup> D.20-04-004 at 117.

<sup>3</sup> Joint Opening Comments on Second Amended Assigned Commissioner’s Scoping Memo and Ruling Requesting Comments on Pilot Program at page 32, available here: <https://docs.cpuc.ca.gov/PublishedDocs/Efile/G000/M589/K800/589800283.PDF>.

in lieu of capital asset treatment, BTM costs were treated as regulatory assets with amortized cost recovery. A similar approach could be considered here which aligns with both cited SB 1221 statutes—authorization of cost recovery for BTM assets through a regulatory asset subject to amortization across a timeline the Commission determines to be appropriate and not as a traditional capital asset.

**2. *Should the Commission allow rate recovery of BTM zero-emission alternative (ZEA) implementation costs incurred by gas utilities (i.e., the utility may recover approved program costs from gas ratepayers)? Why or why not?***

Yes, the Commission should allow rate recovery of BTM ZEA implementation costs incurred by gas utilities. Cost recovery is expressly acknowledged and authorized by the statutory language in SB 1221, as discussed in the preceding section, and is fundamental to identifying viable substitutes for gas distribution replacement projects. Moreover, a driving factor for SB 1221 is to achieve cost effectiveness: “The total cost incurred by the gas corporation for the zero-emission alternative shall be less than the total cost that would have otherwise occurred.”<sup>4</sup> This language not only makes clear the ability to fund investments in ZEA implementation costs in gas rates, but also reinforces the need to establish holistic cost-effectiveness testing so the funding of these alternative investments will not negatively impact remaining gas ratepayers when compared to the traditional solutions they may supplant.

It is the Joint Utilities’ expectation that a significant portion of the overall ZEA implementation costs may be associated with BTM investments. Therefore, if policy is enacted that prohibits collection of BTM costs in gas rates, it may very well render the overall program irrelevant and ineffective. Without this ability, the SB 1221 pilot program would provide no incremental need or benefit to relying on pre-existing non-ratepayer funded subsidies.

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<sup>4</sup> Public Utilities Code Section 663 (b)(2).

Moreover, insomuch that SB 1221 creates a voluntary pilot program, it is critical to establish a financial framework that is underpinned by just, reasonable, and predictable cost recovery mechanisms for the gas utilities accompanying overall regulatory certainty.<sup>5</sup>

**3. *If the Commission authorizes utilities to recover approved BTM costs, should the Commission authorize expense treatment, where costs are recovered in rates in the year they are incurred? Why or why not?***

No. Public Utilities Code Section 663 (b)(9) vests the Commission with the authority to establish “[t]he appropriate rate of return and recovery period that a gas corporation is eligible to receive for its costs to implement a zero-emission alternative.” The Joint Utilities suggest that a key consideration in making this determination should be the comparison of these alternative solutions with the underlying projects they are intended to replace, which are gas distribution main and service replacement investments. These plant investments are capitalized and recovered over decades of service life and afforded the utilities’ authorized weighted average cost of capital as a rate of return.

We highlight two important guideposts in the Commission’s determinations. First, the methodology used to support the funding of these ZEAs will materially influence the way these costs are experienced by gas ratepayers. Financial impacts on gas ratepayers will in turn influence pilot project viability under the prescribed cost effectiveness test comparing them to the traditional investments supplanted. The Joint Utilities suggest that at a high-level, a relationship exists whereby near term and truncated cost recovery periods result in higher rate-impacts for customers when compared to longer term cost amortization. The latter approach can spread this impact over several years and reduce immediate rate shock. This relationship will

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<sup>5</sup> Joint Reply Comments on Second Amended Assigned Commissioner’s Scoping Memo and Ruling Requesting Comments in Pilot Program at pages 7-8, available here: <https://docs.cpuc.ca.gov/PublishedDocs/Efile/G000/M590/K884/590884414.PDF>.

directly translate into the potential cost-effectiveness of ZEAs, meaning that a shorter amortization period may result in a smaller pool of cost-effective ZEA candidates than a longer amortization period. Second, the assessment between a ZEA and its opportunity cost, both financial and otherwise, will be important in the selection of these ZEAs. The policy the Commission sets in this area directly influences the viability of individual ZEA opportunities and overall SB 1221 pilot program success.

