



BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In The Matter of the Application of Southern California Gas Company (U 904 G) for Authorization to Implement Revenue Requirement for Costs to Enable Commencement of Phase 2 Activities for Angeles Link.

FILED

04/09/26

04:59 PM

Application 24-12-011
(Filed December 20, 2024) A2412011

**OPENING COMMENTS OF ENVIRONMENTAL DEFENSE FUND
ON PROPOSED DECISION DENYING SOUTHERN CALIFORNIA GAS COMPANY'S
REQUEST FOR COST RECOVERY FROM RATEPAYERS FOR PHASE 2 ACTIVITIES
FOR ANGELES LINK PROJECT**

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April 9, 2026

SUMMARY OF RECOMMENDATIONS

- Phase 2A issues must be addressed before issuing a decision on the Phase 1 Compliance Application.
- Phase 2 project costs should not be allocated to all natural gas customers.
- The Proposed Decision should acknowledge that applicability of the Commission’s Affiliate Transaction Rules is a foundational consideration in addressing Phase 2A issues.
- The Commission should provide guidance for utilities seeking to advance the use of hydrogen fuel as a realistic, cost-effective decarbonization solution.

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In accordance with Rule 14.3 of the California Public Utilities Commission (“Commission”) Rules of Practice and Procedure, Environmental Defense Fund (“EDF”) submits the following comments on the Proposed Decision Denying Southern California Gas Company’s (“SoCalGas’s”) Request for Cost Recovery from Ratepayers for Phase 2 Activities for Angeles Link Project, issued on March 20, 2026 (“Proposed Decision” or “PD”).

As discussed below, EDF generally supports the PD’s recommendation that the Commission deny SoCalGas’s request to recover \$266 million from ratepayers for a project that would not demonstrably provide direct benefits to its natural gas customers. However, the PD errs by omission in two areas. First, the PD’s analysis of the cost allocation and jurisdiction issues overlooks some important and relevant arguments and recommendations raised by intervenors. For example, the PD does not mention the direct relevance of the Commission’s Affiliate Transaction Rules to the Phase 2A issues of cost allocation and jurisdiction. Second, the PD neglects to provide direction as to whether or how SoCalGas or another natural gas utility can move forward with future proposals or plans to advance the State’s clean energy and decarbonization goals through the use of renewable hydrogen to replace fossil fuels as an energy source for hard to decarbonize industries. Addressing these two important points in the final

decision will provide needed regulatory support and guidance as the utilities attempt to balance the goals of expeditiously decarbonizing California’s energy base and protecting California ratepayers.

I. The PD correctly concludes that Phase 2A issues must be addressed before issuing a decision on the Phase 1 Compliance Application.

A threshold issue in this proceeding concerns the ordering of review of the issues presented in Phase 2A of this proceeding and the cost recovery issues presented in Application 22-02-007 (Phase 1 Application). The PD agrees with EDF and other parties in concluding that “it is reasonable to review the Phase 2A threshold issues in the Phase 2 Application before the Commission resolves the Phase 1 Compliance Application.”¹

The PD’s conclusion regarding ordering should be adopted. The PD’s approach makes sense because by reviewing the Phase 2A questions first, the Commission will gain a better understanding of whether the activities undertaken in the Phase 1 proceeding were just and reasonable. Also, the Commission’s determination of whether SoCalGas will be allowed to proceed with Phase 2 activities at ratepayer expense may inform the Commission’s determination regarding cost allocation in Phase 1.²

II. The PD correctly concludes that Phase 2 project costs should not be allocated to all natural gas customers.

SoCalGas has requested authorization to recover \$266 million in Phase 2 costs from all natural gas customers, while acknowledging that the proposed Angeles Link project is only designed to provide hydrogen gas to a discrete group of commercial and industrial customers.³ In contextualizing the question of whether rate basing costs at this stage is merited, the PD points

¹ PD at 7.

² EDF Opening Brief at 2.

³ PD at 7.

out that Decision 22-12-055 specifically required SoCalGas to identify direct benefits to the ratepayers from whom the project's costs could be recovered.⁴ The PD also notes that the projected cost of Phase 2 activities has increased from \$92 to \$266 million, and that there are no federal funds to offset the proposed project costs.⁵

The PD concludes that it is not reasonable for SoCalGas to recover the cost of Phase 2 activities from all of its natural gas ratepayers. This is the right decision, and EDF supports the PD's reasoning. First, the PD correctly finds that SoCalGas requests to allocate significant costs for a project that may not be constructed or dedicated to public use, which raises an affordability concern.⁶ Second, the PD correctly finds that SoCalGas has neither met its responsibility to establish a direct benefit to ratepayers nor a basis for deviating from established cost-causation principles.⁷ However, EDF is concerned that the PD does not go into discussion of other cost recovery methods that EDF and other parties discussed in briefs. EDF's briefs indicated a suite of options to protect residential rate payers and still allow the project to move forward. EDF requests that the PD be modified to reflect this portion of the record.

To be clear, EDF agrees with the PD's reasoning and conclusion denying allocation of Phase 2A costs to all ratepayers should be adopted. As the PD points out, there is broad agreement between the parties to this proceeding that expanded use of hydrogen may result in indirect societal benefits, including reduced greenhouse gas emissions and improved air quality.⁸ EDF believes that hydrogen can play an important role in decarbonizing hard-to-electrify portions of the economy currently served by SoCalGas with natural gas, including large

⁴ PD at 9, citing D.22-12-055 at Ordering Paragraph 6(e).

