

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

ENERGY DIVISION

**RESOLUTION G-3600
May 30, 2024**

R E S O L U T I O N

Resolution G-3600. Southern California Gas Company’s request for recovery of the Transmission Integrity Management Program Balancing Account balance for January 1, 2019 to December 31, 2023.

PROPOSED OUTCOME:

- Southern California Gas Company’s request to recover its Transmission Integrity Management Program Balancing Account balance for January 1, 2019 to December 31, 2023 is approved.

SAFETY CONSIDERATIONS:

- Southern California Gas Company’s Transmission Integrity Management Program Balancing Account records costs associated with federal regulatory requirements set forth in 49 CFR 192 Subpart O adopted following the passage of the Pipeline Safety Improvement Act of 2002.

ESTIMATED COST:

- \$227,327,000

By Advice Letter 6060-G, filed on November 23, 2022, and 6060-G-A, filed on January 13, 2023.

SUMMARY

Decision (D.)19-09-051 authorized Southern California Gas Company (SoCalGas) to spend \$539 million on its Transmission Integrity Management Program (TIMP)¹ and to establish a two-way balancing account to recover actual operations and maintenance (O&M) and capital related costs.² The decision allowed SoCalGas to recover undercollections when actual expenditures exceed authorized O&M and capital

¹Advice Letter 6060-G.

² D.19-09-051.

expenditures by up to 35 percent via Tier 3 advice letter and stated that any amount above 35 percent of authorized O&M and capital is subject to a separate application procedure.³ SoCalGas filed Advice Letter (AL) 6060-G requesting recovery of \$238.8 million in undercollected revenue requirement which was 120 percent of the authorized 2019 General Rate Case (GRC) cycle revenue requirement recorded in the TIMP Balancing Account (TIMPBA) through September 2022.

SoCalGas filed AL 6060-G-A replacing AL 6060-G in its entirety, to correct the electronic file format to a searchable format. In AL 6060-G-A, SoCalGas' request is the same as requested in the original AL filing as well as being substantively the same.

SoCalGas' request to recover the undercollection recorded in its TIMPBA for January 1, 2019, to December 31, 2023, is approved.

The TIMPBA amount will be amortized via a functionalized allocation described in the Triennial Cost Allocation Proceeding (TCAP).

BACKGROUND

The SoCalGas TIMP was established as a result of the Pipeline Safety Improvement Act of 2002 and the enactment of 49 CFR Part 192 Subpart O (Subpart O).

Pursuant to Subpart O, operators of gas transmission pipelines are required to identify the threats to their pipelines in High Consequence Areas, analyze the risk posed by these threats, collect information about the physical condition of their pipelines, and take actions to address applicable threats and integrity concerns before pipeline failures occur.

Since the Pacific Gas and Electric Company (PG&E) pipeline rupture in San Bruno in September 2010, regulations such as "The Pipeline Safety, Regulatory Certainty, and Job Creation Act of 2011" have led the Pipeline and Hazardous Materials Safety Administration (PHMSA) to change its reporting requirements and review existing transmission integrity requirements to identify areas for improvement.

The Commission authorized a recovery process for TIMP costs, which has evolved over time. In D.13-05-010, the Commission established that "any costs in excess of the O&M

³ Ibid.

costs and capital expenditures authorized for these TIMP costs shall be subject to recovery through a Tier 3 advice letter process.”⁴

The Commission authorized SoCalGas to establish a two-way balancing account (BA) to recover actual TIMP compliance O&M expenses and capital expenditures⁵ for the GRC cycle ending December 31, 2015.

The Commission subsequently reauthorized the TIMPBA for both the test year (TY) 2016 and TY 2019 cycles which end December 31, 2018⁶ and December 31, 2023⁷ respectively. In D.16-06-054, the Commission approved a settlement agreement provision that required the utility to maintain separate two-way balancing accounts for their TIMP and Distribution Integrity Management Program (DIMP) expenditures. The decision limited the Tier 3 advice letter process for recovery of any TIMP or DIMP undercollections up to 35 percent of the 2016 GRC cycle total revenue requirement for that program. Any amounts above 35 percent are subject to a separate application procedure.

