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BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

Application of Southern California Gas Company (U 904 G) and San Diego Gas & Electric Company (U 902 M) for Authorization to Implement Revenue Requirement to Enable SAP Migration Program	Application No. 26-05-002 (Filed May 1, 2026)

MOTION OF SOUTHERN CALIFORNIA GAS COMPANY AND SAN DIEGO GAS & ELECTRIC COMPANY TO ESTABLISH THE SAP MIGRATION MEMORANDUM ACCOUNT TO TRACK CERTAIN COSTS

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Pursuant to Rule 11.1 of the California Public Utilities Commission's (CPUC or Commission's) Rules of Practice and Procedure and the authorities set forth herein, Southern California Gas Company (SoCalGas) and San Diego Gas & Electric Company (SDG&E; together with SoCalGas, Joint Utilities) respectfully submit this Motion to Establish the SAP Migration Memorandum Account to Track Certain Costs (Motion).[1] As discussed below, the costs Joint Utilities propose to track in the memorandum account are incremental, substantial, and not speculative. Joint Utilities respectfully request expedited disposition of this Motion so they have clear regulatory guidance before they begin to incur these necessary costs.

I. BACKGROUND

Joint Utilities commenced this proceeding with the filing of their Application for Authorization to Implement Revenue Requirement to Enable SAP Migration Program (Application) on May 1, 2026. As described therein, the Application seeks to build on work that was authorized in Joint Utilities' last general rate case (GRC), where the Commission recognized "SAP's critical role in the utility's day-to-day operations" and authorized $51.212 million in capital costs for the portion of SAP Migration addressed in that proceeding (i.e., Phase 1A).[2] The timeline for the SAP Migration Program is driven by SAP's announcement that it will

1 For clarity, Joint Utilities seek one memorandum account for each utility.

2 D.24-12-074 at 650.

discontinue support for Joint Utilities' legacy enterprise resource platform (ERP) and connected systems at the end of 2027, rendering legacy systems obsolete. The lack of support results in increased risks to the many core business functions Joint Utilities' ERP supports, spanning finance, accounting, capital and expense tracking, procurement controls, inventory, work orders, asset lifecycle, etc.

Phase 1 activities entail migrating from SAP ERP ECC to S/4HANA to maintain a secure, compliant core foundation. The capital portion of Phase 1A work that was authorized in Joint Utilities' prior GRC is ongoing and is expected to be completed by May 2027. In order for Phase 1 to be launched at that time, Joint Utilities must commence certain Phase 1B work (i.e., O&M activities to support the migration from ECC to S/4HANA) promptly.[3] Phase 1B work must be conducted in connection with the remaining Phase 1A work, and both Phases 1A and 1B must be completed for the migrated ERP platform to be deployed. Phase 1B also includes forecasted costs to be incurred in 2027 to conduct a competitive solicitation process for Phase 2 activities (although no contracts will be executed prior to receiving a final decision in this proceeding authorizing costs for Phase 2 activities). Accordingly, since a final decision is not expected in this proceeding until mid-2027, Joint Utilities must commence Phase 1B work (currently estimated to cost approximately $13.7 million fully loaded) before the final decision is issued. As described in the Application and accompanying testimony, it would be imprudent to defer Phase 1B work until this proceeding is resolved because of the many risks that would accrue—and could result in significantly increased costs—once the ERP platform becomes unsupported as of December 31, 2027 (e.g., cyber, financial, and compliance risks) as well as unnecessary delays for Phase 2. Deploying Phase 1 in May 2027 allows Joint Utilities time to address any issues that may arise through deployment before the legacy ERP platform becomes unsupported. Conducting the competitive solicitation process for Phase 2 allows Phase 2 activities to commence promptly upon a decision in this proceeding. Accordingly, time is of the essence for commencing Phase 1B activities.

[3] Costs for Phase 1B could not have been sought in the Joint Utilities' prior GRC. Phase 1B work has been necessitated by Joint Utilities' decision to pursue a migration rather than a transformation of their ERP and was not estimable for the prior GRC.

II. APPLICABLE STANDARDS FOR MEMORANDUM ACCOUNTS

"A memorandum account allows a utility to isolate and list costs related to a particular activity and later to seek to recover [] those costs in rates."[4] The Commission "require[s] such recovery from pre-approved memorandum accounts to avoid unlawful retroactive ratemaking," based on the "well established tenet… that ratemaking is done on a prospective basis."[5] It is the "Commission's practice… not to authorize increased utility rates to account for previously incurred expenses, unless, before the utility incurs those expenses, the Commission has authorized the utility to book those expenses into a memorandum or balancing account for possible future recovery in rates."[6]

Where, for purposes of complying with a legal or regulatory obligation, a "utility is already incurring costs or expects to soon," but "is unable to rely on its GRC to collect costs in rates… a memorandum account is the appropriate mechanism to provide the utilities the opportunity to recover the costs in rates, provided these costs are found reasonable, to avoid retroactive ratemaking."[7]

The Commission commonly grants requests to establish memorandum accounts under such circumstances when costs are found to be "incremental," "substantial," and "not speculative."[8] Incremental costs are those "not already covered in rates" and include costs arising from the "[d]evelopment of new technologies and processes" that are not covered by existing ratemaking applications.[9] Costs that are "potentially significant" are "substantial" for purposes of establishing a memorandum account.[10] Costs that are "not speculative" include costs tied to a specific mandate, even if it is not certain those costs will in fact materialize or the utility is "unsure of the exact amount of costs [it] will incur to implement" the mandate.[11]

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4 D.19-09-026 at 5.