⁵ PD at 12.

⁶ PD at 11-12.

⁷ PD at 12-14.

⁸ PD at 8.

commercial and industrial customers. But at the same time, cost allocation for utility projects must conform to established Commission rules and policies.

What is missing from the PD is a discussion of the alternative, which would be to allow SoCalGas to advance Angeles Link activities subject to the Commission's findings and direction regarding cost allocation. As noted in EDF's brief and in the PD, SoCalGas originally envisioned Angeles Link to be a solution for hard-to-decarbonize parts of the economy.⁹ The abbreviated discussion and conclusion regarding SoCalGas's proposed approach to cost allocation on pages 11-13 of the PD should be supplemented by a discussion and conclusion regarding the alternative approach supported by other parties.

III. The PD should acknowledge that applicability of the Commission's Affiliate Transaction Rules is a foundational consideration in addressing Phase 2A issues.

With respect to jurisdictional issues identified for consideration in this Phase 2A proceeding, the Commission determines that “[b]ecause we are not approving cost recovery, it is unnecessary to determine whether the project would fall within the Commission's gas plant jurisdiction.”¹⁰ EDF does not take issue with this regulatory conclusion. However, in addressing jurisdictional issues, the PD neglects to point out that regardless of the ultimate disposition of jurisdictional questions, the Commission will still need to apply its Affiliate Transaction Rules to a jurisdictional utility's proposal to enter into activities unrelated to its core business. EDF discussed this possibility in the briefs, and it is not addressed in the PD. EDF requests that the Commission clarify if the Affiliate Transaction Rules should apply or if SoCalGas (or a different gas corporation) should be required to make a showing as to why the rules should not apply.

⁹ See PD at 2; EDF Opening Brief at 10.

¹⁰ PD at 18.

The reason this point should be added to the PD is that SoCalGas's application clearly raised the fundamental question of whether the Angeles Link activities were correctly characterized as fitting within an exception to the Commission's Affiliate Transaction Rules, or not. EDF and other parties pointed out this issue and its implications for cost allocation.¹¹ It may be premature to decide this issue on the merits here in light of the PD's rejection of ratepayer funding for the project. But the PD should at least acknowledge the question and state unequivocally that a regulated natural gas utility like SoCalGas must comply with the Commission's Affiliate Transaction Rules if it seeks to recover costs for any new hydrogen related project. EDF offers suggested language in Appendix A.

IV. The Commission should provide guidance for utilities seeking to advance the use of hydrogen fuel as a realistic, cost-effective decarbonization solution.

As discussed above, the PD reaches the right *decision* on Phase 2A issues but may not lead to the right *outcome* with respect to the underlying challenge of advancing hydrogen as a viable option for decarbonization in California. As the environmental impacts of climate change accelerate globally, time is of the essence in advancing new solutions for decarbonization of the industrial and transportation sectors. Hydrogen is part of the solution, and the California utilities (and/or utility affiliates) need direction and regulatory certainty in order to move forward at this point.

The PD tells SoCalGas what it cannot do, but it currently offers no guidance as to what SoCalGas, or another gas utility, or a utility affiliate or other jurisdictional entity interested in hydrogen project development, can do. The Commission has no explicit legal obligation to

¹¹ EDF Opening Brief at 12-15; EDF Reply Brief at 7-13; TURN Opening Brief at 2; TURN Reply Brief at 4-5, 8; Indicated Shippers Opening Brief at 21; Indicated Shippers Reply Brief at 25-27; Air Products Reply Brief at 19-20.

provide such instruction, but doing so is critically important. Otherwise there is a risk that utilities and others will simply read this decision as a message that they should abandon any future attempt to develop proposals for the transportation of hydrogen fuel through dedicated pipelines. EDF urges the Commission to add language to the PD providing clarification of its expectations and supporting further activity in this important area.

Dated: April 9, 2026

Respectfully submitted,

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APPENDIX A

Please see below EDF's recommended additions to Findings of Fact, Conclusions of Law and Ordering Paragraphs in the Proposed Decision.

Add new Finding of Fact:

SoCalGas did not sufficiently establish that the Project would comport with the Commission's Affiliate Transaction Rules or why those rules should not apply.

The California Legislature has not yet provided direction as to whether the Commission has jurisdiction over hydrogen transportation infrastructure.

Add new Conclusions of Law:

The denial of SoCalGas' request to implement a revenue requirement for the cost of Phase 2 Activities should not be interpreted as precluding or discouraging future proposals to advance cost-effective proposals for dedicated hydrogen pipeline projects that comport with applicable Commission requirements.

Direction regarding the Commission's jurisdiction over hydrogen transportation infrastructure would add clarity for the Commission and parties interested in developing hydrogen transportation projects.

Add new Ordering Paragraph:

Any future application by a Gas Corporation or other jurisdictional utility for a dedicated hydrogen pipeline project should: (1) address and comply with the Commission's policies regarding cost allocation, cost causation, cross-subsidization, "used and useful" plant and affiliate transactions; (2) demonstrate how the project will advance the objective of decarbonization; and (3) evaluate project alternatives, including other hydrogen transmission solutions and other decarbonization alternatives such as electrification.