Lastly, in D.19-09-051, the Commission modified this process to address a compounding effect because capital costs are balanced over the life of the asset and not on a year-to-year basis. This decision adopted SoCalGas’ proposal to change the method by which the percentage is calculated by applying it against the total authorized O&M and capital expenditures. “Thus, in a GRC cycle, balancing capital costs in the 1st PTY would include capital costs during the TY and for the 2nd PTY, costs include for that year plus costs during the TY and 1st PTY.”⁸

TIMP year-end balances in the balancing account may be carried forward into the following year to ensure that SoCalGas has sufficient funds to carry out TIMP-related work and ensure the safety and reliability of its gas transmission system. The decision allowed SoCalGas to recover undercollections when actual expenditures exceed authorized O&M and capital expenditures by up to 35 percent via advice letter; and undercollections above 35 percent of authorized O&M and capital expenditures could be recovered through a separate proceeding. The TIMPBA is effective for the GRC period ending December 31, 2023 or until the Commission decides to extend the account in the course of SoCalGas’ next GRC application.

⁴ D.13-05-010 at 421-422.

⁵ D.13-05-010.

⁶ D.16-06-054 O.P. 8

⁷ D.19-09-051 O.P. 7

⁸ D.19-09-051 at 694-695.

For the period 2012 to 2013, the TIMPBA was undercollected by about \$29 million. On May 11, 2015, the Commission issued Resolution G-3499, approving AL 4632-G and authorizing SoCalGas to recover the accumulated balance through December 31, 2013.

For the year 2014 period, the TIMPBA was undercollected by about \$19 million. On May 12, 2016, the Commission issued Resolution G-3517, approving AL 4819-G and authorizing SoCalGas to recover the accumulated balance through December 31, 2014.

As of September 30, 2022, the TIMPBA consists of actual expenses amounting to approximately \$743 million, which are offset by the authorized costs for the 2019 GRC cycle of approximately \$539 million⁹. The associated revenue requirement for the undercollected costs is 20 percent above revenue requirement, equal to \$238.8 million.¹⁰

Also, pursuant to Resolution G-3499, SoCalGas proposes to amortize the TIMPBA amount in gas transportation rates based on a functionalized allocation of transmission-related costs as developed in SoCalGas' last TCAP.

On January 13, 2023, SoCalGas filed AL 6060-G-A to replace AL 6060-G in its entirety, to correct the electronic file format to a searchable format. In AL 6060-G-A, SoCalGas' request is the same as requested in the original AL filing: recovery for the undercollected TIMPBA balance of \$238.8 million, the cumulative incremental revenue requirement associated with TIMP expenditures in excess of 2019 GRC cycle authorized O&M and capital expenditures. by approximately 32 percent¹¹.

⁹ AL 6060-G, Table 1.

¹⁰ Actual undercollected costs were \$238,757,000 (see AL 6060-G Table 4 for details).

¹¹ The total O&M and capital expenditures excluding Construction Work in Progress (CWIP) through September 2022 is \$714 million, an undercollection of \$175 million, which calculates to 32 percent of the total 2019 GRC authorized TIMP expenditures for O&M and capital. CWIP are the capital expenditures associated with projects that were still pending completion as of September 2022. These projects become part of revenue requirement once the projects are completed and capital expenditures move from CWIP to Plant in Service (i.e., capital additions). In order to isolate the amount of total capital expenditures that directly contribute to the revenue requirement recorded to the TIMPBA through September 2022, CWIP is excluded since capital expenditures in CWIP will become capital additions in the future and contribute to revenue requirement at that point in time. *SoCalGas response to an Energy Division data request, January 31, 2023.*

NOTICE

SoCalGas states that they served a copy of AL 6060-G to SoCalGas's General Order (GO) 96-B service list and the Commission's service list in A.17-10-008, SoCalGas's TY 2019 GRC and A.22-05-015, SoCalGas' TY 2024 GRC in accordance with GO 96-B.

PROTESTS

The Public Advocates Office at the California Public Utilities Commission (Cal Advocates) submitted a protest to SoCalGas' AL 6060-G under GO 96-B, Rule 7.4.2(2), which authorizes submission of a protest when an advice letter requests relief that is not authorized by a Commission order. Cal Advocates does not dispute SoCalGas' legal requirement to manage its gas transmission system integrity but indicated that they were not able to conduct a review and analysis of the filing within the 20-day protest period. Cal Advocates recommend that the Commission not authorize cost recovery until The Commission's Energy Division (ED) had thoroughly evaluated and reviewed SoCalGas' TIMP expenditures.