5 *Id.*

6 *Id.* (citation omitted).

7 *Id.* at 7.

8 D.18-11-051 at 5 ("the Commission has recognized three reasons an application to establish a memorandum account will be denied: the costs are recoverable in a general rate case, are not substantial, or are speculative").

9 D.19-09-026 at 8, n.22 (citation omitted).

10 *Id.* at 10.

11 *Id.* at 9.

Recovery of the costs recorded in a memorandum account "is not automatic," but rather turns on a subsequent showing that such costs are "reasonable."[12] Thus, while the establishment of a memorandum account allows for tracking of incremental costs incurred in compliance with a new obligation, recovery of such costs is subject to Commission scrutiny for reasonableness.[13]

The Commission has authority to "establish an effective date of a memorandum account prior to the date of the decision" authorizing that account.[14] Based on this authority, "the date of the filing of the application may be used as the effective date for any memorandum accounts."[15] Using the application filing date as the effective date for a memorandum account has been described by the Commission as "a longstanding practice."[16] There is recent precedent deeming a memorandum account effective as of the filing date of the application notwithstanding the motion being granted at a later date.[17]

III. DISCUSSION

As set forth above, establishing a memorandum account is appropriate to avoid retroactive ratemaking concerns where the costs to be tracked in that account are incremental, substantial, and not speculative. Those factors weigh in favor of granting the SAP Migration Memorandum Account (SAPMMA) requested here.

First, the costs Joint Utilities intend to record and track in the proposed SAPMMA are incremental costs not covered by prior ratemaking and not able to be included in the next GRC for recovery on a forecast basis. The costs are incremental because they are operating and maintenance (O&M) costs that were not requested in the Joint Utilities' prior Test Year 2024 GRC. They cannot be included in Joint Utilities' next GRC because of the timing for when the costs must be incurred—i.e., before there can be a final decision in the Joint Utilities next

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[12] *Id.* at 7.

[13] *Id.*

[14] *Id.* at 10 (citing, *inter alia*, Cal. Pub. Util. Code § 1731(a) ("[t]he [C]omission may set the effective date of an order or decision before the date of issuance of the order or decision").

[15] D.21-12-005 at 8. *See also* D.19-09-026 at 10 ("Based on Commission precedent and statutory authority, we find it appropriate to establish effective dates of the memorandum accounts as of the date the [a]pplications were filed"); D.18-11-051 at 8 ("The Commission finds that granting [the memorandum account] effective as of the application's filing date does not constitute retroactive ratemaking").

[16] D.22-09-027 at 4.

[17] *See, e.g.,* D.19-09-026 at 10; D.18-11-051 at 8.

GRC.[18] Indeed, due to the exigent circumstances surrounding ERP platform obsolescence, these costs must be incurred even before there can be a final decision in this proceeding.

Second, the costs Joint Utilities intend to record and track in the proposed SAPMMA are substantial. The costs estimated in the Application for Phase 1B, fully loaded, are approximately $13.7 million.

Third, the costs Joint Utilities intend to record and track in the proposed SAPMMA are not speculative. Based on the date the Joint Utilities' legacy ERP platform will become obsolete because SAP will cease providing support—December 31, 2027—Joint Utilities must incur these costs, and they must incur them without delay. As discussed in the Application and supporting testimony, doing nothing is simply not an option. Phase 1B activities include data migration and organizational change management that are necessary to complete the first phase of the SAP Migration Program, which must be completed well in advance of the legacy ERP platform becoming obsolete. Phase 1B activities also include conducting a competitive solicitation process for Phase 2 activities so they may be commenced promptly upon a final decision in this proceeding. The requested memorandum account is accordingly necessary and reasonable.

Approving the request for the SAPMMA does not prejudge the reasonableness of any costs recorded and tracked therein. During the course of this proceeding, the activities and costs proposed for Phase 1B are expected to be litigated by intervenors and the Commission will render a final decision as to their prudence and reasonableness. Accordingly, while authorizing the SAPMMA will protect against retroactive ratemaking, the mere existence of the memorandum account will not guarantee recovery of those costs, and ratepayers remain protected from unreasonable costs being implemented in rates through continuing Commission oversight in this pending proceeding.

Finally, the effective date of the SAPMMA should be the date of the Application—May 1, 2026. As discussed above, the Commission has discretion to establish an effective date for a memorandum account prior to the date of the decision authorizing that account, including as of the filing date of the application. It is appropriate here for the effective date of the SAPMMA to be May 1, 2026 given the urgency with which Joint Utilities must commence Phase 1B work. And, because recovery of the costs tracked in the SAPMMA will depend on the separate

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[18] For context, the Joint Utilities next GRC, for test year 2028, has not yet been filed.

determination of the reasonableness of the costs, setting the effective date for the memorandum account as requested is in no way prejudicial to ratepayers. In this case, the Application requests that the costs recorded to the SAPMMA, if authorized, be transferred to the two-way balancing account requested in the proceeding (the SAP Migration Balancing Account) once the costs are approved as reasonable in a final decision.

IV. CONCLUSION

For the reasons set forth herein, Joint Utilities respectfully request that the Commission grant this motion and authorize establishment of the SAP Migration Memorandum Account. If authorized, Joint Utilities will implement the requested memorandum account through a Tier 1 advice letter or otherwise, consistent with the Commission's direction.

Respectfully submitted,

By: *[/s/ Avisha Patel]*
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