***4. If the Commission authorizes utilities to recover BTM costs, should the Commission authorize regulatory asset treatment? Why or why not?***

Yes. It would be reasonable for the Commission to authorize recovery of BTM costs as regulatory assets. Such a framework is supported by existing Commission policy and will serve to support innovation around energy system planning, consideration of non-traditional alternatives, and allow for rate impacts to be spread over time in support of affordability. Allowing utilities to compare traditional capital investments with alternative investments that are amortized will create a broader and more sustainable foundation for this comparison in contrast to an approach that creates restrictive or disparate financial treatment of these investments. This will ultimately drive greater opportunities for innovation and investment portfolio optimization to the ultimate benefit of utility ratepayers.

***5. If you recommend regulatory asset treatment, address the following questions:***

***a. Which amortization period should the Commission adopt: five years, 10 years, 15 years, 20 years, or something else? Provide justification.***

As discussed above, the Commission has authorized regulatory asset treatment for BTM assets in the Mobile Home Park Proceeding and cost recovery for ZEAs could be aligned with this approach. In that program, an amortization term of 10 years was adopted for BTM regulatory asset cost recovery. The use of this funding mechanism in the Mobile Home Park

Program has facilitated success there, and it makes sense to the Joint Utilities to adopt the same approach for SB 1221. In the SB 1221 pilot program, it is important to consider that the basket of underlying investments that comprise a ZEA can be highly variable, and the nearest and most consistent substitute to this proposed regulatory asset is a distribution main and service replacement project, which has an asset life of over 60 years. Accordingly, while we are supportive of using a 10-year amortization period to align with the Mobile Home Park Program, providing for a regulatory asset amortization term up to 60 or more years could be justified in this program.

- b. What depreciation schedule(s) should apply to BTM costs if the Commission were to grant regulatory asset treatment? Should there be straight-line depreciation for an amortization period (e.g., 5 percent annual depreciation over a 20-year amortization period)? Should there be an accelerated depreciation schedule? Should a single depreciation schedule be applied to all BTM assets? Provide justification.***

The Joint Utilities do not see the need for or benefit to introducing complex and new depreciation methodologies to these regulatory assets and believe a straight-line depreciation methodology is standard and appropriate. This straight-line depreciation methodology is also aligned with the approach in the Mobile Home Park Program.

- c. Considering your responses to Questions 5(a) and 5(b), what would be the appropriate compensation for the gas corporation on the amortized expenditures and why? If the Commission were to grant regulatory asset treatment for BTM expenditures, what rate of return should be authorized? What clarifications would be necessary, if any, regarding allocation of BTM expenses to long-term debt? Consider the following three options and identify the most appropriate option and why:***
- Option 1: BTM expenditures are recorded as pilot program expenses and amortized over a period of time, with gas corporations receiving a carrying cost equal to their authorized cost of debt.<sup>2</sup>***
  - Option 2: BTM expenditures are treated as regulatory assets that are afforded an adjusted rate of return that would differ from the authorized rate of return for capital investments to account for the fact that the utility would not own or maintain any BTM assets as***

*capital assets. Those BTM expenditures would (1) be amortized over a shorter period of time compared to the gas capital asset (see Question 5(a) above), (2) would depreciate faster than the gas capital asset (as determined by responses to Question 5(b) above), and*

*(3) would receive a lower rate of return set at the midpoint value of the IOU's cost of long-term debt and its prevailing authorized rate of return for capital expenses. This would result in a BTM expenditure rate of return of 6.325% for PG&E, 6.27% for SoCalGas, and 6.00% for SDG&E, as compared to their capital asset rates of return of 7.61% for PG&E, 7.52% for SoCalGas and 7.41% for SDG&E, as approved in D.25-12-043.*

- ***Option 3:** BTM expenditures are recorded as pilot program expenses and amortized over a period of time, with gas corporations receiving a carrying cost equal to their authorized cost of debt, as with Option 1 above. In addition, the gas corporation is eligible for a one-time shareholder incentive tied to program outcomes. Gas utility shareholders and remaining gas customers share the net cost savings<sup>3</sup> from successful pilot projects. The following example illustrates one way such an incentive could be structured. Parties may wish to propose alternative incentive structures, which must be tied to program outcomes and can be implemented with data collected from pilot implementation.*

Investments that are amortized over time by the gas utilities should all be afforded the authorized rate of return. Carving out specific asset types for different financing rates is inappropriate, unnecessarily complex, and serves to introduce perversions to and deviations from the Commission-determined rate of return for the Joint Utilities which is heavily litigated in our Cost of Capital Proceedings. Moreover, amortization can help provide certainty and predictability in rates for customers. None of the three options outlined herein are appropriate methodologies for utilities to finance investments, and all would either reduce return, increase risk, or both, as compared to the more traditional investments utilities will be directly weighing against these alternatives.