In its reply, SoCalGas supports the recommendation made by Cal Advocates that ED thoroughly evaluate and review SoCalGas's TIMP expenditures at issue in the AL. SoCalGas states it has worked extensively with ED in the review and approval of prior recovery ALs for both the TIMPBA and Storage Integrity Management Program Balancing Account (SIMPBA). In accordance with Cal Advocates' recommendation and SoCalGas' continuing cooperation, ED has done the requisite research needed for an evaluation of the account's costs.

DISCUSSION

ED staff reviewed SoCalGas' costs for January 1, 2019, to September 30, 2022, recorded in the TIMPBA as well as a sample of invoices for verification. Based on the information provided, staff found that the costs reviewed were appropriately recorded and incurred and should be approved.

SoCalGas provided seven responses to staff data requests including cost summaries, invoice-level information and detailed explanations for staff inquiries regarding vendor charges from sampled invoices. In the initial review of invoices, staff identified conflicting information in the utility's responses including seemingly expired or incorrect contracts, travel and mileage, rentals for vehicles, laptops and printers and

other expenses. Staff made several follow up data requests for which SoCalGas provided responses demonstrating that the expenditures were appropriately incurred and necessary for vendor related TIMP work.

Responses included monthly costs for operations, maintenance and capital infrastructure such as pipeline replacements and inspections. They also covered distinct O&M costs for materials and program management pertaining to data collection and validation, pipeline assessments, pressure testing and capital repairs or retrofits. SoCalGas affirmed that costs were not being recovered elsewhere.

SoCalGas provided several examples where they incurred actual project costs that were higher than initially forecasted due to additional repairs and remediation as a result of required assessments. Staff compared ledger entries to the costs listed in a sample of invoices, and SoCalGas provided explanations for exceedances where necessary. SoCalGas cited assessment methods, labor and remediation activities from prior rate cases to explain why costs were higher than forecast. SoCalGas also provided staff with descriptions of the TIMPBA which conformed with the TIMPBA section of their Preliminary Statement found in their tariff.

For verification at the invoice level, staff examined TIMP O&M expenses and capital expenditures, selecting sample months for each of the four years covered in the account. Staff then requested from SoCalGas a list of transactions detailing items with especially high costs. These ledger items contained cost elements for which staff made another request. In response, SoCalGas provided 54 invoices associated with these cost elements.

Based on the information provided by SoCalGas, the Commission finds that the associated revenue requirement for O&M and capital expenditures examined were appropriately recorded to the TIMPBA and the expenditures were reasonably incurred. Therefore, SoCalGas's request to recover the undercollection recorded in its TIMPBA for the period of January 1, 2019, to September 30, 2022, trued up to December 31, 2023, is approved.

The TIMPBA amount will be amortized in gas transportation rates based on a functionalized allocation of transmission-related costs pursuant to Resolutions G-3499 and G-3533. The functionalized allocation of the TIMP balance is consistent with D.16-10-004 and D.12-12-030.

COMMENTS

Public Utilities Code section 311(g)(1) provides that this draft resolution must be served on all parties and subject to at least 30 days public review. Any comments are due within 20 days of the date of its mailing and publication on the Commission's website and in accordance with any instructions accompanying the notice. Section 311(g)(2) provides that this 30-day review period and 20-day comment period may be reduced or waived upon the stipulation of all parties in the proceeding.

The 30-day review and 20-day comment period for the draft of this resolution was neither waived nor reduced. Accordingly, this draft resolution was mailed to parties for comments and will be placed on the Commission's agenda no earlier than 30 days from today.

SoCalGas filed timely comments on April 25, 2024 and made eight suggested changes. For the first four they indicated that program costs needed to account for the fact that the undercollected balance was up to September, 2022 rather than December and that including revenue requirement, interest and collected revenue for that period reduced the request from \$238.8 million to \$227.3 million. The resolution has incorporated their suggested edits, including changes to the recovery period dates.

Other changes from SoCalGas' comment include an ordering paragraph requiring a Tier 1 Advice Letter to recover the balance, ordering both SoCalGas and SDG&E to file a Tier 1 Advice Letter to allocate of program costs, changes to the cost recovery mechanism to conform to D.19-09-051 and finally the percent to which SoCalGas is undercollected (page 4).

