

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE  
STATE OF CALIFORNIA



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.

R.24-09-012

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**OPENING COMMENTS OF SOUTHERN CALIFORNIA EDISON COMPANY**  
**(U 338-E) ON THE ADMINISTRATIVE LAW JUDGE'S RULING REQUESTING**  
**ADDITIONAL INFORMATION TO IMPLEMENT SENATE BILL 1221**

JANET S. COMBS  
REBECCA MEIERS-DE PASTINO

Attorneys for  
SOUTHERN CALIFORNIA EDISON COMPANY

2244 Walnut Grove Avenue  
Post Office Box 800  
Rosemead, California 91770  
Telephone: (626) 302-6016  
E-mail: Rebecca.Meiers-Depastino@sce.com

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Pursuant to the *Administrative Law Judge’s Ruling Requesting Additional Information to Implement Senate Bill 1221* dated March 17, 2026 (Ruling), Southern California Edison Company (SCE) respectfully submits these Opening Comments.

**I.**

**INTRODUCTION**

The Ruling seeks to further develop the record on the appropriate processes and criteria for cost recovery associated with Senate Bill (SB) 1221 pilot implementation. Specifically, the Ruling requests party input on how the California Public Utilities Commission (Commission) should structure recovery of authorized costs, including the treatment of expenditures, potential use of the regulatory asset treatment, the applicable rate of return, and the duration and mechanics of recovery. SCE requests that regardless of the approach selected, the Commission authorize the utilities to *fully* recover their costs, including the time value of the money if the recovery is not immediate, for all pilot expenditures whether they are made behind or in front of the utility’s meter. It is unlikely that utilities will be willing to conduct voluntary pilots for which

they are unable to recover their costs. For the Commission's and parties' convenience, SCE provides the Ruling question followed by SCE's response.

## II.

### **RESPONSES TO QUESTIONS**

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?**

These provisions are harmonious with one another and the long-standing regulatory compact between the state and investor-owned utilities (IOUs). Section 663(b)(8) prohibits gas corporations from receiving a rate of return on behind-the-meter (BTM) costs, while Section 663(b)(9) mandates that the Commission set a rate of return and recovery period for costs that a gas corporation incurs to implement a zero-emission (ZE) alternative, which refers to IOU investments of capital for infrastructure installed in-front-of/ to-the-meter (IFOM/TTM). Such expenditures are not only entitled to full reimbursement but also to rate of return. In sum, these provisions address different categories of costs – BTM costs for which capitalization and a rate of return are not available and IFOM/TTM costs for which such treatment is not only available but required. As discussed below, the IOUs are, at a minimum, entitled to recover a full reimbursement, including the full cost of service (return on investment, amortization, and taxes) if the reimbursement is not instantaneous, for all expenditures regardless of whether they are BTM or IFOM/TTM.

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?**

Given that ZE alternatives are being deployed specifically to avoid or defer the cost of gas system repair, replacement, and maintenance that would otherwise be borne by gas customers, it not only appropriate but necessary that the Commission allow gas utilities to

recover the *full* cost of implementing BTM zero-emission alternative implementation from gas customers. In addition to fairness principles, given that such investments replace those that would otherwise be made in gas infrastructure, such expenditures do not negatively impact and may support customer affordability.

Likewise, all other pilot-related costs—such as studies, development, administration, outreach, and incentives—will not be incurred but for SB 1221 activities and thus should be recoverable even if they are not tied to a single, finalized project location. Penalizing shareholders by requiring them to absorb such costs when the gas utility has engaged in no conduct warranting a fine would not only violate due process, but also would disincentivize gas utility investment in timely, cost-effective alternatives to investments in gas infrastructure.

Accordingly, permitting recovery of BTM zero-emission alternative costs from gas ratepayers appropriately aligns costs and benefits, supports affordability over the long term, and advances the statute’s gas transition energy and environmental policy goal.

**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?**

At a minimum, the Commission should authorize the utilities to use an expense treatment to recover their approved BTM costs. However, to support affordability the Commission should also consider the potential for adopting a regulatory asset treatment provided it allows utilities to recover the full cost of service, as discussed below.

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

As a fundamental matter, the Commission should ensure that utilities recover their full cost of service. Regulatory asset treatment is a reasonable way to minimize the near-term impacts to utility customer rates due to the deployment of equipment and devices that may not be

suitable for typical utility capitalization, such as customer-owned BTM equipment, by allowing the utility to spread the costs out over multiple years.

**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.**

BTM assets are not utility-owned and will have different “used and useful” lifespans than typical gas infrastructure, however, appliances do have typical useful lifespans. A study SCE commissioned to explore electrification options on Catalina in 2023 found that most appliances (water heat, building heat, cooking, etc.) have typical lifespans of 10-15 years.<sup>1</sup> Because customers may choose to replace some appliances sooner due to aesthetic or other non-functional reasons, SCE suggests that an amortization period of 10 years would be reasonable for regulatory asset treatment of BTM equipment to support gas system retirement. In fact, there is Commission precedent for adopting a ten-year amortization period for utility expenditures for BTM equipment.<sup>2</sup>

- 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.**

BTM regulatory asset treatment should be applied on a straight-line depreciation schedule for the proposed 10-year amortization period because the “use and usefulness” of the equipment will be equal to the customer each year over the course of the

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<sup>1</sup> SCE, Zonal Electrification Study for Catalina Island, Revision December 22, 2023, p. 27.

<sup>2</sup> D. 14-03-021, OP 8 (directing amortization of BTM costs over a ten-year period).

equipment's lifespan and it would simplify utility cost recovery. It is also atypical to allow accelerated depreciation for ratemaking, and an exception is not warranted.

- 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:**

Regardless of the approach selected, the Commission should clarify that utilities are allowed to fully recover costs associated with the BTM expenditures. It is unreasonable to ask utilities to conduct voluntary pilots for which they are unable to recover their full cost of service.

- **Options 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.**

SCE has no comment on this option at this time.

- **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.**

SCE has no comment on this option at this time.

- **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 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.**

SCE has no comment on this option at this time.

**III.**

**CONCLUSION**

SCE respectfully requests that the Commission adopt its recommendations and proposals.

Respectfully submitted,

JANET S. COMBS  
REBECCA MEIERS-DE PASTINO

                  /s/ Rebecca Meiers-De Pastino  
By: Rebecca Meiers-De Pastino

Attorneys for  
SOUTHERN CALIFORNIA EDISON COMPANY

2244 Walnut Grove Avenue  
Post Office Box 800  
Rosemad, California 91770  
Telephone: (626) 302-6016  
Email: Rebecca.Meiers.Depastino@sce.com

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