FINDINGS

1. Commission Decision (D.) 13-05-010 authorized the Transmission Integrity Management Program Balancing Account.
2. D.13-05-010 directed SoCalGas to file a Tier 3 Advice Letter to recover authorized Transmission Integrity Management Program-related Operations & Maintenance and Capital Expenditures.
3. SoCalGas filed 6060-G November 23, 2022, to request recovery of the Transmission Integrity Management Program Balancing Account \$238,757,000 for the period of January 1, 2019, to September 30, 2022.

4. SoCalGas filed supplemental 6060-G-A on January 13, 2023 replacing 6060-G in its entirety, to correct the electronic file format to a searchable format
5. Transmission Integrity Management Program Balancing Account costs are incurred in response to mandated federal pipeline safety regulations including, but not limited to requirements associated with Subpart O, Gas Transmission Pipeline Integrity Management.
6. Ordering Paragraph 19 of D.13-05-010 authorized SoCal Gas to establish a two-way balancing account to recover Transmission Integrity Management Program-related Operations & Maintenance and capital costs.
7. Ordering Paragraph 8 of D.16-06-054 granted the SoCalGas Settlement Motion, which states SoCalGas will create the Transmission Integrity Management Program two-way balancing account for recovery of up to 35 percent of the 2016 GRC revenue requirement via Tier 3 advice letter and amounts above 35 percent are subject to a separate application procedure.
8. Changes in assessment methods, increased labor and non-labor expenses and continuing remediation activities initiated prior to 2019 increased SoCalGas' actual Transmission Integrity Management Program expenditures causing costs to be higher than forecast.
9. Commission staff made an invoice level review of selected Transmission Integrity Management Program Operations & Management and capital expenditures included in the Transmission Integrity Management Program Balancing Account requested in 6060-G-A and found that the examined expenses and expenditures were appropriately recorded and reasonably incurred.
10. SoCalGas continued to balance on-going capital revenue requirement and interest associated with the O&M and capital projects included in 6060-G/6060-G-A for the remainder of the TY 2019 GRC cycle from October 1, 2022 through December 31, 2023, resulting in additional under-collections of \$46.6 million and \$13.7 million, respectively.
11. SoCalGas continued to collect authorized revenue for the TIMP from October 1, 2022 through December 31, 2023, resulting in \$71.8 million in offsets to SoCalGas's undercollection in the TIMPBA.
12. A true up to account for these additional under-collections and offsets results in an updated total under-collection of \$227.3 million attributed to capital and O&M expenditures through September 30, 2022.

13. SoCalGas's request to recover costs recorded in its Transmission Integrity Management Program Balancing Account for January 1, 2019, to December 31, 2023, is reasonable and should be approved.
14. Consistent with resolutions G-3499 and G-3533, SoCalGas should use a functionalized method to allocate the Transmission Integrity Management Program Balancing Account balance.

THEREFORE, IT IS ORDERED THAT:

1. The request of Southern California Gas Company in 6060-G-A to recover its Transmission Integrity Management Program Balancing Account balance for the January 1, 2019, to December 31, 2023, is approved.
2. Southern California Gas is authorized to recover from ratepayers \$227,327,000 over the twelve-month period beginning the month following submission of the advice letter required by this resolution in Ordering Paragraph 3.
3. Within 30 days of the effective date of this resolution, Southern California Gas Company shall submit a Tier 1 Advice Letter to set forth gas rates to recover the Transmission Integrity Management Program Balancing Account undercollection.
4. Within 30 days of the effective date of this resolution, San Diego Gas & Electric Company shall submit a Tier 1 Advice Letter to set forth gas rates to recover its allocation of the authorized Transmission Integrity Management Program Balancing Account balance over the twelve-month period beginning the month following submission of the advice letter.
5. At the conclusion of the twelve-month recovery period, Southern California Gas shall file a Tier 1 Advice Letter to remove the authorized Transmission Integrity Management Program Balancing Account balance.
6. Consistent with resolutions G-3499 and G-3533, SoCalGas should use a functionalized method to allocate the Transmission Integrity Management Program Balancing Account balance.

This Resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed, and adopted at a conference of the Public Utilities Commission of the State of California held on May 30, 2024; the following Commissioners voting favorably thereon:

/s/ RACHEL PETERSON

Rachel Peterson
Executive Director

ALICE REYNOLDS
President

DARCIE HOUCK
JOHN REYNOLDS
KAREN DOUGLAS
Commissioners

Commissioner Matthew Baker being absent,
did not participate in the vote of this item.